

PREM 19/1478

CONFIDENTIAL FILING.

The Community Budget.

EUROPEAN
POLICY.

Developments in the European
Community.

Part 1: May 1979
Part 28: November 198

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
7.11.84		14.2.85					
9.11.84		18.2.85					
12.11.84		27.2.85					
14.11.84		20.3.85					
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PREM 19/1478

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PART 28 ends:-

CCUSS)TH Item 3. 28.2.85

PART 29 begins:-

ukrep Brussels Tel 815 5.3.85

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.

Cmnd. 9395 – Treaty Series No 80 (1984). Undertaking made by the Representatives of the Governments of the Member States of the European Community meeting within the Council to make payments to the Community in 1984 to finance the Supplementary and Amending Budget No 1. Presented to Parliament by the Secretary of State for Foreign and Commonwealth Affairs by Command of Her Majesty - November 1984. Published by HMSO.

House of Commons HANSARD, 22 January 1985, columns 884 to 952: European Communities Budget

Signed _____

J. Gray

Date _____

24/1/2014

PREM Records Team



FCS/85/40

SECRETARY OF STATE FOR TRADE AND INDUSTRY

FLD(1)
Mr. PS Airfield
Mr. Smith
to Shepherd (RDE)
Planning Staff
Mr. A. Ferguson
Mr. Williamson
(Cabinet Office)
Mr. Goulden
(UK Rep Brussels)

Cooperation with the Dutch on the Internal Market

1. During my recent talks with Mr van den Broek we discussed the possibility of joint Anglo-Dutch efforts during our respective Presidencies in 1986 to achieve tangible progress on the completion of the internal market. I said that in principle this seemed a good idea. I think it could be of great help to us in achieving our internal market objectives if we could agree with the Dutch on priorities to be tackled during 1986, and could cooperate on a work programme covering the whole year.

2. If you agree that this idea is worth pursuing, I suggest that European Secretariat of the Cabinet Office should be asked to convene an early meeting of officials from interested departments to discuss how best to carry this forward. In my view they should look at the extent to which we are likely to agree with the Dutch on our objectives; what practical arrangements for cooperation would be needed; and whether we should also seek help from Luxembourg (the preceding Presidency). Theoretically we might think in terms of a UK/Benelux joint enterprise, since the Belgian Presidency follows our own. I think however that it may be better, in order to concentrate minds as much as possible on the need for early action, to make the end of 1986 the target date for achievement of our objectives. The Belgian Presidency could then be treated as extra time, to be used only where necessary.

3. I think the Dutch are likely already to be putting their heads together with the Luxembourgers to coordinate a joint approach during their Presidencies ie for the year from 1 July 1985. If we are to influence these discussions,

/we



we will need to involve ourselves quickly. I shall therefore be asking our Embassy in The Hague to ask the Dutch for more details of what they have in mind, while making it clear that we are still considering our own position. My officials will also be in touch with yours to discuss the possibility of drawing up a detailed action programme on the internal market as a basis for discussion with the Dutch and others.

4. I am sending copies of this minute to other members of OD(E), Sir Robert Armstrong and David Williamson.

GEOFFREY HOWE

Foreign and Commonwealth Office

27 February, 1985

TO BE CHECKED AGAINST DELIVERY

AGRICULTURE COUNCIL - 25, 26 & 27 FEBRUARY 1985

With permission, Mr Speaker, I wish to make a Statement on the Council of Agriculture Ministers meeting in Brussels on 25-27 February. My hon Friend the Minister of State and I represented the United Kingdom.

The Council agreed to certain modifications to the milk supplementary levy regulations in order to ensure the implementation of quotas throughout the Community in 1984/85; two of these are particularly important to our industry.

The first is a provision enabling producers who have two quotas, one wholesale and one for direct sale, to switch between the types of quota according to the marketing needs of their businesses.

In order to avoid abuse, there will be strict administrative controls. This is a change for which I have been pressing at successive meetings. I am delighted that we have now obtained an agreement.

The second important element for milk is a provision, for one year only, to permit unused quota to be switched between producers and between regions. Provided there is no abrupt change in levels of milk production, I would expect this to relieve all liability for levy on wholesale milk sales in the United Kingdom in 1984/85. This is of particular benefit to Northern Ireland. We would also expect liability for levy on direct sales to be substantially reduced, though it is not possible at this stage to say whether it would be eliminated.

The package did not deal with a number of points which are of importance to some other member states, including the Irish request for an additional 58,000 tonnes of quota. This issue will be further discussed in the price fixing. It was made clear that subsequent decisions on this or other matters were in no way prejudiced by the decisions taken at this Council. I emphasised that we remain opposed to the Irish request.

I am also pleased to announce that the Council agreed on a series of important measures to bring wine production under control. These implement the outline agreement reached by the European Council in Dublin last December.

The new measures contain three main elements. The first element is an effective guarantee threshold so that surplus production will be removed by compulsory distillation at low prices, so as to dissuade producers from increasing output.

The second element is a system of aids for producers who grub-up their vineyards and go out of production, thus leading to a permanent reduction of the Community's vineyard area.

The third element is a commitment to a restrictive price policy for as long as a significant structural surplus remains. This is a crucial part of the agreement and was one of the Government's major objectives.

During negotiations I was successful in reducing substantially the cost of the package to the Community without undermining its effectiveness. The Commission's original proposals would have cost over the next five years 740 mecu - about £460M. But this has now been reduced to 435 mecu - about £270M.

TO BE CHECKED AGAINST DELIVERY

Our calculations show that these decisions will lead to very significant savings for the Community budget by way of reduced distillation costs.

The agreement of the Council will be put into legal form as soon as the European Parliament has given its opinion on a small element of the package, which has only been recently proposed by the Commission, to restructure some Greek vineyards. I made it clear that this element is still subject to scrutiny in this House.

The Council also carried forward discussion on the more general agricultural structures regulations. The Commission formally proposed a new article authorising member states to introduce aids in environmentally sensitive areas. As the House knows, I have been pressing for such a provision. I am glad to say that it had a wide measure of support in the Council. I would expect discussion on the structures package to be resumed at the next Agriculture and Finance Councils, when I hope it will be possible to reach decisions.

The Council adopted a regulation which allows the Commission to acknowledge applications submitted to it for aids for improvement in processing and marketing facilities. Without a prior acknowledgement from the Commission, work in hand is rendered ineligible for aid. This technical change was, therefore, needed in order to allow people to press ahead with investments. This is an important change for many British firms which wish to make improvements urgently.

Finally, I raised the question of the preferential tariff for supplies of gas to the Dutch horticultural industry. The Commissioner told the Council that the Dutch Government have now been informed that this tariff is incompatible with the Community's state aid rules. The Dutch have one

TO BE CHECKED AGAINST DELIVERY

month to respond to the Commission communication. I emphasised that the Dutch growers had already benefited from reduced heating costs for most of the current season. I said that this was a thoroughly unsatisfactory situation and that the growers should be required to repay the aid. The Commissioner indicated that he would be giving further thought to this in the light of the Dutch response.

This was a highly satisfactory Council for the United Kingdom. The wine decisions are the second major step, after milk, to bringing reality into the common agriculture policy. The modifications of the milk regime are of great importance, as is the proposal on conservation. And the Council has cleared the way to press ahead with the price fixing negotiations.



2

~~Prime Minister~~

Qz.04259

CDP
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MR POWELL

EUROPEAN COMMISSION REQUEST FOR OVERDRAFTS

--- I attach, in agreement with the Treasury, the note which you requested for the Prime Minister's questions tomorrow.

D F Williamson

D F WILLIAMSON

27 February 1985

EUROPEAN COMMISSION REQUEST FOR OVERDRAFTS: NOTE FOR
PRIME MINISTER'S QUESTIONS, 28 FEBRUARY

1. The Commission is empowered by law to request overdrafts from member states when the cash available is insufficient for its requirements. Member states are obliged to meet such requests. The Commission has just had recourse to this facility; an overdraft of £14 million was provided by the United Kingdom on Monday 25 February and a further £4.5 million will be made available today (27 February). These overdrafts will be recovered almost immediately from the next payment of Own Resources into the EEC No. 1 Account - on Friday 1 March.

2. The Commission may overdraw only within the limit of Own Resources available to the Community for the year in question. We cannot tell whether there will be any overdrawings in future months. It is probable, however, that, until a proper 1985 Budget is established, there will be some requests for overdrafts. Whilst the use of the facility will not add to public expenditure overall in 1985, an overdraft, if any, outstanding at 31 March would add to public expenditure for 1984-85 by bringing forward expenditure from 1985-86.

3. Use of this facility is distinct from the advances of Own Resources. The Commission requested that non-VAT Own Resources due in February should be paid in January and those due in March should be paid in February. It is likely that they will ask for the payment in March of the sums due in April. Supplementary provision has been sought for this in Estimates to be published on 28 February. We expect that, even with the advance of the April payment into March, outturn on programme 2.7 (net payments to the European Community) is likely to be within the published figures.

4. Since overdrafts and advances apply only within the existing Own Resources limit for 1985, they are quite distinct from either the United Kingdom's abatements or the issue of additional finance for the Community for 1985 or any general increase in Own Resources. They are a means of helping to alleviate the

/Commission's

Commission's short term cash flow difficulties. At present these are severe because, under the "provisional twelfths" regime which applies in the absence of a 1985 budget, the monthly payments of VAT by member states to the Community are limited to one twelfth of the 1984 levels whilst there is a seasonal surge in agricultural payments.

Ref. A085/612

PRIME MINISTER

Cabinet: Community Affairs

You may wish to refer to the Community aspects of your talks with the Italian Prime Minister on 14 February (a record has been circulated to the Ministers mainly concerned).

2. The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 18-20 February. This was largely spent on enlargement, particularly on fish. After negotiation with the Spanish, the Commission had put forward a reasonable package on agriculture but had overstepped the mark on fish. Under pressure from the Italian Presidency (clearly influenced by the firm line that you took with Signor Craxi), the Commission eventually began to move closer to the position of the five fishing nations, including the United Kingdom. Subsequently the Commission has made further modifications to its proposals and the Five had agreed cosmetic improvements in theirs. There is, therefore, some progress but it is painfully slow. There will be an extra Foreign Affairs Council beginning on the afternoon of 28 February and an extended Council in March.

3. On the revised own resources decision and the 1985 budget, the Germans remained isolated. They rejected a proposal whereby the new own resources would come into force on 1 January 1986, but with the United Kingdom's abatement being made as soon as the decision was ratified, and the overrun being financed through an intergovernmental agreement. France and Belgium rejected the German counter-proposal for both the new own resources and our abatement to be financed through an intergovernmental agreement. The United Kingdom made it clear

that we could accept a solution which was consistent with Fontainebleau. Since the Council there have been, for the first time, some signs that the Germans may be preparing to modify their position.

4. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 25-26 Febraury. This reached agreement on two major outstanding issues:

- the new market support and structural measures for wine implementing the Dublin European Council conclusions and designed to curb the Community's surplus in preparation for Spanish and Portuguese accession. The cost will be about 300 million ecu less than the earlier estimate;

- amendments permitting more flexible operation of milk quotas. These amendments included some scope for farmers who sell both wholesale to dairies and direct to consumers to make adjustments between the two quotas (a point to which Mr Jopling attached importance) and a provision for some limited transfer of quotas between regions so that the levy is not payable when, as in the case of Northern Ireland, part of a member state is liable to pay levy even though national production is within quota. This may result in some weakening of the system's disincentive effects but will ease the strain of its introduction.

The Republic of Ireland made a strong attempt to secure extra milk quotas, but failed. No doubt they will return to the charge in the price-fixing negotiations, when we shall have to take a firm line again.

5. You are holding talks with the Belgian Prime Minister on 2 March. The special Foreign Affairs Council on 28 February will try to make some progress in the enlargement negotiations, although the prospects are only moderate. Next week the

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Industry Council and an informal Transport Council meet on 5 March, the Environmental Council on 7 March and Social Affairs Ministers on 7-8 March. E(A) is discussing on 1 March the line we should take on vehicle emissions at the Environmental Council.

RA

ROBERT ARMSTRONG

27 February 1985

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File EC



cc PC.

10 DOWNING STREET

From the Private Secretary

25 February 1985

INTEGRATED MEDITERRANEAN PROGRAMMES:
NEW COMMISSION PROPOSALS

The Prime Minister has noted UKREP Brussels Telegram No. 654 conveying an account of new Commission proposals on integrated Mediterranean programmes.

The Prime Minister has noted that the figure of 2 billion ecu for extra expenditure is one which we cannot agree.

I am copying this letter to Rachel Lomax (HM Treasury), Ivor Llewelyn (MAFF) and David Williamson (Cabinet Office).

(Charles Powell)

Colin Budd Esq
Foreign and Commonwealth Office

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FRAME STRUCTURAL
FM UKREP BRUSSELS 211710Z FEB 85
TO PRIORITY FCO
TELEGRAM NUMBER 654 OF 21 FEBRUARY
INFO PRIORITY THE HAGUE ROME PARIS BONN ATHENS
INFO SAVING BRUSSELS.

We cannot agree
MS

INTEGRATED MEDITERRANEAN PROGRAMMES : NEW COMMISSION PROPOSALS.

1. WE HAVE DE-BRIEFED THE COCKFIELD CABINET FOLLOWING COMMISSION DISCUSSION OF THE DRAFT COMMUNICATIONS BY PRESIDENT DELORS (MUFAXED TO ECD(1)) OUT-LINING HIS NEW PROPOSALS. WE UNDERSTAND THAT THE DRAFT PROPOSAL SURVIVED SUBSTANTIALLY INTACT INCLUDING THE FIGURE OF 2 BILLION ECU FOR EXTEA EXPENDITURE. IT APPEARS THAT LORD COCKFIELD MAY HAVE BEEN THE ONLY COMMISSIONER SERIOUSLY TO QUESTION THE PROPOSALS.
2. THE RESULT OF THE DISCUSSION SEEMS TO BE THAT AN INNER GROUP OF COMMISSIONERS (IT IS NOT CLEAR WHICH BUT PRESUMABLY IT WILL INCLUDE DELORS, SUTHERLAND, VARFIS AND ANDRIESEN WHO HAVE THE MAIN STRUCTURAL FUND RESPONSIBILITIES) WILL BE SET UP TO PREPARE A FRAMEWORK REGULATION. THIS WILL INCLUDE INTER ALIA DETAILS OF HOW MUCH OF THE EXISTING STRUCTURAL FUNDS IT TO BE EAR-MARKED FOR SPENDING ASSOCIATED WITH IMPS.
3. WE ARE CONTINUING TO TRY TO GET AN ENGLISH VERSION OF THE DRAFT COMMUNICATIONS AND TO GET CLARIFICATION OF A NUMBER OF THE QUESTIONS RAISED BY THOSE CONCERNED.

FCO COPY TO:

FCO - FAIRWEATHER SHEPHERD SAWERS
CAB - STAPLETON LAMBERT
DTI - WALMSLEY
MAFF - MELVILLE
TSY - FITCHEW
DOE - PLOWMAN
D/EM - LAMBERT

BUTLER

FRAME STRUCTURAL.
ECD (1)

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10 DOWNING STREET

OD(E)	L	R M
FCO		
HMT	LPS	F. Sec,
DTI	LPC	HMT
MAFF	LC	
LO	S/S	Scotland
Mr. Rifkind	S/S	Wales
CO	(AG)	<i>CDL</i>
	LA	<i>C.G. Adams</i>
	Parl Sec,	HMT
	(Mr. Rifkind)	
	Mr. Shaw,	HO

From the Private Secretary

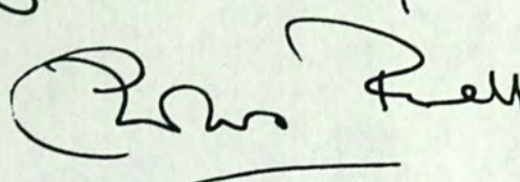
18 February, 1985

Dear Adrian

EUROPEAN COMMUNITY'S CASH NEEDS

The Prime Minister has considered the Economic Secretary's minute of 14 February about the European Community's cash needs. She agrees to the steps proposed in paragraph 8 of that minute.

I am sending a copy of this letter to the Private Secretaries to Members of OD(E) and L Committees, and to Richard Hatfield (Cabinet Office).

Yours sincerely


(C.D. POWELL)

A. Ellis, Esq.,
Office of the Economic Secretary,
HM Treasury



FROM: ECONOMIC SECRETARY
DATE: 14 FEBRUARY 1985

PRIME MINISTER

Prime Minister
Here rather complicated steps
are required because there is no
Community Budget for 1985.

Yes no

Agree the steps in
paragraph 8? CDP 15/2

EUROPEAN COMMUNITY'S CASH NEEDS

1. I minuted you on 14 January about the Commission's request to bring forward payment of non VAT Own Resources from February to January, and undertook to notify you if any unusual factors arose with regard to similar requests in future. I am afraid that the questions which have now arisen are rather technical, but they clearly need to be handled carefully in view of the sensitivity of EC budget matters in Parliament.

2. We have now received a request for an advance of the March own resources into February. Subject to the usual detailed scrutiny I propose to agree to that. The advance will be met from the Contingencies Fund, and repayment made through a supplementary Estimate in the normal way. The Commission's figures, however, make it clear that we shall be faced with a succession of requests for advances of own resources in coming months. Moreover, they may seek to use the provisions in Article 12(2) of Regulation 2891 for overdraft facilities. I have therefore considered how we should respond to these developments, bearing in mind the need to ensure that UK recipients of Community payments continue to receive this money without undue delay.

Overdraft facilities

3. The advance of the March own resources into February will still leave a major problem. The precariousness of the Commission's

cash position is such that they intend to utilise their right to ask for overdrafts on national accounts. Unlike the request for advances, requests for overdraft facilities under Article 12(2) impose undoubted obligations - chargeable to the Consolidated Fund - and Member States have no discretion about accepting them if justified. The procedure for overdraft facilities within the budget (in this case, within the "provisional twelfths" arrangement, in the absence of a budget for 1985) has not previously been used, but we do not dispute the method nor the potential need. We are still probing the facts, and we have a number of procedural matters to clear. When we have the Commission's answers I intend to consult the Solicitor General. If the Commission's cash position turns out to be as serious as they claim, and if they answer our procedural points, we may be faced with a demand for the operation of the facility within the next few days. If we were satisfied that the request is justified, I would of course inform the House by means of a Written Answer.

Advance of April's Own Resources

4. Looking ahead there are two further problems with advances. The Commission will almost certainly request the advance of April own resources into March. That would bring into 1984/85 some £140 million of expenditure from 1985/86. However, total payments to the Community in 1984/85 are likely to be lower than we had last estimated and the outturn would still be within the figure in the White Paper. Moreover, reducing the calls on 1985/86 would in itself be useful. The Chief Secretary would therefore be content to agree with the change.

5. Because of the intervening financial year end, however, the timing of this particular advance will require a change in the procedures from those we have used up to now in making advances. Hitherto the practice has been to make the advance from the Contingencies Fund and to provide cover for it through a Supplementary Estimate after the event. In the present case that is impractical. We could only take a special late supplementary

estimate in 1984/85 after payment on 20 March by suspending Standing Orders. In the immediate aftermath of the Budget, it is clear that there would be great problems in such a course, which could not be followed without a debate. On the other hand, making an advance from the Contingencies Fund in 1984/85, and repaying it from a 1985/86 estimate would be inconsistent with the rules of annuality in our own supply procedures. I therefore conclude that it will be necessary to take contingent provision in the final batch of 1984/85 Supplementaries, which will be presented on 28 February.

6. It will be important not to give the Commission the impression that this request will automatically be met; and we must be able to reassure the House of our policy of scrutinising each request rigorously. However, we can justify the Estimate on the grounds that we currently expect to receive a request for this advance of own resources and it is therefore proper to take provision for it; but the extent to which the supplementary provision is actually drawn on would depend upon the Commission's making and justifying the request.

Later Months' Advances

7. Looking forward to 1985/86, I foresee similar problems recurring. Until a proper 1985 EC Budget is established the Commission will face continuing cash difficulties. Whilst we shall continue to scrutinise each request for advances on its merits, I think it would be proper to take some provision now in 1985/86 Main Estimates. In view of the present deadlock over the 1985 Budget, there is a strong probability that we shall need to make advances up to and including July. I therefore intend to seek provision on that basis within the main Estimates presented at Budget time.

Summary

8. I should be grateful for your agreement that we should: (i) lay a Supplementary 1984/85 Estimate this month to cover the likely advance of April own resources into March; (ii) provide for advances

of own resources in the months up to July in 1985/86 main Estimates;
and (iii) respond as suggested above if an Article 12(2) overdraft
is requested.

9. I am copying this minute to members of OD(E) and L Committee
and to Sir Robert Armstrong.

Is

IAN STEWART

14 February 1985

15 FEB 1985

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CONDENSER

12



Ref. A085/493

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer may report on the Finance Council on 11 February. No agreement was reached on the financing of agricultural structures including the integrated Mediterranean programmes. Our allies were somewhat firmer than before; the Netherlands, Belgium and Germany stayed within the limit of 5.5 billion ecu including integrated Mediterranean programmes and the French also argued in favour of restrictive finance. The Finance Council decided to come back to the point at its next meeting on 11 March. The failure to agree on the financial framework for agricultural structures could make the Agriculture Council on 25-26 February difficult.

2. No report is required on the Internal Market Council on 11 February, at which the United Kingdom was represented by the Minister for Trade. This discussed a range of useful questions including product standards, on which agreement may be possible at the next Council in May.

3. The Secretary of State for Employment attended an informal meeting of Social Affairs Ministers in Venice on 8 February, but this reached no decisions requiring a report to Cabinet.

4. You are having talks with the Italian Prime Minister on 14 February. The Foreign Affairs Council meets on 18-20 February, when the enlargement negotiations will again be the main business.

ROBERT ARMSTRONG

13 February 1985

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BRIAAO

The Community's 1985 budget and the United Kingdom's 1000 million ecu abatement for 1984

Present situation: (1) no 1985 budget, as rejected by European Parliament; "provisional twelfths" in effect; in practice, this keeps expenditure not at but below 1% VAT ceiling; satisfactory for Britain but only a temporary solution; Budget Council agreed last year that 1.3 billion ecu ("the 1985 budget overrun") needed;

(2) Fontainebleau commitment that UK will get 1000 million ecu in 1985 (in respect of 1984) by abating our VAT contribution.

3 solutions
being discussed

Best

(1) Limited amount of new own resources in 1985 to finance budget overrun and UK abatement. Full 1.4% VAT still not to come into effect until 1 January 1986. 9 member states can accept.
Against: Germany.

"Mixed":
acceptable

(2) 1.4% VAT from 1 January 1986 but UK abatement on ratification of new Own Resources Decision ie in 1985. Budget overrun financed by intergovernmental agreement. Probably 9 member states could accept.
Against: Germany.

IGA: acceptable
only if all agree
to offer this to
UK.

(3) 1.4% VAT from 1 January 1986. 1000 million ecu for UK and budget overrun in intergovernmental agreement. Not the letter of Fontainebleau. Therefore UK holds fire. If all 9 agreed, would be acceptable. At present, against: France and possibly Italy.

UK in strong position and going to win, because pressure increasing on others to have a 1985 budget. We can block any solution which does not deliver our 1000 million ecu.

GRS 1050

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FRAME GENERAL

FM BONN 111820Z FEB 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 115 OF 11 FEBRUARY

INFO IMMEDIATE UKREP BRUSSELS, ROME

GERMAN VIEWS ON DOOGE COMMITTEE

SUMMARY

1. FEDERAL CABINET COMMITTEE ON EUROPE DECIDED THEY COULD NOT ACCEPT DOOGE COMMITTEE LANGUAGE ON FURTHER DEVELOPMENT OF EMS, THAT THE FEDERAL GOVERNMENT SHOULD SUPPORT EXTENDING THE USE OF MAJORITY VOTING TO NEW AREAS (THOUGH WITH SOME EXCEPTIONS EG ART 103) AND THAT THE ATTEMPT SHOULD BE MADE TO FIND AREAS OF COMMUNITY BUSINESS (BUT NOT REVENUE QUESTIONS) WHERE THE PARLIAMENT COULD SHARE IN THE LEGISLATIVE POWER OF THE COUNCIL.

2. COUNSELLOR (ECONOMIC) HAD THE FOLLOWING ACCOUNT FROM TRUMPF (AUSWAERTIGES AMT) AND THIELE (FEDERAL CHANCELLERY) TODAY ON THE DISCUSSION ON THE DOOGE COMMITTEE INTERIM REPORT AT THE MEETING OF THE FEDERAL CABINET COMMITTEE ON EUROPE ON 7 FEBRUARY.

3. THREE MAIN TOPICS WERE DISCUSSED:

(A) EMS:

(B) DECISION MAKING:

(C) POWERS FOR THE PARLIAMENT.

EMS

4. THE STOLTENBERG LINE PREVAILED. THE FRG COULD NOT ACCEPT THE FORM OF THE FOURTH INDENT OF CHAPTER 2A (B) ON PAGES 9 AND 10, ESPECIALLY THE LAST SENTENCE. IN THE GERMAN VIEW CERTAIN CONDITIONS, EG THE ABOLITION OF CONTROLS ON CAPITAL MOVEMENTS, THE GREATER CONVERGENCE OF ECONOMIC POLICY AND PERFORMANCE; NOT TO MENTION NORMAL INTERVENTION LIMITS FOR THE LIRA, A SINGLE RATE FOR THE BELGIAN FRANC AND THE INCLUSION OF THE POUND IN THE EXCHANGE RATE MECHANISM, WOULD HAVE TO BE MET BEFORE THE EMS COULD MOVE TO THE INSTITUTIONAL STAGE. STOLTENBERG'S OBJECTION TO "SPECIAL FINANCIAL MEASURES FOR COUNTRIES WITH WEAK ECONOMIC STRUCTURES JOINING THE EXCHANGE RATE MECHANISM" WAS ALSO UPHELD. STOLTENBERG AND TIETMEYER ARGUED WITH SUCCESS THAT THERE WAS NO POINT IN ESTABLISHING A EUROPEAN FUND FOR MONETARY COOPERATION (EFMC) IF IT HAD NOTHING TO DO. TRUMPF SUGGESTED TO BEAMISH THAT THE GERMAN LINE WAS NOW VIRTUALLY THE SAME AS THAT OF THE UK.

DECISION MAKING

5. ACCORDING TO THIELE, THE FEDERAL GOVERNMENT'S POSITION WAS THAT THE COMMUNITY SHOULD RETURN TO THE ORTHODOXY OF THE TREATIES AND APPLY MAJORITY VOTING WHERE PROVISION FOR IT EXISTED. FOR THEIR PART THE FEDERAL GOVERNMENT WOULD NEITHER RECOGNISE NOR INVOKE THE LUXEMBURG COMPROMISE. HOWEVER, FEDERAL MINISTERS

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/RECOGNISED

RECOGNISED THAT THE LATTER WAS A FACT OF LIFE, THAT NEW MEMBERS HAD JOINED THE COMMUNITY BELIEVING THAT IT WAS PART OF THE ACQUIS AND THAT THE PRICE FOR EXTENDING MAJORITY VOTING TO OTHER PARTS OF THE TREATY WOULD PROBABLY ENTAIL CONCEDING (SIC) THE RIGHT OF VETO. THERE WERE CERTAIN KEY AREAS WHERE THE FEDERAL GOVERNMENT COULD NOT ACCEPT MAJORITY VOTING (EG ARTICLE 103). (COMMENT. THERE IS CLEARLY REAL CONCERN HERE THAT THE FRG COULD BE COERCED INTO ACTING AS LOCOMOTIVE FOR THE REST OF THE COMMUNITY ECONOMY).

6. TRUMPF MAINTAINED THAT THE GERMAN POSITION WAS CONSISTENT WITH ACCEPTING THE EXISTING LANGUAGE IN THE DOOGE COMMITTEE CHAPTER 3(A), SUBJECT TO ANY FORMULA THAT HERMAN AND DONDELINGER MIGHT WORK OUT. HE ADDED THAT DECISIONS ABOUT WHICH AREAS SHOULD QUALIFY FOR MAJORITY VOTING COULD BE WORKED OUT AT AN INTERGOVERNMENTAL CONFERENCE. TRUMPF AND THIELE SAW SOME FORCE IN OUR ARGUMENT THAT THE GERMANS WOULD BE SAVED A LOT OF SELF CONTORTION AND THE COMMUNITY A LOT OF TROUBLE IF THE BRITISH APPROACH WERE ADOPTED, IE REDUCING THE RANGE OF ISSUES NEEDING CONSENSUS, RATHER THAN TRYING TO ESTABLISH WHICH AREAS SHOULD NOT ATTRACT MAJORITY VOTING.

POWERS FOR THE PARLIAMENT

7. RUHFUS AND FERRI HAD BEEN COMISSIONED TO WRITE A PAPER. THEY HAD NOT BEEN ABLE TO AGREE. FERRI WOULD BE CIRCULATING A PAPER (TRUMPF THOUGHT TODAY) ON HIS OWN AUTHORITY. THE ITALIAN APPROACH WAS THAT THE PRINCIPLE OF CO-DECISION BY THE COUNCIL AND THE EUROPEAN PARLIAMENT SHOULD BE APPLIED TO ALL AREAS OF COMMUNITY BUSINESS. DIFFERENCES OF OPINION COULD BE RESOLVED IN A CONCILIATION COMMITTEE OR PROCEDURE. THE ITALIANS WERE NOT CLEAR ABOUT THE PROCEDURES AND IN PARTICULAR ABOUT WHO SHOULD HAVE THE LAST WORD. THE GERMANS THOUGHT THE ITALIANS WERE GOING TOO FAR. THEIR POSITION WAS THAT IT WAS NOT ACCEPTABLE POLITICALLY THAT THE PARLIAMENT BE WITHOUT LEGISLATIVE POWERS AND THAT THEREFORE CERTAIN AREAS SHOULD BE FOUND IN WHICH THE PARLIAMENT COULD SHARE LEGISLATIVE POWER WITH THE COUNCIL. BUT TIME WAS SHORT. IT WAS UNLIKELY TO BE POSSIBLE FOR THE DOOGE COMMITTEE TO WORK OUT, LET ALONE AGREE, WHAT THE PROCEDURES GOVERNING CO-DECISION SHOULD BE AND TO WHICH AREAS IT SHOULD APPLY. ALL THIS COULD BE WORKED OUT LATER, EG AT AN INTERGOVERNMENTAL CONFERENCE. THE GERMANS SAW VERY GREAT DIFFICULTIES IN GIVING THE PARLIAMENT POWERS OVER REVENUE. THEY THOUGHT THAT IN CASES OF DEAD-LOCK THE COUNCIL SHOULD HAVE THE LAST WORD. POSSIBLE AREAS WHERE PARLIAMENTARY INVOLVEMENT COULD BE HELPFUL WERE THE INTERNAL MARKET AND THE HARMONISATION OF LEGISLATION. NEITHER TRUMPF NOR THIELE GAVE THE IMPRESSION THAT THEY EXPECTED MUCH TO COME OF THIS PART OF THE DOOGE EXERCISE OR THAT IT WAS OF MUCH SIGNIFICANCE. THIELE DISMISSIVELY SUGGESTED THAT THE PARLIAMENT COULD BE GIVEN CO-DECISION RIGHTS ON MEDIA POLICY.

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NUMBER OF COMMISSIONERS

8. ACCORDING TO TRUMPF, RUHFUS WAS CRITICISED IN THE CABINET COMMITTEE FOR ACCEPTING THE PRINCIPLE OF ONE COMMISSIONER PER COUNTRY. THE GERMAN VIEW WAS THAT THE COMMUNITY WAS NOT JUST ANOTHER INTERNATIONAL ORGANISATION AND THAT IT WAS ENTIRELY APPROPRIATE FOR THE FEDERAL REPUBLIC TO HAVE MORE COMMISSIONERS THAN LUXEMBURG. THIELE WARNED THAT ONE COMMISSIONER PER MEMBER STATE WOULD TILT THE BALANCE DANGEROUSLY IN FAVOUR OF THE MEDITERRANEAN.

FORM OF FINAL REPORT

9. TRUMPF CONFIRMED THAT THE GERMANS WOULD CONTINUE TO WORK FOR THE WIDEST POSSIBLE AGREEMENT BUT THOUGHT THAT SOME DISSENTING FOOTNOTES COULD NOT BE AVOIDED. HE DID NOT THINK THE DEVICE OF OPTIONS COULD GET ROUND THIS. THE GERMANS WOULD CERTAINLY HAVE TO ENTER A RESERVE ON THE EMS SECTION AND ALSO ON THE LANGUAGE RELATING TO CONVERGENCE AND THE NUMBER OF COMMISSIONERS. HE ALSO FORESAW THE POSSIBILITY OF GERMAN RESERVES ON THE SECTIONS DEALING WITH TECHNOLOGY AND SOCIAL AFFAIRS.

FCO PLEASE ADVANCE TO:

NO. 10

FCO: PS, BRAITHWAITE, RENWICK, FAIRWEATHER, WALL, SHEPHERD

CABINET OFFICE: WILLIAMSON, STAPLETON, LAMBERT

HM TSY: FITCHEW

MALLABY

(ADVANCED AS REQUESTED)

FRAME GENERAL

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FRAME ECONOMIC
DESKBY 120830Z

FM UKREP BRUSSELS 111906Z FEB 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 494 OF 11 FEBRUARY 1984

INFO COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN,
LUXEMBOURG, ATHENS, INFO SAVING BRUSSELS.

ECOFIN COUNCIL 11 FEBRUARY 1985

LUNCH DISCUSSION

SUMMARY

1. DISCUSSION OF EUROPEAN MONETARY INTEGRATION AND OF WORK OF
IMF INTERIM COMMITTEE. DELORS SET OUT PRIORITIES IN GENERAL TERMS:
PROMISED NO MORE ILL-PREPARED COMMISSION PROPOSALS.

DETAIL

2. DELORS SET OUT HIS AGENDA FOR ACTION IN THE ECONOMIC AND
MONETARY SPHERE IN A LOW KEY PRESENTATION ALONG THE LINES OF
HIS SPEECH TO THE EUROPEAN PARLIAMENT (FULLER ACCOUNT FOLLOWS
BY BAG). HE IDENTIFIED FOUR OBJECTIVES: THE DEVELOPMENT OF A TRUE
INTERNAL MARKET; INCREASED INDUSTRIAL AND SCIENTIFIC COOPERATION;
GREATER GROWTH; AND GREATER MONETARY COOPERATION. ON THE LATTER
POINT HE IDENTIFIED SEVERAL ISSUES FOR FURTHER CONSIDERATION,
INCLUDING

- (I) THE IMPLICATIONS OF GREATER PRIVATE USE OF THE ECU, INCLUDING
POSSIBLE MONETARY CONTROL CONSIDERATIONS:
- (II) ENHANCING PUBLIC USE OF THE ECU AS AN ELEMENT IN CREATING A
COUNTER WEIGHT TO THE US DOLLAR:
- (III) THE NEED TO PURSUE MONETARY POLICIES WHICH WOULD INCREASE
CONVERGENCE AND FINANCIAL INTEGRATION WITHIN THE COMMUNITY:
- (IV) THE DEVELOPMENT OF EUROPEAN MONETARY INSTITUTIONS INCLUDING
PROGRESS TOWARDS A EUROPEAN CENTRAL BANK.

3. DELORS ACKNOWLEDGED THAT IT WOULD BE DESIRABLE TO LOOK AT THE
RELATIONSHIP OF MONETARY POLICY WITH OTHER ELEMENTS OF ECONOMIC
POLICY, INCLUDING STRUCTURAL FACTORS AND THE ECONOMIC CONJUNCTURAL
SITUATION. HE ACKNOWLEDGED THE NEED TO DEVELOP ANY NEW PROPOSALS
CAREFULLY AND TO CONSULT BOTH THE MONETARY COMMITTEE AND THE
COMMITTEE OF CENTRAL BANK GOVERNORS BEFORE PUTTING PROPOSALS TO
THE ECOFIN COUNCIL. ON THE DOOGUE COMMITTEE DELORS WAS CLEAR IN
HIS OPPOSITION TO ANY INITIATIVE ON EMS. HE ENCOURAGED THOSE
PRESENT TO DISCOURAGE DISCUSSION BY THE COMMITTEE AND SAID THAT
THE COMMISSION WOULD NOT BE PUTTING FORWARD ANY PROPOSAL OF ITS
OWN.

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/4-STOLTENBURG

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4. STOLTENBURG (FRG) SAID THAT TWO DEVELOPMENTS WERE DESIRABLE AND NECESSARY FOR MONETARY INTEGRATION. FIRST GREATER LIBERALISATION OF CAPITAL MOVEMENTS WAS REQUIRED. GERMANY WOULD WELCOME AN ECOFIN DISCUSSION ON THE POSSIBILITY FOR PROGRESS BASED ON THE 1962 DECISION. THIS WAS LINKED WITH THE NEED FOR FURTHER PROGRESS ON CONVERGENCE. SECONDLY FURTHER PROGRESS WAS DESIRABLE ON EMS BASED ON THE 1973 DECISION, LOOKING IN PARTICULAR AT THE POSSIBILITY OF REDUCING THE SPREAD OF RATES WITHIN THE ERM AND THE CONDITIONS UNDER WHICH STERLING MIGHT JOIN THE MECHANISM. THE FRG MIGHT BE PREPARED TO DISCUSS GREATER OFFICIAL USE OF THE ECU, AND EVEN, POSSIBLY, RELAX THE CONSTRAINT ON PRIVATE USE. ON THIS LATTER HOWEVER THE BUNDESBANK REMAINS AN OBSTACLE AND ANY CHANGE COULD ONLY BE ENVISAGED IN THE CONTEXT OF AN OVERALL PACKAGE. THE DEGREE OF ECONOMIC CONVERGENCE ACHIEVED SO FAR WAS INSUFFICIENT TO ALLOW CONSIDERATION OF THE DEVELOPMENT OF CENTRAL COMMUNITY INSTITUTIONS YET.

5. RUDING (NETHERLANDS) SAID THAT PROGRESS ON THE LIBERALISATION OF CAPITAL MOVEMENTS WAS VERY IMPORTANT. HE WELCOMED THE INCREASED PRIVATE USE OF THE ECU BUT WAS UNCERTAIN ABOUT THE BENEFITS OF ITS WIDER OFFICIAL USE. THE POSITION OF THE US DOLLAR WAS NOW VERY WORRYING. COUNTRIES SUCH AS GERMANY AND THE NETHERLANDS WHO HAD KEPT INTEREST RATES LOW WERE NOW FEELING UNDER PRESSURE. HE ENQUIRED WHEN THE G5 WERE GOING TO LIVE UP TO THE UNDERTAKINGS IN THEIR JANUARY COMMUNIQUE.

6. BEREGEVOY (FRANCE) SAID THAT FRANCE HAD LIBERALISED CAPITAL FLOWS. THERE WAS GREATER CONVERGENCE NOW IN THE COMMUNITY. THE RELATIONSHIP BETWEEN THE EC AND THE US DOLLAR WAS IMPORTANT.

7. THE CHANCELLOR OF THE EXCHEQUER AGREED WITH BEREGEVOY. IT WAS IMPORTANT TO MAKE EUROPE A MORE ATTRACTIVE ECONOMIC ENVIRONMENT. THE PROGRESS MADE IN COUNTERING INFLATION, AND A REDUCTION IN BARRIERS WITHIN THE COMMUNITY WOULD HELP TO INCREASE THE DYNAMISM OF THE EUROPEAN ECONOMY AND, LIBERALISATION OF CAPITAL FLOWS WAS IMPORTANT. THE HARDEST DECISIONS HOWEVER WERE THOSE WHICH HAD TO BE MADE AT HOME. HE COMMENTED THAT THERE APPEARED TO BE SOME CONFLICT BETWEEN DELORS' DESIRE TO ENCOURAGE THE INTERNATIONAL ROLE OF THE EC AND HIS CONCERN TO SATISFACTORILY CONTROL ITS DEVELOPMENT. AS TO THE G5 THE PROBLEM WAS THE FAILURE OF THE US TO ACT IN SUPPORT OF ITS UNDERTAKINGS (HE JUDGED THAT THE JAPANESE WOULD COME INTO LINE IF THE OTHER FOUR COULD AGREE TO ACT). ANY NEW INITIATIVE IN THE INTERNATIONAL MONETARY SYSTEM WOULD NOT WORK IF THE US DID NOT BEHAVE IN A RESPONSIBLE MANNER.

8. DUKES (IRELAND) SAID THAT THE EC COULD COUNTER-BALANCE THE US IF IT ADOPTED UNIFIED ECONOMIC POLICIES. LIBERALISATION OF CAPITAL MOVEMENTS WOULD BE HELPFUL IF IT SERVED TO CREATE A GENUINELY MULTI-POLAR SYSTEM. BUT THIS WOULD REQUIRE MORE THAN PURELY LEGAL CHANGES.

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/9. Discussion.

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9. DISCUSSION THEN SHIFTED TO PREPARATION FOR THE NEXT MEETING OF THE IMF INTERIM COMMITTEE. RUDING REITERATED HIS DESIRE TO GET BANK AND FUND WORK BETTER INTEGRATED. (DELAROSIERE RECOGNISED THAT THE IMF SHOULD BE PRIMARILY CONCERNED WITH MORE DEVELOPED COUNTRIES). HE ALSO MENTIONED THE QUESTION OF RELATIONS BETWEEN THE INTERIM COMMITTEE AND THE DEVELOPMENT COMMITTEE. HE WAS AGAINST THE US PROPOSAL FOR A JOINT MEETING BUT FELT IT WAS DESIRABLE TO DEFINE THEIR RESPECTIVE ROLES. THE INTERIM COMMITTEE MEETINGS IN THE SPRING WOULD DISCUSS THE MEDIUM TERM WORLD ECONOMIC OUTLOOK, REQUESTS FOR A NEW SDR ALLOCATION AND COMPENSATORY FINANCE. HE WOULD LIKE A TWO-WAY AGREEMENT WHEREBY DEVELOPED COUNTRIES WERE PREPARED TO DISCUSS GROWTH, TRADE AND INTEREST RATES IN RETURN FOR UNDERTAKINGS FROM LDCS. RUDING ASKED FOR FEEDBACK FROM OTHER EC MEMBERS.

10. TIETMEYER (FRG) OFFERED THE SERVICES OF THE MONETARY COMMITTEE TO PREPARE ANY OF THE ISSUES DISCUSSED FOR THE ECOFIN COUNCIL AS APPROPRIATE.

FCO ADVANCE TO:- (ALL DESKBY)

FCO - RENWICK, FAIRWEATHER, MARSDEN

CAB - WILLIAMSON

TSY - PS CHANCELLOR, UNWIN, FITCHEW, BYATT, BARBER

BANK - BALFOUR

BUTLER

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10 DOWNING STREET

From the Private Secretary

11 February, 1985

EUROPEAN COMMUNITY: ANNUAL REVIEW FOR 1984

Thank you for your letter of 4 February enclosing Sir Michael Butler's Annual Review.

The Prime Minister has noted this.

(C.D. Powell)

C. Budd, Esq.,
Foreign and Commonwealth Office

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GRS 1440
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FRAME GENERAL
FM BONN 081900Z FEB 85
TO ROUTINE FCO
TELEGRAM NUMBER 111 OF 08 FEBRUARY
INFO ROUTINE UKREP BRUSSELS, ATHENS, EMBASSY BRUSSELS, COPENHAGEN,
DUBLIN, LUXEMBOURG, PARIS, ROME, THE HAGUE

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BUNDES RAT DEBATE ON EUROPE: 8 FEBRUARY

SUMMARY

1. KOHL, IN MAJOR SPEECH ON EUROPE TO UPPER CHAMBER OF GERMAN PARLIAMENT, SAYS 1985 IS DECISIVE YEAR FOR EUROPEAN INTEGRATION, BUT DISTANCES HIMSELF FROM SPINELLI DRAFT TREATY, AND IS UNEXPECTEDLY CAUTIOUS ON MAJORITY VOTING AND POWERS FOR THE PARLIAMENT. HE REAFFIRMS THE GERMAN LINKAGE BETWEEN THE TIMING OF ENLARGEMENT AND THE INTRODUCTION OF NEW OWN RESOURCES. HE AVOIDS ADOPTING A POSITION ON THE PRESENT CAP PRICE FIXING ROUND. NO MENTION ANYWHERE IN THE SPEECH OF FRANCE OR FRANCO-GERMAN COOPERATION AS THE MOTOR FOR EUROPE.

DETAIL

2. THE BUNDES RAT (UPPER CHAMBER OF LAENDER REPRESENTATIVES) HELD A DEBATE ON EUROPE TODAY, AT WHICH IT TOOK NOTE OF THE INTERIM REPORTS OF THE AD HOC COMMITTEES ON INSTITUTIONAL AFFAIRS AND A PEOPLE'S EUROPE. IN HIS OPENING SPEECH KOHL SAID THAT DESPITE DIFFICULTIES OVER DETAILS, RECENT DEVELOPMENTS GAVE GROUNDS FOR CONFIDENCE. HE WAS CONVINCED THAT WE HAD A HISTORIC OPPORTUNITY TO EXTEND AND DEEPEN THE COMMUNITY. THE STUTTGART PACKAGE PUT TOGETHER BY THE GERMAN PRESIDENCY HAD LED TO SUCCESSFUL CONCLUSIONS AT FONTAINEBLEAU.

1985 BUDGET AND NEW OWN RESOURCES

3. THE FUTURE FINANCING OF THE EC HAD, KOHL SAID, BEEN SECURED ON AN ACCEPTABLE LONG-TERM BASIS. THE VAT CEILING WOULD BE RAISED TO 1.4 PER CENT WITH EFFECT FROM 1 JANUARY 1986. AT GERMAN INSISTENCE THE RAISING OF THE CEILING HAD BEEN LINKED TO ENLARGEMENT. THE FEDERAL GOVERNMENT STOOD AS FIRMLY AS EVER BY THIS POSITION. THERE WAS STRONG PRESSURE IN THE COMMUNITY TO BRING FORWARD THE INCREASE IN OWN RESOURCES, PARTICULARLY ON THE PART OF THOSE MEMBER STATES WHICH EXPECTED TO BENEFIT FROM MORE GENEROUS FINANCING, AND WHICH HOPED BY THIS MEANS TO RESOLVE THE CONFLICT WITH THE EUROPEAN PARLIAMENT OVER THE 1985 BUDGET. THE FEDERAL GOVERNMENT HOWEVER BELIEVED THAT A SOLUTION FOR 1985 COULD BE FOUND WITH A LITTLE FLEXIBILITY, FOR INSTANCE BY REPEATING THE COMPROMISE ADOPTED IN 1984.

ENLARGEMENT

4. FONTAINEBLEAU, KOHL SAID, HAD CLEARED THE WAY FOR ENLARGEMENT. THE NEGOTIATIONS WOULD PROBABLY ONLY BE CONCLUDED IN MARCH. THE FEDERAL GOVERNMENT REMAINED COMMITTED TO ACCESSION ON 1 JANUARY 1986.

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/FUTURE

FUTURE DEVELOPMENT OF THE COMMUNITY

5. THE COMMUNITY COULD NOT AFFORD TO CONTINUE FROM DAY TO DAY WITH IMPROVISED ANSWERS TO ITS PROBLEMS. IT NEEDED A POLITICAL PERSPECTIVE. THE AD HOC COMMITTEES HAD BEEN SET UP. AT HIS, KOHL'S, INITIATIVE THE MILAN EUROPEAN COUNCIL WOULD HAVE A THOROUGH DISCUSSION OF THE RECOMMENDATIONS.

INSTITUTIONAL REFORM

6. NO ONE COULD DOUBT THAT INSTITUTIONAL REFORM WAS NECESSARY. SINCE THE ADOPTION OF THE LUXEMBOURG COMPROMISE (LUXEMBURGER DISSENS) THE COUNCIL HAD FALLEN INTO THE HABIT OF LOOKING FOR CONSENSUS OR UNANIMITY EVEN IN CASES WHERE THE TREATY OF ROME PRESCRIBED MAJORITY VOTING. THE FEDERAL GOVERNMENT WAS URGING INCREASED USE OF (LITERALLY: STRENGTHENED RESORT TO) THE MAJORITY VOTING PROVISIONS OF THE TREATY OF ROME. DECISION-MAKING IN THE COMMUNITY OF TWELVE WOULD BE EVEN MORE DIFFICULT IF WE DID NOT LOOK FOR A PRACTICABLE WAY AHEAD.

7. THE COMMISSION SHOULD BE STRENGTHENED AS THE GUARDIAN OF THE COMMUNITY INTEREST AGAINST NATIONAL INTEREST. IT WAS ALSO A FUNDAMENTAL REQUIREMENT FOR HIM, KOHL, THAT THE EUROPEAN PARLIAMENT SHOULD HAVE A GREATER RIGHT TO CONSULTATION IN THE FORMATION OF COMMUNITY POLICY.

EUROPEAN UNION

8. THE EUROPEAN PARLIAMENT'S DRAFT TREATY ON EUROPEAN UNION WAS CURRENTLY UNDER DISCUSSION IN THE BUNDESTAG AND BUNDESRAT. IT RAISED ITS SIGHTS BEYOND DAY-TO-DAY POLITICS TO THE FOUNDATION OF A EUROPEAN UNION. 'IT IS HOWEVER QUESTIONABLE WHETHER A USEFUL PURPOSE IS SERVED BY CONDUCTING DISCUSSION ABOUT THE FUTURE DEVELOPMENT OF THE COMMUNITY PRIMARILY ON THE BASIS OF THIS DRAFT, WHICH BOLDLY BRINGS INTO CENTRE STAGE THE FINAL CONSTITUTIONAL AIM OF A EUROPEAN UNION. OUR GOAL IS EUROPEAN UNION. WE SHALL BE CONSIDERING IN THE COMING MONTHS AND DISCUSSING WITH OUR PARTNERS INDIVIDUALLY THE QUESTION OF HOW BEST TO IMPLEMENT THIS CONCEPT IN THE PRESENT CIRCUMSTANCES. I AM CONFIDENT THAT IN OUR EUROPEAN POLICY IN 1985 WE SHALL BE ABLE TO TAKE A DECISIVE STEP ON THE WAY TOWARDS EUROPEAN INTEGRATION. THIS IS THE LAST YEAR IN WHICH THERE IS A CHANCE FOR A BIG STEP FORWARD.' (NOTE: DIRECT TRANSLATION)

POLITICAL COOPERATION

9. THE COMMUNITY'S ROLE IN THE WORLD MUST BE MORE THAN THAT OF A MERE TRADING POWER. HE, KOHL, WAS ARGUING FOR POLITICAL COOPERATION IN FOREIGN AND SECURITY POLICY TO BE SET ON A FIRMER, IF POSSIBLE TREATY-BASED, FOOTING.

PEOPLE'S EUROPE

10. THE FRANCO-GERMAN BORDER AGREEMENT HAD SHOWN WHAT POLITICAL WILL COULD ACHIEVE. THERE WAS STILL MUCH TO BE DONE, EG IN YOUTH EXCHANGES AND MUTUAL RECOGNITION OF DIPLOMAS.

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EMPLOYMENT

EMPLOYMENT AND INTERNAL MARKET

11. THE COMMUNITY MUST ABOVE ALL RISE TO THE CHALLENGE OF UNEMPLOYMENT, BY SETTING FREE THE POTENTIAL OF THE INTERNAL MARKET. A GREAT DEAL HAD BEEN ACHIEVED IN VISIBLE TRADE, BUT RELATIVELY LITTLE IN THE CREATION OF A COMMON MARKET FOR SERVICES, CAPITAL TRANSFERS, INVESTMENT, RESEARCH AND INNOVATION. THE FEDERAL GOVERNMENT WOULD BE WORKING ENERGETICALLY FOR THE DISMANTLEMENT OF EXISTING TRADE BARRIERS, THE HARMONISATION OF NORMS AND THE OPENING OF MARKETS, INCLUDING FOR PUBLIC PROCUREMENT. THIS WOULD RESULT IN A CONSIDERABLE IMPROVEMENT IN THE CONDITIONS FOR EUROPEAN INDUSTRY. THE COMMUNITY MUST ALSO DO MORE TO STRENGTHEN THE CONVERGENCE OF ECONOMIC, BUDGETARY AND MONETARY POLICIES.

AGRICULTURE

12. KOHL SAID THAT HE WAS PARTICULARLY CONCERNED ABOUT FARM INCOMES DURING THE CURRENT DIFFICULT REORIENTATION. THE VIABLE FUNCTIONING OF AGRICULTURAL MARKETS MUST BE SECURED, AS THIS WAS THE BASIS FOR FARM INCOMES POLICY. THE FEDERAL GOVERNMENT HAD ONLY ACCEPTED THE DISMANTLEMENT OF MCAS AFTER IT HAD SECURED THE AGREEMENT OF ITS PARTNERS TO COMPENSATION FOR GERMAN FARMERS. THE NATIONAL VAT MEASURES WOULD GIVE GERMAN FARMERS A CONSIDERABLE INCOME COMPENSATION UNTIL 1991. THE DISMANTLEMENT OF MCAS MEANT THAT THERE WOULD BE NO MORE DEDUCTIONS FROM BRUSSELS PRICE-FIXING DECISIONS FOR GERMAN FARMERS. HOWEVER THE BUDGET COULD NOT BE THE ONLY CRITERION FOR AGRICULTURAL PRICE POLICY. THE FEDERAL GOVERNMENT WOULD CAREFULLY ASSESS THE COMMISSION'S PROPOSALS, AND ADOPT A POSITION FOR THE COMING NEGOTIATIONS WHICH TOOK ACCOUNT OF THE INCOME SITUATION OF GERMAN AGRICULTURE.

ENVIRONMENT

13. GERMAN PRESSURE HAD FORCED OTHER MEMBER STATES TO SHOW GREATER UNDERSTANDING FOR THE GERMAN POSITION ON THE ENVIRONMENT. KOHL HOPED THAT THE COMMISSION ALSO SHARED GERMAN CONCERN. ENVIRONMENTAL POLICY WOULD BE A MAJOR THEME OF THE NEXT EUROPEAN COUNCIL.

STEEL

14. PAINFUL CAPACITY REDUCTIONS WERE UNAVOIDABLE, BUT THE WORST WAS NOW OVER.

CULTURE

15. EUROPEAN INTEGRATION REQUIRED POLITICAL WILL AND THE COMMITMENT OF ORDINARY CITIZENS. NO 'SIREN VOICES OF REASONABLENESS' BASED ON TECHNOCRATIC OR ECONOMIC PRESSURES WOULD DETER THE FEDERAL GOVERNMENT FROM ITS TASK. THE FEDERAL LAENDER HAD AN IMPORTANT ROLE TO PLAY IN THE PROMOTION OF A EUROPEAN CULTURAL POLICY.

8 MAY - VE DAY

16. THE COMING TOGETHER OF FREE EUROPE WAS NOT DIRECTED AGAINST ANYONE. IT WAS ALSO NOT IN CONTRADICTION TO THE AIM OF OVERCOMING THE DIVISION OF EUROPE - WHICH WAS ALSO THE DIVISION OF GERMANY. A GREAT DEAL HAD BEEN SAID THIS WEEK ABOUT 8 MAY 1945. FOR THE FACT THAT IT HAD BEEN POSSIBLE TO MAINTAIN 40 YEARS OF PEACE IN FREE EUROPE WE HAD TO THANK - AFTER THE NORTH ATLANTIC ALLIANCE - THE UNION OF EUROPEAN NATIONS IN THE EUROPEAN COMMUNITY.

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| SPEECHES

SPEECHES BY LAENDER LEADERS

17. IN REPLY TO KOHL'S SPEECH THE SPD PRIME MINISTER OF NORTH RHINE WESTPHALIA, RAU, SAID THAT THE MOST PRESSING PROBLEM IN THE COMMUNITY WAS UNEMPLOYMENT. PEOPLE WERE ASKING WHY TWO-THIRDS OF THE BUDGET WENT ON 8 MILLION FARMERS, WHEN THE 13 MILLION UNEMPLOYED WENT EMPTY-HANDED. EUROPE'S FUTURE WOULD DEPEND ON ITS ABILITY TO TACKLE UNEMPLOYMENT, REFORM AGRICULTURE, AND INTRODUCE AN ENVIRONMENTAL POLICY WHICH WAS NOT BASED ON THE LOWEST COMMON DENOMINATOR. ON EUROPEAN UNION, HE WARNED KOHL AGAINST USING THIS AS AN INDIRECT WAY OF UNDERMINING THE POWERS OF THE LAENDER.

18. THE CDU PRIME MINISTER OF BADEN-WUERTTEMBERG, SPAETH, SAID THAT IN MANY AREAS KOHL'S GOVERNMENT HAD BECOME A PACE-SETTER IN EUROPE. HE CALLED FOR THE COMMUNITY TO CONCENTRATE ITS EFFORTS ON PROMOTING THE INDUSTRIES OF THE FUTURE. BARSCHEL, THE CDU PRIME MINISTER OF SCHLESWIG-HOLSTEIN, PROMISED KOHL THE SUPPORT OF HIS GOVERNMENT IN PRESSING FOR CLOSER EUROPEAN INTEGRATION. HE SUPPORTED ENLARGEMENT, THOUGH ADDING THAT THE NORTHERN MEMBER STATES MUST WORK TOGETHER TO PROTECT THEIR INTERESTS; SUPPORTED THE POLITICAL DEVELOPMENT OF THE COMMUNITY, THOUGH ADDING THAT NO MEMBER STATE MUST BE PUSHED ASIDE IN THE PROCESS; AND CALLED FOR AGRICULTURAL REFORM, THOUGH SAYING THAT MODERATE PRICE INCREASES WERE NECESSARY TO PROTECT THE POCKETS OF THE GERMAN FARMERS.

COMMENT

19. KOHL WAS SPEAKING AFTER THE MEETING OF FEDERAL CABINET MINISTERS TO DISCUSS EUROPEAN POLICY ON 7 FEBRUARY. WE HAVE NOT YET BEEN ABLE TO ESTABLISH HOW THIS MEETING WENT, THOUGH WE SHALL DEBRIEF OFFICIALS AFTER THE WEEKEND. KOHL EVIDENTLY CHOSE HIS WORDS IN THE DEBATE WITH CARE, AND WAS SURPRISINGLY CAUTIOUS EG ON MAJORITY VOTING; THE SPINELLI DRAFT TREATY, AND POWERS FOR THE PARLIAMENT. THIS MAY REFLECT DISCUSSION AT THE CABINET MEETING, OR MAY INDICATE THAT HE IS NOT YET CONFIDENT OF THE OUTCOME OF THE CONSULTATIONS WITH FEDERAL MINISTRIES ON THE WORK OF THE DOOGE COMMITTEE, ON WHICH RUHFUS IS CURRENTLY ENGAGED AT HIS REQUEST.

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7/2**DEPARTMENT OF HEALTH & SOCIAL SECURITY**

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*Charles Powell Esq
Private Secretary
10 Downing Street
LONDON
SW1

7 February 1985

*Dear Charles,***PAYMENT OF SUPPLEMENTARY BENEFIT TO EC NATIONALS**

Further to Steve Godber's letter to you of 21 December I am writing to confirm that work is in hand on the paper requested by the Prime Minister. As a number of Departments are involved a paper is being tabled for discussion at EQO next week. Subject to the outcome of that discussion and our own Ministers' views we would hope to be able to let you have a paper later this month.

*Yours sincerely,
Stephen*S H F HICKEY
Private Secretary

Enro
Budget
Pt 28



7 FEB 1985



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 7256

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7/2

Qz.04193

7 February 1985

R W Renwick Esq CMG
Foreign and Commonwealth Office
London SW1

Dear Mr.,

DOOGE COMMITTEE: NETHERLANDS VIEWS ON THE LUXEMBOURG COMPROMISE

Mr Powell circulated on 26 January a record of the meeting between the Prime Minister and the Netherlands Prime Minister. This records correctly that Mr van den Broek stated that the Netherlands would now be prepared to accept the Luxembourg Compromise if it were also accepted that the voting provisions of the Treaty would be applied fully. In briefing Mr Rifkind you may wish to keep in mind that Mr Lubbers did use the phrase "formalise the Luxembourg Compromise" which does represent an important change in the Netherlands' position and could perhaps be significant in the further discussions in the Dooge Committee.

Yours sincerely,

David Williamson

D F WILLIAMSON

cc: Mr Powell (10 Downing Street)
Sir Michael Butler (UKREP, Brussels)
Mr Braithwaite (FCO)



Ref. A085/406

PRIME MINISTER

Cabinet: Community Affairs

There have been no meetings of Councils of Ministers since last week's Cabinet. The Secretary of State for Trade and Industry may, however, wish to refer to his discussions on Community matters with Lord Cockfield on 4 February.

2. There will be an informal meeting of Social Affairs Ministers on 8 February, and Internal Market and Finance Councils on 11 February.

RA

ROBERT ARMSTRONG

6 February 1985



Foreign and Commonwealth Office

London SW1A 2AH

*Dub
7/2*

6 February 1985

Dear David

Dates of EC Councils of Ministers

In Chris Brammer's letter of 17 December he said that we were still pressing the Italians to reschedule the Transport Council on 23 May - the only remaining Council to clash with a Thursday Cabinet meeting during their Presidency. The Acting Permanent Representative in Brussels took this up with his Italian opposite number who consulted Rome about alternatives. But we have now been told that the Italians have been unable to find an alternative date.

Luxembourg, who take over the Presidency in July, have scheduled two Thursday Councils which are likely to cause us inconvenience:

14 November	Transport Council (Mr Ridley)
5 December	Social Affairs (Mr King)

We have asked UKRep Brussels to seek a change in these dates and to remind the Dutch, who take over on 1 January 1986, of our interest in avoiding Thursdays.

I am copying this letter to the Private Secretaries of the Secretaries of State for Employment and Transport, and Sir Robert Armstrong.

*Yours sincerely
Alan H*

(A T Holmes)
Assistant Private Secretary

David Barclay Esq
10 Downing Street

POSTO MILITARE ITALIANO
MILITARE ITALIANO

46 FEB 1985

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FM UKREP BRUSSELS 052005Z FEB 85

TO ROUTINE FCO

TELEGRAM NUMBER 409 OF 05 FEBRUARY 1985

INFO SAVING BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN,
PARIS, BONN, LUXEMBOURG, ATHENS, LISBON, MADRID, STRASBOURG.

AD HOC COMMITTEE FOR A PEOPLE'S EUROPE, 4/5 FEBRUARY
UKREP TEL NOS 84 AND 185

*Line to Williamson
Committee*

SUMMARY

1. SECOND READINGS OF REPORTS ON WIDER OPPORTUNITIES FOR
EMPLOYMENT AND RESIDENCE IN THE EEC, FREE MOVEMENT OF PEOPLE,
AND EASING OF RULES AND PRACTICES ON MOVEMENT OF A COMMUNITY
CITIZEN'S GOODS. FIRST READING OF O TUATHAIL'S PAPER ON
EXCHANGES. CONTINUED ENDORSEMENT BY THE COMMITTEE GENERALLY
OF THE WELLENSTEIN APPROACH ON MOVEMENT OF PEOPLE (IE
DIFFERENTIATION BETWEEN ACTION AT COMMUNITY LAND FRONTIERS
AND ACTION AT PORTS AND AIRPORTS, THUS PROTECTING UK POSITION).
SOME REPRESENTATIVES WANTED TO GO FURTHER ON LINES OF COMMISSION'S
NEW PROPOSALS FOR OPEN FRONTIERS. BROAD SUPPORT MAINTAINED FOR
UK PROPOSALS ON TRAVELLERS' ALLOWANCES AND MOVEMENT OF GOODS,
ALTHOUGH SOME OBJECTIONS ON DETAILS. ON RIGHTS OF RESIDENCE,
WILLIAMSON SECURED SUPPORT FOR CONCEPT THAT RIGHT SHOULD BE
QUALIFIED BY PROVISION THAT EC NATIONALS NOT PURSUING AN
ECONOMIC ACTIVITY WERE ADMITTED ONLY SUBJECT TO CONDITIONS,
INCLUDING AN ADEQUATE INCOME.

MT

DETAIL

REPORT TO THE MARCH EUROPEAN COUNCIL

2. NEUSEL AND ADONNINO SUGGESTED THAT CERTAIN ASPECTS, INCLUDING
THE EUROPEAN PASSPORT, POLICE AND CUSTOMS FORMALITIES, AND
EQUIVALENCE OF DIPLOMAS WERE FAR ENOUGH ADVANCED TO BE DEALT
WITH IN AN INITIAL REPORT TO THE EUROPEAN COUNCIL IN MARCH.
THERE WAS GENERAL AGREEMENT. WILLIAMSON SUGGESTED THAT THIS
FIRST, PART REPORT COULD CONCENTRATE ON THE SECTION IN THE
REPORT TO DUBLIN EUROPEAN COUNCIL DEALING WITH "EASING OF
RULES AND PRACTICES WHICH CAUSE IRRITATION TO COMMUNITY
CITIZENS". WELLENSTEIN SUPPORTED. IT WAS AGREED IN THE
MARGINS THAT WELLENSTEIN, WILLIAMSON, NEUSEL AND HANSEN
WOULD WORK TOGETHER ON A DRAFT PAPER. THERE WAS NO DECISION
ON THE SHAPE OF THE MARCH REPORT, AND THYSBAERT IN PARTICULAR
WANTED THIS LEFT OPEN, BUT IT IS LIKELY THAT THE JOINT PAPER
WILL BE A MAJOR PART OF THE REPORT.

CONSULTATION WITH OTHER ORGANISATIONS

3. IN A BRIEF DISCUSSION ON THE PAPER BY THE COUNCIL OF EUROPE
SECRETARY-GENERAL, IT WAS SUGGESTED THAT AUTHORS OF PAPERS SHOULD

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MAKE SPECIFIC REFERENCES TO COUNCIL OF EUROPE ACTIONS WHEN APPROPRIATE BUT THE GENERAL PRINCIPLE SHOULD BE THAT USEFUL ACTION IN THE COMMUNITY SHOULD NOT BE DELAYED. A SUBMISSION FROM MEPS SIR FRED CATHERWOOD AND DEREK PRAG WAS EXAMINED BRIEFLY AND THE CHAIRMAN ASKED DRAFTERS TO TAKE ACCOUNT OF THEIR PROPOSALS. THERE WAS A LUNCH WITH JOURNALISTS ON 5 FEBRUARY.

WIDER OPPORTUNITIES FOR EMPLOYMENT AND RESIDENCE

4. NEUSEL'S PAPER OF 9 JANUARY WAS GIVEN A SECOND READING. ON RIGHTS OF ESTABLISHMENT, THE CONCLUSION WAS THAT THE COMMITTEE SHOULD SUPPORT THE APPROACH OF MUTUAL RECOGNITION OF DIPLOMAS WITHOUT PRIOR HARMONISATION OF TRAINING COURSES. WILLIAMSON DREW ATTENTION TO THE QUALIFICATIONS IN NEUSEL'S PAPER THAT SUCH AN APPROACH COULD BE IMPLEMENTED ONLY IN STAGES AND (PARA 2.5 OF THE PAPER) THAT "IF PARTICULAR DIFFICULTIES WERE TO ARISE IN CERTAIN AREAS OWING TO MAJOR STRUCTURAL DIFFERENCES BETWEEN TRAINING COURSES, FURTHER CONSIDERATION COULD BE GIVEN TO THE COMMISSION'S SUGGESTION THAT INDIVIDUALS WISHING TO BENEFIT FROM FREEDOM OF MOVEMENT SHOULD ALSO PROVIDE EVIDENCE OF SOME PROFESSIONAL EXPERIENCE". NEUSEL AGREED THAT THIS TEXT COULD BE INCORPORATION IN HIS SECTION OF THE DRAFT REPORT FOR THE EUROPEAN COUNCIL. THUYSBAERT WAS SCEPTICAL. HE THOUGHT THAT THE DOOGIE COMMITTEE WOULD HAVE TO PROPOSE A NEW PROCEDURE IF DECISIONS WERE TO BE TAKEN IN THIS FIELD. THE COMMISSION SUGGESTED THE COMMITTEE SHOULD WAIT FOR A NEW COMMISSION PROPOSAL EXPECTED BEFORE EASTER.

5. NEUSEL'S PAPER AIRED THE IDEA OF A "VOCATIONAL TRAINING PASSPORT" TO ENABLE PEOPLE WITH PRACTICAL QUALIFICATIONS (WELDERS, PLUMBERS, ETC) TO MOVE TO EMPLOYMENT IN OTHER MEMBER STATES AND PROVIDE EVIDENCE OF THEIR QUALIFICATIONS AND EXPERIENCE. THERE WAS SOME SUPPORT FOR THIS AND NEUSEL SAID THAT HE WOULD EXAMINE THE SCHEME IN MORE DETAIL.

RIGHTS OF RESIDENCE

6. WELLENSTEIN ACCEPTED THAT THE EUROPEAN COUNCIL SHOULD PROVIDE SOME IMPULSE IN FAVOUR OF SIMPLER PROCEDURES FOR ESTABLISHMENT WITHIN THE COMMUNITY. THE COMMISSION SAID THAT IN THE COUNCIL FRAMEWORK THE PROPOSAL WAS BEING HELD UP PRINCIPALLY BY ONE MEMBER STATE (THE UK) WHICH WAS INSISTING ON EVIDENCE OF ADEQUATE INCOME BEING DEMONSTRATED ON ARRIVAL AT THE FRONTIER. WELLENSTEIN COMMENTED THAT NATIONAL OFFICIALS FEARED THAT PEOPLE WOULD FLOOD IN TO TAKE ADVANTAGE OF SOCIAL SECURITY. THE COMMITTEE SHOULD EXAMINE THE SCOPE FOR PROGRESS, BUT PERHAPS PROVIDING FOR EXCEPTIONS. WILLIAMSON AGREED. THE PROPOSAL PUT TO THE EUROPEAN COUNCIL SHOULD MAKE IT CLEAR THAT NATIONALS NOT PURSUING ECONOMIC ACTIVITY HAD NO RIGHT, AND WERE ADMITTED ONLY SUBJECT TO CONDITIONS INCLUDING AN ADEQUATE INCOME. THE COMMISSION SAID THEIR POSITION REMAINED THAT THE RIGHT OF ESTABLISHMENT MUST BE ABSOLUTE, AS THE EUROPEAN PARLIAMENT ALSO WANTED. BUT THE COMMISSION REPRESENTATIVE ADDED THAT AT A LATER STAGE THE COMMISSION MIGHT BE READY TO CONSIDER A QUALIFICATION TO THIS "IDEAL APPROACH"

FREE MOVEMENT OF COMMUNITY CITIZENS

7. IN A SECOND READING OF WELLENSTEIN'S PAPER, NEUSEL SAID AN AIM SHOULD BE WIDER APPLICATION OF THE FRANCO-GERMAN FRONTIER ARRANGEMENTS. BUT IT WOULD PROBABLY NOT BE POSSIBLE TO DO THIS UNIFORMLY. RIPA DE NEANA PRESSED FOR SUPPORT FOR THE COMMISSION'S NEW PROPOSAL WHICH WAS NOW ON THE TABLE IN THE COUNCIL. NEUSEL AND WELLENSTEIN SAID THEY COULD ACCEPT THE COMMISSION TEXT AS IT STOOD. CHRISTENSEN SAID DISCUSSION ON THE COMMISSION PROPOSAL SHOULD AWAIT FURTHER DEVELOPMENTS IN THE COMMITTEE. MEANWHILE, IT WAS VERY DAMAGING TO THE COMMUNITY'S IMAGE THAT DANISH HOLDERS OF THE NEW EUROPEAN PASSPORT HAD BEEN HELD UP AT THE SPANISH AND DUTCH FRONTIERS. WILLIAMSON PROPOSED THAT THE MEASURES ON THE FIRST TWO PAGES OF THE WELLENSTEIN PAPER COULD BE PUT TO THE EUROPEAN COUNCIL FOR DECISIONS IN PRINCIPLE. THE SUGGESTIONS ON PAGE 3 WERE LONGER-TERM. RIP DE MEANA SAID THAT THE COMMITTEE SHOULD NOT PREVENT THE COUNCIL FROM OPERATING ON A BASIS OF THE COMMISSION PROPOSAL. BUT HE ADMITTED THAT THE COMMISSION TEXT MIGHT GIVE RISE TO PRACTICAL DIFFICULTIES. THE COMMITTEE SHOULD CONCENTRATE ON A 'GENERAL OUTLOOK' AND LEAVE THE COUNCIL GROUP TO SORT OUT PRACTICALITIES. WILLIAMSON STRESSED THAT THE PEOPLE'S EUROPE COMMITTEE HAD ALREADY REACHED MUCH COMMON GROUND ON THE MOVEMENT OF PEOPLE AND SHOULD GO ON WITH ITS WORK WITH A VIEW TO A REPORT ON THE LINES OF THE WELLENSTEIN/HANSEN PAPER'. ADONNINO AGREED. HE THEN MADE A PROPOSAL THAT THE GREEN DISC ADOPTED BY FRANCE AND THE FRG COULD BE GIVEN WIDE STATUS AND BE MADE AVAILABLE TO ALL COMMUNITY CITIZENS WITH A CLEAR EXPLANATION OF THE OBLIGATIONS INVOLVED IN ITS USE. THIS IDEA MIGHT BE INCORPORATED IN THE REPORT. THERE WAS ALSO SOME DISCUSSION ABOUT MEASURES TO BENEFIT HOLIDAY-MAKERS, IN PARTICULAR STAGGERING DATES OF HOLIDAYS.

FREE MOVEMENT OF GOODS

8. BROAD SUPPORT WAS MAINTAINED FOR WILLIAMSON'S PAPER. ON TRAVELLERS ALLOWANCES (TAX-PAID ITEMS), WILLIAMSON REPEATED THAT THE AIM SHOULD BE TO SET A REASONABLE ALLOWANCE FOR NORMAL PURCHASES BY AN INDIVIDUAL CITIZEN FOR HIMSELF, AND TO PROVIDE A MECHANISM TO ENSURE THAT IT WAS NOT WHITTLED AWAY BY INFLATION, THUS PREVENTING TIME-CONSUMING ARGUMENTS BY MINISTERS IN THE COUNCIL. NEUSEL SAID HE WOULD LIKE A HIGHER FIGURE THAN THE 350 ECU SUGGESTED BUT THAT HE COULD ACCEPT THE WILLIAMSON PROPOSAL IF IT WAS GENERALLY SUPPORTED. HE THOUGHT THE WINE ALLOWANCE COULD ALLOW FOR A HALF-CASE (SIX BOTTLES). THUYSBAERT WAS IN FAVOUR OF ALIGNING THE PAPER ON THE MOST RECENT PRESIDENCY COMPROMISE FIGURES. CHRISTENSEN WANTED LESS SPECIFIC PROPOSALS. HE AGREED WITH NEUSEL THAT THE ADJUSTMENT MECHANISM SHOULD BE A SERIES OF FIXED INCREASES DECIDED IN ADVANCE FOR A PERIOD OF TIME, RATHER THAN A FORM OF INDEXATION. THE COMMISSION PROPOSED 400 ECU FOR THE BASIC ALLOWANCE. ADONNINO ALSO FAVOURED 400 ECUS. WELLENSTEIN, TOO, WANTED SOME OF THE FIGURES IN THE PAPER INCREASED. HE STRONGLY SUPPORTED AN ADJUSTMENT MECHANISM TO SAVE MINISTERS FROM REGULAR HAGGLES. HANSEN COULD ACCEPT THE WILLIAMSON PAPER AS IT STOOD.

9. THE PROPOSAL IN THE PAPER FOR ABOLISHING CHECKS ON FUEL IN BUSES AND LORRIES ATTRACTED ATTENTION. THERE WAS NO DISSENT FROM A PROPOSAL TO ABOLISH CHECKS ON FUEL IN BUSES BUT THUYSBAERT, NEUSEL AND GALLO WERE RELUCTANT TO ACCEPT AN UNRESTRICTED FUEL ALLOWANCE FOR A STANDARD VEHICLE TAX IN LARGE LORRIES. GALLO SAID THERE COULD BE SAFETY HAZARDS FOR TANKS OF MORE THAN 600 LITRES. WELLENSTEN DISAGREED. CHRISTENSEN SAID IT WAS IMPORTANT THAT THE COMMITTEE SHOULD FACILITATE FREER MOVEMENT FOR ALL LORRIES.

10. NEUSEL DOUBTED WHETHER THE PAPER'S SECTION ON REDUCING CURRENCY CONTROLS WOULD SERVE A USEFUL PURPOSE, BUT HE WOULD NOT OBJECT TO A GENERAL EXHORTATION IN THIS SENSE.

11. GALLO, SUBJECT TO HIS POINT ABOUT LORRIES, SAID HE COULD ACCEPT THE PAPER AS A WHOLE. BUT HE WOULD LIKE A REFERENCE TO THE PROPOSED CHANNEL LINK.

YOUNG PEOPLE AND EXCHANGES

12. O TUATHAIL GAVE A LONG PRESENTATION OF HIS LONG AND INCONCLUSIVE PAPER ON THIS SUBJECT. THE REACTION OF ALL SPEAKERS WAS THAT THE FOCUS SHOULD BE PUT ON EXCHANGES WHICH HAD A COMMUNITY ANGLE AND WERE CLEARLY RELEVANT TO TRAINING AND EMPLOYMENT. NEUSEL AND OTHERS DREW ATTENTION TO THE SMALL SCALE AND DISPARATE CHARACTER OF EXISTING EXCHANGES WITHIN THE COMMUNITY, APART FROM THE FRANCO-GERMAN PROGRAMME WHICH WAS IMPRESSIVE BOTH FOR QUANTITY AND POLITICAL VISIBILITY. ADONNINO ACCEPTED THAT A PROPOSAL IN THIS FIELD, UNLIKE SOME OF THE OTHERS, WOULD COST MONEY AND WOULD NEED TO BE WELL ARGUED. WILLIAMSON THOUGHT THAT AN ATTRACTIVE SCHEME MIGHT BE FINANCED PARTLY FROM NON-GOVERNMENTAL SOURCES.

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CAB - WILLIAMSON, SHEARER

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Foreign and Commonwealth Office

London SW1A 2AH

4 February 1985

Prime Minister
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Dear Charles,

European Community: Annual Review For 1984

I enclose a copy of Sir Michael Butler's Annual Review.

The Foreign Secretary commends the Review to the Prime Minister. As Sir Michael says, 1984 was a good year for the United Kingdom in the European Community - one in which we achieved the Fontainebleau agreement on the correction of our budgetary contribution, the Council conclusions on budget discipline, and a price-fixing and the introduction of guarantee thresholds which laid the ground work for a continuing effort to achieve reform of the CAP.

So far as the budgetary issues are concerned, Sir Geoffrey Howe believes that these will continue to give us plenty of headaches in 1985 and is not as sure as Sir Michael that the budget abatement mechanism will not be challenged by other Member States when the arrangement is reviewed, as required by the Fontainebleau agreement, when the Community reaches the 1.4% VAT ceiling. But our negotiating position at that time will be strong because the mechanism will continue in being as long as the 1.4% VAT ceiling exists and this cannot be raised without our consent.

The Foreign Secretary agrees that the really important development for the future of the Community has been the fact that, as a result of Fontainebleau and enlargements, the French will join and soon overtake us as contributors to the Community budget. A feature of the past year has been our ability to work closely with the French on many issues, though of course there remain matters on which there will continue to be sharp friction with them. We have found it more difficult to work as closely as we should have wished with the Germans, due to the confusion over decision-making in Bonn and contradictions in German policy. Nevertheless a continuing effort must be made to concert our policy with the Germans on the many points where our interests coincide.

.../Sir Geoffrey



Sir Geoffrey Howe is not as confident that the work of the Dooge Committee will go the way of some earlier reports on the future of the Community. Chancellor Kohl is determined to try to achieve some agreement later this year. Mitterrand is likely for his own reasons to be prepared to go along with this. So will other members of the original Six - not least because of their concerns about the problems enlargement will bring. The Community of course could run into such difficulties over enlargement, IMPs, and the short term budgetary problems that longer term issues may simply be shelved. Sir Geoffrey thinks, however, that we should continue to operate on the assumption that there will be pressures for an intergovernmental conference to try to work out some new agreement additional to the existing treaties later in the year. In contacts with other governments we have been intensifying our efforts to ensure that unrealistic ideas are discarded and the Community comes increasingly to concentrate on what practically can be achieved. That is very much the view also of Delors and an approach we believe to be gaining ground. We have commented separately on the idea of closer cooperation between the UK, the FRG and France, which the Foreign Secretary considers will be the effective key to the enlarged Community. The Prime Minister's meeting with Chancellor Kohl at Chequers in May will be important in both these contexts.

In forwarding the Annual Review to Number 10, Sir Geoffrey Howe has asked me to add that in the formulation and execution of British policy towards the European Community, we continue to be extraordinary well served by Michael Butler and his staff in UKRep Brussels.

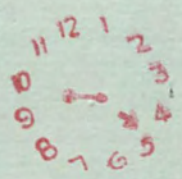
Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

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10 DOWNING STREET

From the Private Secretary

31 January, 1985

European Community: Visit by Signor Craxi

We spoke yesterday about the plans for Signor Craxi to visit a number of European capitals, including London, from 11-15 February. As I told you then, it is a very full week for the Prime Minister. But she has confirmed that we may offer talks at 1800 on Thursday, 14 February to be followed by a small working dinner. May I emphasise the word "small": the value of the meeting will be greatly reduced if we are confronted with a torrent of Italian officials trying to attend.

C. D. POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office

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PRIME MINISTER

EUROPEAN COMMUNITY: CRAIXI

Craxi wants to make a quick tour of the main European capitals in the week 11-15 February to discuss enlargement.

It is not a convenient week for you: the one before you go off for Washington. But you will, I think, want to see him.

The only time we can find in the diary is talks at 1800 on Thursday 14 February followed by a small working dinner. We have provisionally suggested this, subject to your confirmation, in case other Heads of Government pre-empt this time.

*Agreed
mt*

CJP

CHARLES POWELL

30 January 1985



Ref. A085/318

PRIME MINISTER

Cabinet: Community Affairs

Unless it has already been covered under Foreign Affairs you may wish to inform Cabinet of the Community aspects of your talks with the Dutch Prime Minister on 26 January.

2. The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 28-29 January which was spent mainly on the enlargement of the Community and in negotiation with the Spanish and Portuguese. The Community has decided its own position on almost all significant points but there are negotiating disagreements with Spain and - to a lesser extent - Portugal on certain agricultural and fisheries issues. The Italian Presidency had prepared the Council badly and much of the meeting was a waste of time. On the Integrated Mediterranean Programmes Monsieur Delors is clearly trying to lower Greek expectations by emphasising the wide range of existing Community funding and the need to keep Community expenditure to a minimum. In a discussion of the 1985 budget and the revised own resources decision the Foreign and Commonwealth Secretary maintained the view that the best solution would be to have a limited amount of new own resources available in 1985, in order to finance the 1985 budget overrun and the United Kingdom abatement. Alternatively, it might be acceptable to hold over the operative date for any general increase in own resources until 1 January 1986 but to finance the United Kingdom abatement on ratification of the revised own resources decision and to finance the 1985 budget overrun by intergovernmental agreement. Most member states can accept either solution but the German position remains obscure. The Committee of Permanent Representatives (COREPER) is to follow up



the discussion with a view to a decision at the February Council. In the meantime we are obtaining some forced savings through the absence of a 1985 budget.

3. There will be an informal meeting of Social Affairs Ministers on 8 February.

RA

ROBERT ARMSTRONG

30 January 1985

STATEMENT ON FOREIGN AFFAIRS COUNCIL : BRUSSELS 28 AND 29
JANUARY TO BE MADE BY THE SECRETARY OF STATE FOR FOREIGN
AND COMMONWEALTH AFFAIRS, SIR GEOFFREY HOWE, IN THE HOUSE OF
COMMONS ON WEDNESDAY 30 JANUARY.

With permission, Mr Speaker, I would like to make a statement
about the Foreign Affairs Council which met in Brussels on 28 and
29 January 1985. I represented the United Kingdom. Ministerial
conferences with Spain and Portugal were held within the margins
of the Council.

Ministers discussed outstanding points in the negotiations with
both Spain and Portugal on agriculture, fisheries and social
affairs. We remain determined to conclude the negotiations to
allow the date of 1 January 1986 for Spanish and Portuguese
accession to be met.

The Council discussed text of the the financing
of the 1985 budget and the/new own resources decision. More
detailed work will now be done. The Council will return to this
subject in February.

The Council considered the new Canadian restrictions on Community
beef exports. I urged others to work for a satisfactory
negotiated outcome.

Ministers of the Ten, in political co-operation, issued a short
statement regretting the failure of the New York high level
meeting on Cyprus and calling for the resumption of negotiations.
Copies of the statement have been deposited in the library of the
House.

At an intergovernmental conference in the margins of the Council,
Foreign Ministers appointed the Vice-Presidents of the new
Commission.

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TELEGRAM NUMBER 296 OF 29 JANUARY

INFO ROUTINE BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN,
PARIS, BONN, LUXEMBOURG, ATHENS, LISBON, MADRID.FOREIGN AFFAIRS COUNCIL 28-29 JANUARY: IMPS.

RECORD OF LUNCHTIME DISCUSSION.

1. OVER LUNCH ON 28 JANUARY, DELORS (PRESIDENCY) RECALLED THAT AT DUBLIN THERE HAD BEEN TWO PROPOSITIONS:

(I) ONE GROUP HAD REJECTED THE ORIGINAL COMMISSION PROPOSAL AS TOO HIGH GIVEN NEED FOR BUDGET RESTRAINT:

(II) OTHER EMPHASISED - AND PAPANDEOU HAD ESTABLISHED - A LINK BETWEEN ENLARGEMENT AND IMPS.

2. DELORS SAID HE WOULD REFRAIN FROM COMMENT ON THE HISTORY. HE WANTED RATHER TO MAKE THE FOLLOWING POINTS:

(A) THE REGIONAL FUND WAS ALREADY IN EXISTENCE AND SERVED A PURPOSE:

(B) IMPS HAD BEEN CONCEIVED TO OFFSET THE EFFECT OF ENLARGEMENT ON THE EXISTING MEMBER STATES:

(C) GREECE FACED A SPECIAL AND VERY REAL PROBLEM OF ADAPTATION. HENCE THE TRANSITIONAL PERIOD FOR GREECE, AND THE DEROGATIONS TO ALLOW TIME FOR HER TO ADAPT. WHAT WAS MISSING WAS A RESPONSE TO THE GREEK MEMORANDUM:

(CD) HOW THEN SHOULD THE COMMUNITY RESPOND QUICKLY GIVEN THE PRESENT NEED FOR FINANCIAL RESTRAINT? IF THE ERDF AND FEOGA WERE FIXED HIGH ENOUGH, IT SHOULD BE POSSIBLE TO PUT FORWARD A MANAGEABLE PACKAGE:

(E) THE COMMISSION'S PROPOSAL HAD TWO OBJECTIVES: TO COPE WITH THE GREEK PROBLEM AND TO DO SO WITHIN THE AVAILABLE FUNDS. IT WAS NECESSARY TO DIVERSIFY ASSISTANCE TO GREECE TAKING ACCOUNT NOT ONLY OF THE STRUCTURAL FUNDS AVAILABLE BUT ALSO OF OTHER FINANCIAL FLOWS INCLUDING LENDING FROM EG THE EIB. HE THEREFORE PROPOSED AN OUTLINE REGULATION, WITH AN ANNUAL DEFINITION OF THE PROGRAMME ON A YEAR TO YEAR BASIS OVER A PERIOD OF 5 OR 7 YEARS. THIS WOULD INVOLVE 2 ELEMENTS: A CHANGE IN THE WAY THE COMMUNITY'S FUNDS AS A WHOLE WERE MANAGED: AND A REDUCTION IN THE TOTALS PROPOSED.

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3. BARRY (IRELAND) ASKED IF THE COMMISSION PROPOSED THAT PART OF THE EXISTING STRUCTURAL FUNDS SHOULD BE USED FOR IMPS. HE HAD ALWAYS THOUGHT THAT MONEY FOR IMPS WOULD BE ADDITIONAL. DELORS GAVE A BALANCED ANSWER, NOTING THAT THE CONDITIONS OF MEMBER STATES IN THE NORTH WOULD NOT SUFFER. THE AIM WAS TO MAKE BETTER USE OF THE SUMS AVAILABLE, WITH SOME ADDITION.

4. PANGALOS (GREECE) SAID HE WAS GRATEFUL FOR THE FRESH COMMISSION APPROACH. HE WELCOMED THE SPECIAL ATTENTION PAID TO GREECE. OF COURSE, GREECE LOOKED FOR SPECIAL HELP FROM THE EXISTING FUNDS. THE IDEAS PUT FORWARD BY DELORS WERE FINE, BUT FIGURES NEEDED TO BE ATTACHED TO THEM. GREECE WAS READY TO EXAMINE THE APPROACH NOW PROPOSED, BUT THE DETAILS HAD TO BE CLEAR. MEDITERRANEAN COUNTRIES WERE FACING EXTRA COSTS FROM ENLARGEMENT AND FROM FONTAINEBLEAU. GREECE HAD PAID A PRICE FROM FONTAINEBLEAU AND REQUIRED COMPENSATION. THE FIGURES WERE CLEAR AND HAD TO BE TAKEN INTO ACCOUNT.

5. GENSCHER (GERMANY) SAID THAT THE COMMISSION HAD OFFERED A NEW APPROACH. AT DUBLIN THE COMMISSION PROPOSAL HAD BEEN FELT TO BE UNACCEPTABLY HIGH. THERE WAS NOW A NEW APPROACH: IMPS WERE TO BE CONCENTRATED ON THE MEDITERRANEAN COUNTRIES WITH THE GREATEST NEED, ESSENTIALLY GREECE. GREECE ALREADY RECEIVED A LOT FROM THE EXISTING STRUCTURAL FUNDS. WE NEEDED A REALISTIC ORDER OF MAGNITUDE FOR IMPS - THE OPPOSITE OF WHAT THE COMMISSION HAD PROPOSED SO FAR. FIORET (ITALY) SAID THAT THE ORIGINAL IDEA HAD BEEN TO SECURE A BALANCE, TAKING ACCOUNT OF THE COMMUNITY'S MEDITERRANEAN POLICY. HOW COULD THIS BE DONE THROUGH THE EXISTING STRUCTURAL FUNDS?

6. THE SECRETARY OF STATE SAID THAT DUBLIN SUMMIT AND PRESSURES ON EC FUNDS ARGUED FOR MORE EMPHASIS ON THE GREEK MEMORANDUM. ENLARGEMENT TERMS PROVIDED CONSIDERABLE PROTECTION FOR MEDITERRANEAN PRODUCERS, AND IMPS SHOULD BE RESTRICTED TO 3 YEARS ONLY. THE FONTAINEBLEAU CONCLUSIONS MEANT INTEGRATING IMPS INTO EXISTING FUNDS WITHIN THE LIMITED MONEY AVAILABLE. GREECE AND ITALY WERE LIKELY TO BENEFIT TO THE TUNE OF 3 BECUS AND 7.5 BECUS RESPECTIVELY FROM STRUCTURAL FUNDS IN NEXT FIVE YEARS. THERE WAS AGREEMENT THAT IMPS FOR GREECE SHOULD START IN 1985. BUT GREECE DID NOT DESERVE COMPENSATION FROM FONTAINEBLEAU: HER NET BENEFIT ALREADY AMOUNTED TO OVER 900 MECUS AND FONTAINEBLEAU WOULD INCREASE THIS. IT WAS RECOGNISED THAT ITALY HOPED TO QUALIFY BUT UNBLOCKING ENLARGEMENT WAS THE IMMEDIATE NEED.

7. POOS (LUXEMBOURG) ACCEPTED A SEVEN YEAR PROGRAMME, ANGLED TO BUT TAKING ACCOUNT OF ALL NORTH-SOUTH FLOWS. HE AGREED THAT EXISTING FUNDS SHOULD BE INTEGRATED IN THE APPROACH, THE FIRST PROBLEM WAS TO FIX FIGURES. PANGALOS SAID HE HAD UNDERSTOOD THIS TO BE A POLITICAL DISCUSSION. HE DID NOT ACCEPT THE SECRETARY OF STATE'S FIGURES OR THE CONCEPT OF NET RECEIPTS.

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8. ANDREOTTI (CHAIRMAN) SAID IT WAS NECESSARY TO TAKE ACCOUNT OF THE FIGURES AND LINKS WITH OTHER PARTS OF COMMUNITY POLICY. ACCOUNT NEEDED TO BE TAKEN OF THE SPECIAL POSITION OF GREECE, BUT ITALY DID NEED THE IMP PHILOSOPHY TO BE MAINTAINED. IMPS WERE NEEDED PRIMARILY FOR GREECE, BUT THE COMMITMENT TO ITALY HAD TO REMAIN ON THE TABLE. HE CONCLUDED THAT THERE WAS NO NEED FOR FURTHER DISCUSSION UNTIL THE COMMISSION'S NEW PROPOSAL WAS AVAILABLE.

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Prime Minister

CDP
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MR POWELL

COMMITTEE ON PEOPLE'S EUROPE

At its meeting yesterday the Committee made excellent progress on ways of easing the movement of travellers and goods within the Community. The question of travellers' goods was covered in a paper which we submitted after clearance with all Departments concerned. Many of the British objectives are likely to be carried in due course into the report.

I note, however, that there is also a reference in today's Times to a "stamp for Europe". We have submitted no proposal on stamps. On the initiative of the Chairman there was a brief discussion yesterday whether it would be feasible to commemorate the enlargement of the Community by the issue of a single stamp in the twelve member states or whether the occasion might be marked by including a common symbol on different stamps in the various member states. There are at present different postage rates in some countries of the Community. There was absolutely no discussion of the form of the stamp or of the inclusion of the Queen's head on it.

I am sending copies to Mr Budd (FCO), Mr McCarthy (DTI) and to Sir Robert Armstrong.

D F WILLIAMSON

23 January 1985



Ref. A085/238

PRIME MINISTER

Cabinet: Community Affairs

Unless it has already been covered under Foreign Affairs, you may wish to inform Cabinet of the Community aspects of your talks with Chancellor Kohl on 18 January.

2. There have been no Council meetings since last week's Cabinet. But the Foreign and Commonwealth Secretary may report on his meeting with Monsieur Dumas, the French Minister of Foreign Affairs, on 22 January, when they discussed the work of the Dooge Committee and the prospects for the forthcoming agricultural price-fixing (on which the Commission's proposals seem likely to be very restrictive, with almost no price increases and some decreases).

3. In case it is raised, you should be aware that:

a. the European Democratic Group is seeking to delay the setting up of the European Parliament's objectionable enquiry on the policing of the miners' strike;

b. contrary to certain press reports, the United Kingdom has made no proposal in the Committee on People's Europe for a European stamp. The Chairman mentioned this point at the last meeting, but there has been no discussion there of the form of such a stamp and absolutely no reference to not including The Queen's head.



4. The Foreign Affairs Council will meet on 28-29 January, when the main issue will again be the progress of the enlargement negotiations with Spain and Portugal.

RA

ROBERT ARMSTRONG

23 January 1985

CONQUEROR

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JRRARW
bcPC



10 DOWNING STREET

From the Private Secretary

21 January 1985

OUR 1984 ABATEMENT AND THE PROVISION OF
SUPPLEMENTARY FINANCE IN 1985

The Prime Minister has noted the Chancellor's minute of 16 January on this subject to the Foreign Secretary.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office) and David Williamson (Cabinet Office).

(C.D. POWELL)

Miss Rachel Lomax,
HM Treasury.

A handwritten signature in dark ink, appearing to be 'JRP' or similar, located in the lower right quadrant of the page.

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

FOREIGN AND COMMONWEALTH SECRETARY

**OUR 1984 ABATEMENT AND THE PROVISION OF
SUPPLEMENTARY FINANCE IN 1985**

I have been giving further thought to the best way of:

(i) securing our 100 mecu abatement for 1984. At Fontainebleau, it was agreed that this money should be paid in 1985 by abatement of VAT so as to avoid interference from the European Parliament;

(ii) providing a limited amount of supplementary finance in 1985. At the 2/3 October Foreign Affairs Council, you agreed with other Member States to meet the Community's additional budgetary requirements this year - including not only our 1000 mecu abatement, but an anticipated agricultural overrun of 1315 mecu. These issues will be on the agenda at this week's Anglo German Summit (which, as you know, I am not able to attend) and at the Foreign Affairs Council at the end of January.

Options

2. We are agreed that the ideal solution from our point of view, would be to provide for both supplementary finance and the UK abatement in a revised Own Resources Decision (ORD), which would be implemented once the ORD had been ratified by national Parliaments. In order to limit the amount of supplementary finance, the VAT ceiling for 1985 would be set, as the Irish Presidency proposed last October, at 1.2 per cent. It would then rise to 1.4 per cent from 1 January 1986, as agreed at Fontainebleau.

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3. The Germans, however, have steadfastly refused to bring new own resources into 1985. Unless they change their position in the next few weeks, it will not be possible to ratify the new ORD in time to obtain additional revenue before the Community runs out of money under the provisional twelfths regime. While we still need to maintain pressure on the Germans to change their position at the Anglo-German Summit later this week, we must plan on the basis that some other approach will be required.

4. The next best option seems to me to be an arrangement where we would provide for supplementary finance by way of a second IGA, while including our 1000 mecu abatement in the ORD. Although the Germans have recently said they would not accept an arrangement on these lines, there is a good chance that they could be persuaded to change their position. Tietmeyer has in the past indicated that they will be prepared to go along with an arrangement of this sort, and it should be possible to make the Germans face up to the fact that provision in a new ORD is the only way of implementing what was actually agreed at Fontainebleau, ie payment of our 1000 mecu by abatement of our VAT contributions in 1985. The main point to be made to them later this week is that the Fontainebleau commitment must be honoured. We would, of course, have to ensure that our contribution to the IGA was fully covered by the Fontainebleau mechanism.

5. I share the Prime Minister's view (Mr Flesher's minute to David Williamson of 27 December) that, while financing the 1985 overrun through a second IGA is not attractive in itself, it should not be excluded, as part of a package securing our 1000 mecu abatement. This option would be improved if we could secure agreement to the idea that the IGA should only be implemented by the Community as a whole once the ORD had been ratified and our abatement made. In practice, however, we are

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unlikely to be able to secure an agreement on these lines. What probably would be negotiable - and what I propose we should insist on - would be a repeat of the type of provision we had in the first IGA, whereby the UK would not be obliged to contribute its share of the IGA money until the ORD had been ratified and our abatement made.

6. It is, of course, possible that - notwithstanding what was agreed at Fontainebleau - the Germans will continue to resist any arrangement involving the implementation of the new ORD in 1985 even for effecting our abatement. In these circumstances, we need to consider what other options are available. The Germans have indicated that they would be prepared to provide for everything - ie both the agricultural overrun and the UK's 1000 mecu - in one large IGA. Presumably, our 1000 mecu would be paid as an off-budget, lump-sum cash payment. The problem with this idea is that it is most unlikely to be acceptable to other Member States. France, Belgium and Italy have already voiced their objections. They say they could not get the approval of their national Parliaments to a second IGA if nearly half the money was to be paid to the UK - though it is difficult to see why this is more objectionable to them than the converse is for us.

Tactics

7. As a matter of tactics, I think it would be most unwise for us at this stage to advocate a solution on these lines - we should stick as closely as possible to what was agreed at Fontainebleau. If the Germans propose it to us this week, we can say that it is inconsistent with the Fontainebleau agreement that the 1000 mecu should be paid by abatement of our VAT contribution; and that our impression is that it is unacceptable to other Member States.

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8. I understand that there has been some discussion in Brussels of the possible use of one or more Article 235 regulations to provide for either or both supplementary financing and our abatement. I am not attracted to the use of these regulations for revenue purposes, for the reasons we have discussed in the past. It is possible, however, that they could help secure early payment of our abatement if no other avenue is open. For this reason, it would probably be wrong to rule out their use completely at this stage.

9. I am copying this to the Prime Minister, Michael Jopling and Sir Robert Armstrong.

A handwritten signature, likely of the Chancellor of the Exchequer, consisting of stylized initials.

(N.L.)

16 January 1985

6 JUN 1985



1985



GRS 1200
UNCLASSIFIED
FRAME GENERAL
FM UKDEL STRASBOURG 161529Z JAN 85
TO IMMEDIATE FCO
TELEGRAM NUMBER 008 OF 16 JANUARY
AND TO IMMEDIATE UKREP BRUSSELS
INFO ~~ROUTING~~ ^{Saving} OTHER EC POSTS

FROM UKREP

ITALIAN PRESIDENCY'S OPENING STATEMENT TO THE EUROPEAN
PARLIAMENT

SUMMARY

1. ON 16 JANUARY ANDREOTTI GAVE THE PRESIDENCY'S PROGRAMME
SPEECH TO THE EUROPEAN PARLIAMENT WITH QUOTE GUIDELINES AND
PRIORITY AREAS FOR ACTION UNQUOTE. SOME PROMINENCE GIVEN
TO INSTITUTIONAL REFORM AND THE PROPOSED INTERGOVERNMENTAL
CONFERENCE ON THIS. OTHERWISE A LONG, GENERALLY DOWN-TO-
EARTH, SURVEY OF EC POLICY AREAS, WITHOUT SURPRISES, AND
REFLECTING THE FACT THAT THERE WAS NOT ENOUGH MONEY FOR NEW
EXPENDITURE PROGRAMMES DURING THE PRESIDENCY.

DETAIL

2. FULL TEXT BY BAG FROM UKREP TO ECD(1). FOLLOWING ARE
EXTRACTS :

INSTITUTIONAL AND DOOGE COMMITTEE

ANDREOTTI LAUNCHED INTO THIS AT THE START. QUOTE WE ARE
CONVINCED THAT THE COMMITMENT, WHICH SEEMS TO BE EMERGING
CLEARLY FROM THE WORK OF THE COMMITTEE ON INSTITUTIONAL
AFFAIRS TO ACHIEVE SIGNIFICANT PROGRESS TOWARDS THE
REORGANIZATION OF THE COMMUNITY, WHICH OUGHT TO BE
CHARACTERIZED BY CLEARER FORMS OF INTERGRATION, REPRESENTS
A HISTORICAL OPPORTUNITY WHICH MUST NOT BE WASTED UNQUOTE..
... QUOTE FOR OUR PART, NO EFFORT WILL BE SPARED IN SEEKING
AGREEMENT BY JUNE ON A DATE FOR CONVENING AN INTER-GOVERNMENTAL
CONFERENCE WITH THE TASK OF NEGOTIATING THE TREATY ON EUROPEAN
UNION ON THE BASIS OF THE CONCLUSIVE SUGGESTIONS TO BE PROVIDED
BY THE COMMITTEE ON INSTITUTIONAL AFFAIRS. WE SHALL WORK
TOWARDS THE DEFINITION OF A MANDATE WHICH AVOIDS ANY
MISUNDERSTANDINGS, AND WHICH IS THEREFORE WORDED IN SUFFICIENTLY
CLEAR TERMS TO SUBSEQUENT WORK NOT TO BECOME BOGGED DOWN,
AS HAS UNFORTUNATELY HAPPENED IN THE PAST UNQUOTE.

PEOPLES EUROPE

QUOTE WE INTEND TO GIVE THE GREATEST POSSIBLE IMPETUS TO ITS
WORK IN THE NEXT SIX MONTHS, PRECISELY BECAUSE WE ARE CONVINCED
THAT A HYPOTHESIS FOR RELAUNCHING THE COMMUNITY MUST BE
ACCOMPANIED BY A STRENGTHENING OF ITS IDENTITY AND OF ITS
CREDIBILITY FOR EUROPEAN AND INTERNATIONAL PUBLIC OPINION
UNQUOTE.

1985 EC BUDGET

QUOTE WE MUST WORK AS QUICKLY AS POSSIBLE TOWARDS APPROVAL OF THE BUDGET FOR 1985 UNQUOTE. QUOTE FOR OUR PART, WE SHALL STRIVE TO ENSURE THAT THE PRINCIPLE OF AN ANNUAL BUDGET, AS DEMANDED BY THIS PARLIAMENT, IS OBSERVED, POSSIBLY BY ANTICIPATING BY A COUPLE OF MONTHS THE ENTRY INTO FORCE OF THE DECISION ON THE INCREASE IN THE REVENUE FROM VALUE-ADDED TAX. THIS WORKING HYPOTHESIS MAY COME UP AGAINST INSURMOUNTABLE DIFFICULTIES. IN THAT EVENT, WE SHALL CONSIDER ALTERNATIVE TEMPORARY MEASURES, COMMUNITY ONES, AS FAR AS POSSIBLE UNQUOTE.

BUDGET IMBALANCES

QUOTE AS TO THE ARRANGEMENTS FOR REIMBURSING THE UNITED KINGDOM, AND GIVEN THE VARIOUS POSITIONS EXPRESSED BY THE EUROPEAN PARLIAMENT AND THE GOVERNMENTS, I WOULD POINT OUT THAT WE ARE NOT DISCUSSING THE PRINCIPLE - AND I SHALL QUOTE HERE THE FINAL COMMUNIQUE AT FONTAINBLEAU - THAT " ULTIMATELY, THE CHIEF MEANS FOR RESOLVING THE PROBLEM OF BUDGET IMBALANCES IS EXPENDITURE POLICY", IN OTHER WORDS, THE DEVELOPMENT OF THE COMMON POLICIES. IT SEEMS TO ME, HOWEVER, THAT THE COMPROMISE FORMULA DRAWN UP AT FONTAINBLEAU (WHICH ALLOWS MEMBER STATES WITH AN EXCESSIVE BUDGET BURDEN RELATIVE TO THEIR PROSPERITY TO HAVE THEIR COMMUNITY BUDGET CONTRIBUTION ADJUSTED) SHOULD BE APPLIED FOR THE TIME BEING UNQUOTE.

BUDGET DISCIPLINE

QUOTE THE ITALIAN PRESIDENCY WILL ALSO TAKE STEPS TO ENSURE THAT THIS PARLIAMENT IS ASSOCIATED WITH THE COUNCIL IN THE TASK OF DETERMINING THE FRAME OF REFERENCE FOR THE EXPENDITURE TO BE ENTERED IN THE COMMUNITY BUDGET, TAKING ACCOUNT OF THE FINANCIAL RESOURCES AVAILABLE. I AM SURE THAT THE EUROPEAN PARLIAMENT AND THE COUNCIL - WHICH, AS ENVISAGED BY THE TREATY OF ROME, HAVE AUTHORITY IN BUDGETARY MATTERS - ARE PURSUING THE SAME OBJECTIVE, NAMELY RATIONALIZING EXPENDITURE AND AVOIDING ANY POSSIBLE WASTAGE, SO AS TO MAKE AVAILABLE, BY MEANS OF THE NECESSARY ADJUSTMENTS AS WELL, THE RESOURCES TO BE DEVOTED TO DEVELOPING THE NEW POLICIES UNQUOTE.

INTERNAL MARKET

THIS WAS ANOTHER PRIORITY AREA FOR THE PRESIDENCY. ANDREOTTI MENTIONED PARTICULARLY :

QUOTE THE REDUCTION OF FRONTIER CONTROLS, THE REMOVAL OF TECHNICAL OBSTACLES TO TRADE, STANDARDIZATION AT EUROPEAN LEVEL, THE ESTABLISHMENT OF A LEGAL FRAMEWORK FOR CO-OPERATION BETWEEN UNDERTAKINGS, AND THE FREE MOVEMENT OF SERVICES AND ECONOMIC OPERATORS UNQUOTE.

MONETARY COOPERATION AND EMS

THE PRESIDENCY WOULD GIVE PARTICULAR ATTENTION TO THE REVIVAL OF MONETARY AND FINANCIAL COOPERATION. PRIMARY TASK WAS TO STRENGTHEN CONVERGENCE OF NATIONAL ECONOMIC POLICIES. ALSO NECESSARY TO MOVE TOWARDS LIBERALISATION OF CAPITAL MOVEMENTS. PUBLIC AND PRIVATE USE OF THE ECU MUST BE ENCOURAGED. THE DEVELOPMENT OF THE EMS WOULD INVOLVE INCLUSION OF THE POUND AND LATER THE DRACHMA IN THE EXCHANGE RATE SYSTEM.

CAP

FIXING OF PRICES AND MARKET MEASURES FOR 85/86 WOULD BE CARRIED OUT AGAINST AN EXTREMELY DIFFICULT FINANCIAL BACKGROUND. PRESIDENCY WAS AWARE OF THE LIMITATIONS.

ENVIRONMENT

LEAD IN PETROL AND VEHICLE EXHAUST WERE OF PARTICULAR URGENCY.

OTHER INTERNAL POLICIES

TRANSPORT POLICY, EMPLOYMENT MEASURES AND ACTION AGAINST DRUG ABUSE WERE STRESSED.

ACCESSION OF SPAIN AND PORTUGAL, AND IMPS

QUOTE IT SEEMS TO BE THAT AS THE NEGOTIATIONS CONTINUE, PARTICULARLY IN THE AGRICULTURAL SECTOR, ACCOUNT MUST BE TAKEN, ON THE ONE HAND, OF THE ECONOMIC BENEFITS WHICH NORTHERN EUROPEAN PRODUCTS (OF WHICH THERE ARE DEFICITS IN SPAIN AND PORTUGAL) WILL DERIVE FROM THE OPENING OF NEW MARKETS AND, ON THE OTHER HAND, OF THE ECONOMIC DISADVANTAGES WHICH WILL INEVITABLY RESULT FOR MEDITERRANEAN PRODUCTS. TO ALLEVIATE SOME OF THESE DISADVANTAGES, AT LEAST PARTIALLY, IT WILL BE NECESSARY TO RESORT TO APPROPRIATE TEMPORARY MEASURES, SUCH AS THOSE CONTAINED IN THE INTEGRATED MEDITERRANEAN PROGRAMMES. IT IS CERTAINLY TO BE REGRETTED THAT NO DECISION HAS YET BEEN TAKEN ON THE COMMISSION'S PROPOSALS ON THE INTEGRATED MEDITERRANEAN PROGRAMMES, EVEN THOUGH THE ACCESSION NEGOTIATIONS ARE NOW IN THE FINAL STAGES. IT IS THEREFORE THE DUTY OF THE PRESIDENCY TO ENSURE THAT THIS PROBLEM, THE DIFFICULTY OF WHICH WE FULLY APPRECIATE, DOES NOT REMAIN OUTSTANDING MUCH LONGER. FOR ALL THESE REASONS, THE ITALIAN PRESIDENCY WILL MAKE EVERY POSSIBLE EFFORT TO PROVIDE THE RIGHT CONDITIONS FOR THE SUCCESSFUL CONCLUSION OF THE ACCESSION NEGOTIATIONS DURING THE EARLY MONTHS OF 1985 UNQUOTE.

EXTERNAL POLICIES

THE LONG CLOSING SECTION ON EXTERNAL POLICY HAS BEEN SENT BY BAG TO ECD(E). PARTICULAR ATTENTION GIVEN TO THE MIDDLE EAST AND LATIN AMERICA. AN UNDERTAKING TO WORK FOR MORE COMPLETE HARMONISATION BETWEEN EC WORK AND POLITICAL COOPERATION.

FCC PSE PASS IMMEDIATE TO UKREP BRUSSELS

FCO ADVANCE TO:

FCO - PS/RIFKIND, RENWICK, CROWE, FAIRWEATHER

CAB - WILLIAMSON

TSY - PS/SOS, UNWIN

FCO PSE PASS SAVING ALL OTHER EC POSTS

STODDART

REPEATED AS REQUESTED

FRAME GENERAL
ECD (1)

COPIES TO
ADVANCE ADDRESSEES



Prime Minister:

You might also consider whether to mention to European Parliament's decision to mount an inquiry into the coal strike under this
Cabinet: Community Affairs item or under industrial affairs

Ref. A085/152

PRIME MINISTER

The Foreign and Commonwealth Secretary may report that JF
Monsieur Delors, the new President of the Commission, has set out 16/1
his approach in a speech to the European Parliament. The emphasis was on practical improvements in the operation of the Community; in particular, the internal market for goods and services and further action on the lines being discussed in the Committee on People's Europe (he referred to a timetable for "a real Community where travel, communications and trade are possible without any hindrance"); the strengthening of monetary co-operation and a controlled extension of the role of the official and private ecu; and a sense of urgency in decision making. This was generally on lines which we welcome and there were no hostages to fortune nor grandiose or theoretical schemes.

2. The Minister of Agriculture, Fisheries and Food may report on the Council of Ministers (Agriculture) on 14-15 January. On agricultural structures he was successful in ensuring that there was no attempt to bypass the Finance Council. The question of finance will go to a Finance or joint Finance/Agriculture Council in February. On the milk levy the Commission defended its decisions to withhold some advances for January and to institute legal proceedings but proposed technical amendments to meet some requests, including one from the United Kingdom. The levy remains uncollected in a number of member states (including the United Kingdom) and the circumstances in which the Cabinet took its decision remain unchanged.

3. You and other colleagues will be meeting Chancellor Kohl at the Anglo-German bilateral summit on 18 January. The supplementary estimate providing finance for the 1984 Community budget under the intergovernmental agreement will be debated in the House of Commons on 22 January.

RIA

ROBERT ARMSTRONG

16 January 1985



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

16 January 1985

P F Ricketts Esq
Private Secretary to the
Secretary of State for Foreign and Commonwealth Affairs

Sean Peter,

DECISION-TAKING IN THE COMMUNITY

Thank you for copying to me your letter of 11 January to Charles Powell covering a draft paper on this subject.

The Chancellor is broadly content with the draft paper, but there are two points he would like to make:

- (i) the paper adopts an interrogative line on a number of proposals raised in the Dooge Report - such as increasing the powers of the European Parliament (eg. over revenue) and extending considerably the use of majority voting. We understand and accept the tactical reasons for this approach. However, if this fails to convince the majority on the Dooge Committee to take a more realistic line, we will need to say rather more bluntly that much of what they propose is unacceptable to us;
- (ii) paragraph 10 of the paper argues that we should try to identify areas where not insisting on the unanimity requirement would be advantageous and acceptable to all member states. A case-by-case study is advocated. The Chancellor endorses this, subject to two points.

First, we need to be clear that what is being proposed involves, effectively, a self-denying ordinance rather than Treaty amendment.

Second, we need to identify accurately those areas where concessions might be possible. One difficulty concerns Article 100 directives. The Prime Minister has proposed that member states should agree to not insisting on unanimity for Article 100 directives relating to the development of EC standards for new products and the high technology sector. The Chancellor supports this. However, we would not want to give up the unanimity rule in relation to proposals to harmonise direct taxes. These too are introduced under Article 100. Thus the use of majority voting on all Article 100 directives would not be acceptable to us.

Copies of this letter go to Charles Powell (FCO) and Richard Hatfield (Cabinet Office).

*Yours
Richard*

MRS R LOMAX
Principal Private Secretary

SEP

*NBIM
CDP
171*

euro Pst: Budget Pt 28.

17 JAN 1985
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G 1 G 3 4 5 6 7 8 9

FIVE

PM

cc: PD



10 DOWNING STREET

From the Private Secretary

16 January, 1985

Dear Adrian,

EC BUDGET

The Economic Secretary minuted the Prime Minister on 14 January about the Commission's request that we bring forward from February to January payment of non-VAT traditional own resources. The Prime Minister agrees that we should meet the Commission's request and to the procedure proposed by the Economic Secretary.

The Prime Minister notes that similar requests for advances of non-VAT own resources may be received later in the year. She agrees that it will not be necessary for her to be consulted on each case, provided she can be assured that the Commission's financial position and the case for the advance will be studied carefully on each occasion and the usual Parliamentary procedures followed.

I am sending a copy of this letter to Colin Budd (Foreign and Commonwealth Office), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and to Richard Hatfield (Cabinet Office).

Yours sincerely

(C.D. Powell)

A. Ellis, Esq.,
HM Treasury.

XL



10 DOWNING STREET

Prime Minister

This is a perfectly
normal transaction and
does not relate in any
way to our contribution
to the 1984 IGA.

The money concerned
is levies & duties, which
we have already collected.

C. D. P.

16/1



EUROPEAN COMMUNITY: ANNUAL REVIEW FOR 1984

SUMMARY

1. A good year for the Community and the UK. The "British budget problem" solved. Our 1983 refund settled and 1984 refund agreed. Budget discipline endorsed and a start made on curbing CAP surpluses. (Paragraphs 1-6)
2. Other bright spots: clearer consensus on economic policies, containment of protectionism, adoption of a Common Commercial Policy Regulation, progress on the internal market, completion of Lomé III, early agreement on fisheries for 1985, revision of the Regional Fund, several inland transport measures and a 5-year research programme for information technology. (Paragraph 7)
3. But there is much unfinished business, notably enlargement and drafting the own resources decision. German linkage may give trouble. (Paragraph 8)
4. Second direct elections to the European Parliament. Frustration at the limitations on its role culminated in rejection of 1985 budget. Improved conciliation a better solution for the Community than granting increased powers. (Paragraphs 9-10)
5. The Thorn Commission, except for Davignon, ended unimpressively as it had begun. Delors making a good start. (Paragraph 11)
6. Another debate on 'European Union' has stimulated discussion, but is unlikely to herald change. Important to make the Community work better instead of debating pros and cons of federalism. We must avoid being caricatured as bad Europeans. (Paragraphs 12-13)
7. Key development of 1984 was the coming together of Germany, France and UK as three net contributors. Opportunity now exists to create unobtrusive directorate to steer enlarged Community. (Paragraph 14)
8. Huge and difficult agenda for 1985. No alternative to diet of crisis and hard slog. But both could be reduced if Governments allowed detailed points to be settled below Council. (Paragraphs 15-17)



OFFICE OF THE UNITED KINGDOM
 PERMANENT REPRESENTATIVE
 TO THE EUROPEAN COMMUNITIES
 ROND-POINT ROBERT SCHUMAN 6
 1040 BRUSSELS

TELEPHONE 230 62 05

15 January 1985

The Right Honourable
 Sir Geoffrey Howe QC MP
 Secretary of State for Foreign and
 Commonwealth Affairs
 Foreign and Commonwealth Office
 LONDON SW1

Sir,

ANNUAL REVIEW: 1984

1. So much of importance to the UK was discussed in the 75 Council meetings in 1984 (including 3 European Councils) that it is difficult to do even summary justice to particular subjects in 2,500 words. In selecting those to be covered I have plumped for what seems significant for the development of the Community as a whole. The rest is in the accompanying Memorandum.
2. The Community starts 1985 in a more cheerful mood than 1984, though with no shortage of problems. As in past "crises", the Governments again demonstrated in 1984 that even really difficult decisions do get taken at the 11th hour if the alternative is to fall over the edge into the abyss of a disintegrating Community. Though the processes of reaching agreement are usually too slow and often infuriating, Member Governments know that they have to make the Community work.
3. 1984 was a good Community year for the UK. The main substance of the Stuttgart agenda was agreed at Fontainebleau, though there are still some loose ends. The UK budget problem was thus solved, exactly five years after the Prime Minister launched the campaign in Strasbourg in the last French Presidency. Will-power, persistence and careful planning of the campaign carried out by Ministers and officials in a co-ordinated way delivered a settlement which many sceptics long considered unachievable. What the Prime Minister got in June, in effect a two-thirds refund of our net contribution (less a small and relatively declining deduction due to our high tariff/levy share) was almost exactly what, on instructions, I proposed in Coreper in February 1980, and which no other Member State was then even prepared to discuss. We gained ground slowly, moving them in our direction in May 1980, November/December 1981, June 1983, and throughout the post-Stuttgart negotiations. The Fontainebleau result will, once the new own resources decision is finally adopted, take the "British budget question" off the

/Community's



CONFIDENTIAL

- 2 -

Community's agenda. (None of the others will have the heart to open it up again when the 1.4% ceiling is reached, though the Germans may then insist that there is a "German budget question".) This has already improved our bargaining position across the board.

4. Furthermore, after trouble with France and Italy in the Spring and with the European Parliament after Fontainebleau, we finally got the bulk of our 1983 refund in 1984 and the Prime Minister secured agreement to a 1000 million écus reduction of our VAT in 1985 in respect of 1984. Thanks to German foot-dragging the latter is still not embodied in a formal text. But even if there are some tiresome moments before we get our deduction, and it is difficult to get it on time, it will be made.

5. Looking back on the 30 May Mandate negotiations in our last Presidency, it seems an almost more remarkable achievement that the European Council agreed in March and confirmed in December formal Conclusions on budget discipline under which the rate of growth of CAP expenditure should in future be less than the rate of growth of the own resources base; that the "maximum rate" for non-obligatory expenditure should in future be respected; and that the ECOFIN Council should be much more involved in spending decisions and should fix a "reference figure" for the budget as a whole before the budget process starts. Though we had some help from Germany and the Netherlands and, intermittently, France on this question, it was again due to the persistence and skill of UK Ministers and officials that arrangements so near our own negotiating aims were in the end adopted.

6. Finally, mainly as a result of the post-Stuttgart negotiation, a serious beginning was made in March with containing the CAP surpluses through the milk super-levy, a relatively rigorous price policy and a commitment to guarantee thresholds for products in surplus or on which expenditure is growing rapidly. In December in Dublin, arrangements were at last agreed to control the rapidly growing wine surplus. Though the milk super-levy is still causing difficulties, it has already caused a cut in production. Though it will be hard to keep to the March 1984 decision on cereal prices which should result in a 5% reduction this March, everyone can see what should be done. The levers are now to hand for applying the European Council's conclusions on budget discipline to the CAP. This will be hard work for many years to come and none more so than in 1985, particularly if the dollar falls from its present unnatural heights. Productivity continues to rise very fast; growth in consumption is low or negative; overseas markets will not absorb more; and there are surpluses in most sectors. Once the Community is in surplus, a small percentage increase in production produces a much higher percentage increase in the surplus and sometimes a still higher percentage increase in the cost of its disposal. It is worth noting that

/Mediterranean

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CONFIDENTIAL

- 3 -

Mediterranean agriculture continued in 1984 to be by far the fastest growing expenditure sector and enlargement will eventually add to these costs. Even with rigorous price-fixing decisions the strict financial guide-line will therefore be under pressure. Unfortunately the Germans, who are badly co-ordinated on Community matters, and whose Agriculture Ministry took a turn for the still worse in 1984, seem unlikely fully to draw the right consequences. The French, rather better co-ordinated though in serious political difficulties with Rocard, seem likely to be more tight-fisted financially except where the votes of small farmers are seriously at risk.

7. 1984 had a number of bright spots outside the post-Stuttgart negotiations, of which the most important were:-

- (a) Though the unemployment figures remain gloomy, European growth and inflation trends continue in the right direction and the consensus about macro-economic policy moved even further in our direction, to such an extent that the Prime Minister was able to give the Commission's Annual Report to the Dublin European Council an almost whole-hearted blessing.
- (b) Partly as a result of Community efforts, the spread of protectionism was contained even in the US in an election year with a one hundred billion dollar trade deficit. Davignon's last act was to bring off an agreement with the US on steel pipes and tubes just when they seemed to be heading determinedly for unilateral protectionist action. The Community also adopted the Common Commercial Policy Regulation for speeding-up reaction to unfair trading practices.
- (c) Progress was made on the internal market with the adoption of 15 Directives on common industrial standards and a single customs document; as well as two long-disputed recommendations on the harmonisation of telecommunications standards and the opening up of public procurement markets.
- (d) The Lomé III negotiations were completed satisfactorily and, incidentally, during 1984 our share of Lomé contracts (net of contracts to ACP firms) rose for the first time above our financing share.
- (e) For the first time fisheries TACs and quotas for the year ahead were settled before that year began; and the new Commission Fisheries Inspectorate came into being and began to earn its keep by policing the conversation and other regulations.



CONFIDENTIAL

- 4 -

- (f) After three years of negotiation the Regional Fund was revised and will come into operation in its new form in 1985.
- (g) A clutch of inland transport measures were adopted, including a directive on lorry weights and measures providing for a UK derogation and a regulation increasing road haulage quotas over the next five years.
- (h) In the research field agreement was reached, thanks largely to Davignon, on the five-year ESPRIT programme, and at the end of the year on a package of eight Research and Development programmes for the next four or five years.

8. But there is naturally a vast amount of unfinished 1984 business (see para 14 below). The drafting of the own resources decision and the enlargement negotiations are both well behind schedule. If the Germans persist in their present extreme form of linkage between the two issues, contrary to what was said in the Fontainebleau agreement, we may run into real trouble later this year.

9. During 1984 the European Parliament was directly elected for the second time. It is not like a national Parliament because the dominant part of the Community's "government", ie the Council, is neither subject to its control nor on the whole sympathetic to its pretensions; and because it does not even have a veto power over the Council's decisions on legislation. Its monthly plenary sessions involve a whirlwind of "decision-taking" in which very little is in reality decided. Because the parliamentarians do not recognise or accept the limitations of their role and because they have never made a serious effort to use their existing powers to bring pressure to bear on the Council on specific issues, they have a generalised feeling of frustration. This could not of course be cured by giving them some small and hedged-about concessions, such as those for "co-decision" on legislation proposed in the Spinelli draft treaty. They would soon be back to ask for more, and meanwhile the Community would decide on legislation even more slowly and probably less acceptably. This frustration leads them to act unwisely as they have just done by rejecting the 1985 budget and giving adverse opinions on the Fontainebleau decisions on budget discipline and the UK budget problem. None of these actions, though inconvenient in different ways, will gain them increased power or influence.

10. The Parliament will continue to be difficult in 1985, but I see no easy solution. We must try to continue to involve them more closely in the real world, for example through the improved conciliation procedure we have been advocating. It may be that the debate on the outcome of the Dooge Committee's work will bring their role into clearer focus, though unfortunately I am not

/optimistic



CONFIDENTIAL

- 5 -

optimistic that many of them are soon likely to accept that they have a quite different role to that of national Parliaments.

11. On 5 January the Thorn Commission ground to an uninspiring end. In 1981 I said that it had got off to a bad start. Due to ineffective leadership, the graph of its performance never rose much off the bottom. Davignon remained of course the shining exception. Not only did he manage his own portfolio brilliantly; his contribution to the handling of EC/US and EC/Japan problems outweighed that of Haferkamp at External Relations. He demonstrated time and again how important a role a Commissioner can play if he works 100 hours a week, invents ingenious ways of reconciling Member Government's interests as well as bringing them to understand their common needs and has the ability to spot where the point of balance lies which brings them all reluctantly to settle, usually late at night. He was the living embodiment of the truth that the role of the Commission has not declined; only its performance varies. The new Commission under Delors is getting off to a good start and I believe that he may prove to have the capacity to provide it with leadership which transforms the public assessment of it.

12. 1984 also launched yet another debate on "European Union". These, like this one and the Tindemans Report on the subject in 1975, are usually initiated by the French to serve some tactical purpose; cause a lot of hard work and some aggravation; result in a few decisions, many of which are not observed; and then are consigned to oblivion. I expect that the Dooge Committee will prove no exception. Meanwhile it seems likely to stimulate some quite lively debate.

13. As I see it, our interest is to focus that debate not on the question "Whither the Community? Federation or something else?", but on how to make the Community work better. The Community is already far beyond the stage of inter-governmental co-operation between wholly sovereign national governments. With a common agricultural policy and a common commercial policy; with a growing body of directly applicable Community legislation on which the European Court is the highest Court of appeal in each of our national legal systems; with the Commissions's competition and other powers under the Treaty; and with all the enormous sharing of sovereignty which has already taken place with the consent of the Governments and Parliaments of the Member States, it is ridiculous to argue, as some do, that the Community needs to take a great leap forward in the institutional field if it is not to revert to being a mere customs union. It is already a unique constitutional construction which no pre-Community word can describe. With pre-thought and determination it can certainly be made to work better. With none of the Governments, not even the European Parliament, advocating any major step towards the creation of a central European Government in the next quarter century, it is equally absurd to revive the old argument about whether the

/ultimate



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- 6 -

ultimate end is a European federation. To do so is bound to evoke diverse and divisive gut reactions. Unfortunately there are dangers in the debate for the UK. Since one of the legacies of the British budget problem is that it is only too easy for muddled commentators (and for those who wish to present themselves as good Europeans) to caricature the British as bad Europeans, we shall need to be nimble and articulate in the forthcoming debate. The truth is on our side. The Community does not need changes in its Constitution, but improved decision-taking in some of the capitals, especially in Bonn.

14. In my view, the really important development for the future of the Community in 1984 has in fact been the shift in the internal balance brought about by Fontainebleau, and which will be compounded by enlargement. Germany, France and the UK are now the three net contributors, with the UK soon to be the third and France the second. Any net benefits received by Portugal or Spain will be borne largely by the Germans (33%) and the French (27%). Our share will be between 6% and 7%. Though of course all three of us will continue to have differences with each other, there will be many subjects on which we can find common ground now that our relations are no longer poisoned by the UK budget problem. Since Fontainebleau we have contrived to work pretty closely with the French on many questions, more closely indeed with the French than the Germans, though our interests seem objectively to be closer to those of Germany. As seen from Brussels the present German Government seems, owing to lack of proper thought, preparation and co-ordination on Community issues, to be exceedingly difficult to work with. There is a risk that the Dooge Committee's report will cause serious problems between us and that the French will side with the Germans. Nevertheless, I believe that the opportunity is now there, if we continue to know our own minds and devote the effort to it, to create an informal directorate of the Community which will allow it to deal effectively with the problems of an enlarged Community. But if the informal directorate is to work well, we must not force the others to react against it by referring to it in public or by holding meetings of the Three.

15. There will never be a quiet or uncontroversial year in the Community's life. The "crises" and the controversy are a sign of the Community's vitality, not its decay. (I have noticed no lack of controversy in the American federal system.) 1985 will be no exception. We shall argue ferociously about how to pay for the 1985 budget shortfall; how to write the own resources decision; how to implement the strict financial guideline on the CAP; what to do about Papandreou and his blackmail over "IMPs"; how to complete the enlargement negotiations where difficulties about agriculture, fish, Spanish and Portuguese workers, and money are going to put the 1 January 1986 debate for accession at risk; what to do about vehicle emissions and sulphur emissions from power stations; whether, and if so how, to strengthen the EMS; what is required in order to "complete the internal market"; whether to prolong the steel crisis régime into 1986; whether to



CONFIDENTIAL

- 7 -

have an inter-governmental conference on European Union and, if so, about what; how to cope with the US on agricultural trade; how much food aid to give to the world's poor and not-so-poor; how to proceed about Central America; what to do to mitigate the effects of enlargement for Mediterranean countries, including the special problems of Cyprus and Turkey; what ... I could use up a thousand of my 2,500 words and still not complete the list of important items on the 1985 Community agenda.

16. It is a hard slog and those who suffer in the Community's decision-making often say to themselves "There must be a better way". The answer, I fear, is that not a lot can be done. But the fatigue and frustration of Ministers in the Council could be diminished by constant and successful pressure on the Presidency of the day and on Ministers in other governments to give the instructions needed to enable the detailed points to be settled in Coreper and Working Groups. If that and nothing else came out of the Dooge Committee, it would have justified the time devoted to it!

17. I am copying this despatch to Her Majesty's Ambassadors in Community posts, at Washington and Tokyo; to the United Kingdom Permanent Representatives to NATO, the OECD, the Council of Europe, the United Nations at New York and Geneva, and to the Governor of the Bank of England.

I have the honour to be, Sir,
Your obedient Servant

Michael Butler

MEMORANDUM

THE EUROPEAN COMMUNITY IN 1984

INDEX

A.	INTRODUCTION	(page 1)
B.	BUDGET AND FINANCIAL ISSUES	(pages 1-5)
C.	IMPs AND GREEK MEMORANDUM	(page 6)
D.	MEMBERSHIP	(pages 6-8)
E.	GENERAL TRADE RELATIONS	(pages 8-14)
F.	DEVELOPMENT COOPERATION	(pages 14-16)
G.	AGRICULTURE	(pages 17-18)
H.	FISHERIES	(pages 19-20)
I.	REGIONAL AFFAIRS	(page 21)
J.	SOCIAL AFFAIRS	(page 21)
K.	TRANSPORT	(pages 21-22)
L.	ENVIRONMENT AND CONSUMER PROTECTION	(page 22)
M.	INDUSTRY	(pages 22-23)
N.	COMPETITION	(page 23)
O.	ENERGY	(pages 23-24)
P.	RESEARCH	(pages 24-25)
Q.	INTERNAL MARKET	(pages 25-26)
R.	INSTITUTIONAL	(pages 26-28)
S.	THE NEW COMMISSION	(page 28)
T.	LEGAL	(pages 28-29)



hwe

cc: PC

EWJ

10 DOWNING STREET

From the Private Secretary

15 January, 1985

DECISION TAKING IN THE EUROPEAN COMMUNITY

Len Appleyard wrote to me on 15 January enclosing a revised paper on decision taking in the European Community, to take account of the Prime Minister's comments on an earlier version.

The Prime Minister is content for Mr. Rifkind to circulate the new version in the Dooge Committee tomorrow.

I am sending a copy of this letter to David Williamson (Cabinet Office).

(C.D. Powell)

C. Budd, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

AP's



Foreign and Commonwealth Office

London SW1A 2AH

15 January 1985

Agreed mt.

Dear Charles,

Decision-taking in the European Community

Thank you for your letter of 14 January containing the Prime Minister's comments on our paper on decision-taking. *← attached*

We have changed paragraphs 6(c) and 10 of the paper and the annex on the role of the European Parliament. A copy of the amended paper is enclosed.

On voting practices, we have never had it in mind to go beyond the provisions of the present Treaty. Our aim is to suggest using the provisions of the present Treaty in a way that could further our own interests and at the same time steer other Member Governments away from more radical ideas of Treaty amendment. Most other Member States will be prepared to consider amending some of the unanimity provisions of the Treaty. Even the French are prepared to do so, provided that the ability of a Member State to invoke a very important national interest is maintained. We need a counter-proposal of our own if we are to steer discussion away from Treaty amendment.

Our proposal is firmly rooted in Article 148 of the Treaty of Rome, which provides for abstention on acts which require unanimity but where a Member State does not consider its very important national interests to be at stake. This article, like many other articles of the Treaty, has not been applied very frequently. At Dublin, the Prime Minister identified a specific area where it could be made to work. The Prime Minister suggested that we should volunteer to make every effort to avoid blocking decisions covered by the unanimity provisions in the Treaty in the field of new technologies (eg, standards in information technology, telecommunications and advanced manufacturing techniques where proposals currently under discussion within the Community reflect UK suggestions). Our position would be fully protected because:

- a) any agreement to try to avoid blocking proposals in this area would be entirely voluntary. No Treaty amendment would be involved. We could continue to invoke the unanimity rule if we needed to;

/ b) ...

These are the ones to which you expressed particular objections.



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- b) any such understanding would in any event be subject to an overall requirement that a Member State must be free to insist on discussion continuing until unanimity is reached when it judges that its very important interests are at stake.

Having used this suggestion to good effect in the European Council, and given that it is subject to these safeguards, Sir Michael Butler thinks, and the Foreign Secretary agrees, that it would be a pity to withdraw it now. Furthermore, the Prime Minister's initiative has already been the subject of favourable discussion in the Dooge Committee and elsewhere.

On the final point raised in your letter, the suggestion in our paper that the European Council should adopt a brief annual statement setting out priorities reflected the proposal which we made in 'Europe - the Future'. We have amended the text of our paper to reflect the text of 'Europe - the Future' more fully and accurately.

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

Yours ever,
Len Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

DECISION-TAKING IN THE COMMUNITY

1. It is misleading to suggest that Community decision-taking is paralysed. The past year has been one of considerable achievement in the Community. Following the Stuttgart European Council the Community has shown itself able to take important decisions on difficult issues such as own resources, budgetary imbalances, agricultural expenditure and Lomé. With a view to enlargement and the functioning of a Community of Twelve, however, we need to look for practical ways of improving the Community's decision-taking performance. Our Interim Report has put forward some major recommendations on this.

2. A fundamental problem is that issues of detail are regularly referred for decision at too high a level. Issues which should be settled in COREPER are referred to the Council, and the Council in turn refers problems to the European Council. A very important practical improvement we can recommend would be for governments, as a normal rule, to give their representatives in COREPER the discretion necessary to settle there the detailed issues which currently are referred from COREPER to the Council of Ministers. It is no less important that the Council of Ministers should take the decisions which properly lie within its responsibility and that these should not constantly be referred, as too often they are at present, to the European Council.

3. There is a general understanding in the Community that it is not possible and would be fundamentally damaging to Community cohesion to override the very important interests of Member States. But we need to do more to promote early decision-taking and the formulation of satisfactory compromises.

Questions arising from the Committee's Interim Report

4. Section III(a) of our interim report begins with the statement that easier decision making in the Council "means primarily changes in practice and certain adjustments to existing rules".

This is the right approach. The report goes on to make much more far-reaching proposals: the adoption of new general voting principles under which only decisions concerning new areas of action or new accessions would be taken by unanimity. Other decisions would be taken by qualified or simple majority.

5. The Committee has not yet discussed the practical implications of these proposals. These include the following:

(a) Although the Treaty provides for majority voting on agriculture, would it have been wise to try to settle the difficult negotiations on the wine regime by majority voting? Would it not cause difficulty if majority voting were to be applied to issues such as the seat of the Community institutions, vehicle emissions, imports of Mediterranean products, emission standards for the Rhine or migrant workers? Is it proposed that Member States should be voted down on issues such as these?

(b) What exactly is meant by "new areas of action"?

(c) How would such proposals bear on the question of new own resources?

(d) Is it proposed to aim for generalised Treaty amendment requiring the agreement of all Member States and ratification by all national parliaments?

6. Our interim report states that a member state should be able to plead a vital interest provided it can objectively justify it to the Council. The report states that account must also be taken of the interests of the Community as a whole. It is certainly desirable that a Member State should have to explain its invocation of a very important interest as fully and objectively as possible and we need to establish a procedure for this which can also help to reconcile the views of the Member State and that

of other members of the Council. Mechanisms have been suggested involving:

a) The Commission. The Commission could not be expected to be the final judge of a country's very important interests. As the author of proposals for legislation, it would naturally be likely to endorse its own proposals. Would the Member State directly affected be able to accept the Commission's judgement as being objective?

b) The European Court. To ask the Court to intervene would be to involve it in issues that are political rather than legal. This would be inappropriate for the Court and prejudicial to its ability to act impartially on the same issue in its judicial capacity.

[New] c) The European Parliament. The European Parliament often takes a differing view of Community interests from the Council. Members of the Council are answerable to their national Parliaments and could not accept the European Parliament's definition of what constituted their vital interests.

d) A majority on the Council. It would not be realistic to expect a Member State which has invoked a very important national interest in opposition to the majority view to accept that the same majority should then decide the objective standard by which its action was to be justified.

7. What is required is not a procedure which entrenches disagreement, but one which creates a framework in which the interests of the Member State concerned and that of the remaining members of the Council can be reconciled.

8. Our mandate from heads of government is to seek the widest possible area of agreement. We should concentrate on seeking solutions which are capable of being adopted and which would have positive practical effects.

Better Decision-Taking

i) Majority Voting

9. Over 40 Treaty provisions call for majority voting. Consensus is a desirable objective, but the search for it on all issues can bring the Council machinery to a halt. In the Community of 12 this problem will become more acute. When very important interests are not at stake, there should be more majority voting in accordance with the Treaties. The Presidency of the day will be primarily responsible for deciding when a majority vote is appropriate. The search for consensus should not be abandoned. The majority voting procedures should be used in such a way as to build Member States' confidence in the system.

10. We should also try to identify cases where not insisting on the unanimity requirement under the Treaties would be advantageous and acceptable to all Member States. At the Dublin European Council, as an amendment to a proposal made by Mr Lubbers, Mrs Thatcher suggested that Member States should consider agreeing in certain areas that the unanimity rule need not be invoked for the development of Community standards for new technologies. We should endorse this suggestion.

11. In the interests of the cohesion and proper functioning of the Community and the reconciliation of the sometimes conflicting interests of Member States the Community needs to retain the possibility of a Member State explaining that its very important interests are at stake and that a vote should be postponed. This reflects the important principle that, whatever the voting rules might say, Member States will not ask one of their number to accept what is politically impossible, and will not override an important national interest by outvoting the Member State concerned. Overriding such interests would be more dangerous for the cohesion of the Community than some delay in decision taking.

12. While recognising the need to proceed on this basis when very important interests genuinely are at stake, we should look for ways of preventing abuse. We believe that, if a Member State feels obliged to insist that a vote should be postponed, then the Minister concerned should be required to explain fully and more formally, either in writing to his colleagues or in a special restricted session of the Council, the reasons why his Government considers that a very important national interest is at stake. This would provide an opportunity for the Council, with the help of the Commission, to seek a way of reconciling the interest of the Member State with that of the Community as a whole.

ii) Other improvements

13. Our report suggests that the European Council should play a strategic role and give direction and political impetus to the Community. One way of achieving this would be for the European Council to adopt a brief annual statement setting out the Community's priorities with specific timings and targets. This would form the basis of the Community's activities for the following 12 months. To help the Community achieve its priority objectives the Commission should weed out annually hopelessly blocked items of legislation. The Commission should also bring to the notice of the Council of Ministers unnecessary cases of obstruction.

14. A note is attached on the role of the Parliament in relation to decision-taking.

ANNEX

Role of the European Parliament

1. Relations between the Council, Commission and European Parliament are not operating satisfactorily. They need to be re-examined. Joint decision-making has been suggested as a possible improvement. But it is not clear how this would work. The procedure suggested in Article 38 of the Spinelli Draft Treaty would be likely to cause much greater delay in reaching decisions. It would increase rather than diminish conflicts between the institutions. The last word on legislation has to rest with Member States acting in the Council, who are conscious of the implications for their national law and of the reactions of their own Parliaments.

2. As regards the suggestion for revenue powers:

a) the Parliament already is able to participate in fixing the VAT rate through the budgetary procedure (up to the ceiling laid down in the Own Resources Decision).

b) the idea of amending Article 201 governing the Own Resources was rejected at Fontainebleau and is unlikely to be acceptable to national Parliaments.

c) there would be serious implications for budgetary control

d) such powers would not seem compatible with some Member State's constitutional arrangements. (Do any national parliaments have the power to decide unilaterally to increase taxes?)

3. An immediate question at issue is whether the Parliament should have the power to alter the Commission's revenue forecasts. The Council itself did this last summer. The

Council and the Parliament should agree not to challenge the Commission's forecast. This would avoid some of the difficulties which the Community has faced this year.

4. The Treaty amendment of 1975 was intended to improve relations between the Parliament and the other institutions. It has not had that effect. The Parliament has adopted a series of budgets which go beyond its constitutional powers. We should not compound these difficulties, but seek alternatives which will genuinely improve relations between the Parliament and the Council.

5. The Parliament considers that it has no voice in legislation because the Commission proposes and the Council takes a position before the Parliament's views have made any impact. The right of initiative under the Treaties rests with the Commission. But nothing in them prevents the Parliament from working with the Commission in this field, eg by holding hearings with interested parties. The Parliament's views could then be expressed to the Council.

6. The introduction of a genuine and effective conciliation procedure would be a major improvement. The revised conciliation procedure - to which nine Member States could agree at the Foreign Affairs Council in June 1983 - would extend formal conciliation to important acts of general application which do not however have appreciable financial implications. We should endorse this proposal. But we should also consider recommending a complementary procedure under which, after each institution has made a preliminary study of Commission proposals, members of the European Parliament and Ministers (or on occasion their representatives) could meet. This would enable the Council to take account of the views expressed before reaching a formal common position.

15 JAN 1985

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FROM: ECONOMIC SECRETARY
DATE: 14 January 1985

PRIME MINISTER

Prime Minister

Agree:

- ① early payment of non-VAT own resources, due in February?
- ② discretionary authority for the Treasury to report this later in the year, if necessary, without consulting you?

Yes not
Yes

C D P
15/1

EC BUDGET

You will wish to be aware that the Commission have requested that we bring forward payment of non-VAT traditional own resources (levies and duties), normally to be paid over on 20 February, to 21 January. The sum involved - about £140 million - does not add in any way to the Commission's authorised expenditure; and the procedure - a request under Article 10(2) of Regulation 2891/77 - is the same as that used in the past, most recently in November 1984.


2. We knew that the Commission's cash flow position in January would be tight, due to the restrictions of the provisional twelfths system on VAT payments, the seasonally high level of agricultural expenditure and the carrying over of commitments from the 1984 Budget. The Article 10(2) request is not therefore unexpected. Our legal advice remains that this advance of traditional own resources is not obligatory (though the Commission and other Member States take the opposite view). But subject to the Commission providing a satisfactory breakdown of their financial needs during January I would propose to agree to it and to announce this by Written Answer in the usual way. This would need to be done in the course of the next day or so.

3. There are two other points I should make. First, this Article 10(2) request to all member states has no link with our IGA payment. Even if we had paid under the IGA in full the Commission would still need the greater part of these funds. They are already attempting to overdraw on member states' accounts under the provisions of Article 12(2) of the ~~Financial Regulation~~ ^{Own Resources Regulation 2391} (1977). We are resisting giving any overdraft facility, since until our IGA payment has been made we could be accused of providing the money before Parliament's approval had been given. Second, to avoid a shortfall of revenue in any future month the Commission may need to carry on bring forward payments of traditional own resources by one month until the end of the year. We shall of course continue to look at each in the light of the Commission's financial position at the time, and follow the usual Parliamentary procedure to make payment. I would not propose to trouble you on each future request, unless new issues were involved.

4. Copies of this minute go to the Foreign Secretary, Minister of Agriculture and Sir Robert Armstrong.



IAN STEWART



DRAFT PQ

QUESTION: to ask Mr Chancellor of the Exchequer if he will make a statement about an advance of own resources payments to the European Communities in January.

DRAFT REPLY

The Commission has, in accordance with Article 10(2) of Council Regulation 2891/77, invited Member States to advance from 20 February to 21 January payments of own resources other than VAT in respect of agricultural, sugar and isoglucose levies and customs duties collected by the Government on their behalf in December. The Government is complying with this request, which is entirely separate from the Inter-Governmental Agreement of October 1984.

Pending Parliamentary approval of a Spring Supplementary Estimate, payment of [£140] million will be made by a repayable advance from the Contingencies Fund. The payment of levies and duties on 20 February 1985 which is made directly from the Consolidated Fund under Section 2(3) of the European Communities Act 1972 will be reduced by the amount of the advance. There will therefore be no net addition to forecast public expenditure.

Any further requests for advances will be considered in the light of the then prevailing circumstances.

15 JAN 1985





10 DOWNING STREET

14 January, 1985

From the Private Secretary

Decision-taking in the Community

With his letter of 11 January, Peter Ricketts enclosed the draft of a paper on decision-taking which Mr. Rifkind wishes to circulate in the Dooge Committee.

The Prime Minister wishes the paper to be amended in certain respects.

The passages which cause the Prime Minister most difficulty are those which deal with the European Assembly (paragraph 6(c) of the paper and the Annex). She wishes para. 6(c) to be strengthened, to bring out the point that members of the Council are each answerable to their own national parliaments. She has commented that the Annex is much too weak, and should be re-written to bring out more pointedly rather than just interrogatively the objections to extending the powers of the Assembly. You will want to let me have redrafts of the passages in question as soon as possible.

The Prime Minister has also raised objections to paragraph 10 of the paper, in relation both to the possibility of abstaining and to a self-denying ordinance not to insist on the unanimity requirement in all areas. She has commented that the self-denying ordinance would mean going beyond the present Treaty; and that her suggestion at the Dublin Council that this should be done in the area of standards was a mistake not to be repeated. This is clearly a point of substance. You may wish to put forward fuller arguments setting out precisely the limits and safeguards on what is here proposed.

The Prime Minister has commented that the proposal for the European Council to adopt a brief annual statement setting out priorities would be meaningless.

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

C. R. Budd, Esq.
Foreign and Commonwealth Office

C. D. POWELL

PS/No 10 D. ST

GR 190

CDP I agree though the PM is
beginners to see some
ment in EMS. But a full
with Ortoli on this would see
at work & have running premises

UNCLASSIFIED
FM UKREP-BRUSSELS 141142Z JAN 85
TO ROUTINE FCO
TELEGRAM NUMBER 85 OF 14 JANUARY
INFO PARIS

AT
In my view, there is no
case for the PM to see
Ortoli CDP 14/1

ORTOLI VISIT TO LONDON.

ORTOLI RANG ME THIS MORNING. HE SAID THAT HE HAD HAD TO LEAVE THE
COMMISSION IN SUCH A HURRY FOR REASONS OUTSIDE HIS CONTROL THAT HE
HAD NOT BEEN ABLE TO SAY HIS FAREWELLS PROPERLY. HE WOULD VERY
MUCH LIKE TO DO SO NOW. HE WOULD BE IN LONDON ON COMPAGNIE FRANCAISE
DU PETROLE BUSINESS ON 20/21 FEBRUARY AND WOULD VERY MUCH LIKE TO PAY
A CALL ON YOU AND THE CHANCELLOR OF THE EXCHEQUER AND (IF WE THOUGHT
IT APPROPRIATE) THE PRIME MINISTER, THOUGH SHE WOULD NO DOUBT BE
EXTREMELY BUSY. HE WAS APPROACHING YOU THROUGH ME BECAUSE IT WAS
REALLY UN FINISHED COMMUNITY BUSINESS THAT WAS INVOLVED. I SAID THAT
I WOULD REPORT AND RING HIM BACK.

FCO COPY TO:

- FCO - BUDD (PRIVATE OFFICE) RENWICK
- CAB - WILLIAMSON
- TSY - PS/CHANCELLOR UNWIN

BUTLER

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MR RENWICK

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OFFICE

PS/No 10 DOWNING ST





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10 DOWNING STREET

From the Private Secretary

14 January 1985

The Prime Minister understands that you are willing to serve as a Substitute Member of the Delegation from the United Kingdom Parliament to the Consultative Assembly of the Council of Europe. You will also be a Substitute Member of the United Kingdom Delegation to the Consultative Assembly of the Western European Union.

The Prime Minister has asked me to let you know that she will be announcing your appointment by way of a Parliamentary Written Answer on Tuesday 15 January and until then she would wish the matter to be treated as confidential.

TIM FLESHER

Robert Parry Esq MP



HOME OFFICE
Lunar House Wellesley Road Croydon CR9 2BY

Telephone 01-686 0333 ext

cc J.W.
COP 157

J. Sprague Esq
UBS(1)
Department of Employment
Room 109
Steel House
Tothill Street
LONDON SW1H 9NF

Please reply to The Under Secretary of State
Your reference

Our reference
IMG/84 36/161/6

Date
14 January 1985

PAYMENT OF SUPPLEMENTARY BENEFIT TO EC NATIONALS

We spoke recently about my letter of 4 January to Stephen Bowen in the Cabinet Office which set out the procedural changes which we have made in the handling of routine DHSS notifications of Supplementary Benefit claims by unemployed EC nationals. I am sorry that my letter did not make it clear that the new procedures are without prejudice to any action we might be able to take in connection with the "warning" procedure which I understand you are hoping to have in place by the Summer of 1985 to cope with the expected influx of Italian and other EC holidaymakers. No doubt we shall be able to discuss this further when we see what your proposals are. In any event our new procedure is subject to review in the Summer of 1985 and again at the end of the year.

2. I believe you have seen my letter of 1 November to Heather Gwynn in DHSS (copies to Mrs Wiles and to Julian Mackenney (Cabinet Office)) in which I confirmed that we would hope to be able to take action fairly quickly where a claim was being pursued by an EC holidaymaker following a warning given by DE. I should, however, make it clear that this must be read in conjunction with the final paragraph of David Waddington's letter of 31 August to Rhodes Boyson. We still, of course, accept the Parliamentary commitment as set out by Mrs Chalker in 1980 which makes Home Office action dependent on evidence that an EC claimant came to this country with the "deliberate intention" of relying on Supplementary Benefit for his support. In the recent past, we have been more helpful than this and have taken curtailment action on every claim notified to us regardless of the fact that no such evidence has (usually) been available. DHSS know, however, that a number of appeals have gone against us in the past year which have cast doubt on the curtailment procedure. Curtailment of leave, essentially, consists in telling a foreign national to leave the country with the threat that his departure may be enforced if he does not go voluntarily. EC nationals have argued with some success before the appellate authorities that we have no right to curtail their stay regardless of the fact that they may have been a charge on public funds, since they are exercising free movement rights under the Treaty of Rome. Following the European Court's judgement in Pieck (1980) EC nationals seeking to exercise their Treaty rights have a right to enter a Member State and it follows, according to this line of argument, that leave to enter can neither be given nor curtailed. The precise implications of this vis a vis the appellate authorities have not yet been fully clarified but it seems fairly clear that, to succeed in future curtailment cases, we should need to be able to show that an EC claimant had come here with the deliberate intention of abusing the Supplementary Benefit system and could certainly not claim to have come here for a purpose connected with the Treaty of Rome. If we had evidence e.g. that a claimant was a holidaymaker on the scrounge, we feel that we would have a better chance of justifying an attempt to curtail his leave and even, possibly, deporting him subsequently as an overstayer if he did not go. Deportation would not be easy (see paragraph 5 below) but we should be prepared to consider it if we thought that we could succeed.

/3. I hope that

3. I hope that what I have said will shed a little light on the reasons for the changes of procedure outlined in my letter of 4 January. The desirability of avoiding further adverse immigration appeal decisions (which in effect weaken what little power we have to impose an after-entry control on EC nationals) must weigh more heavily with us than the continuation of a procedure which, at its most effective, was little more than a bluff to enable DHSS to stop paying public funds to EC nationals. As far as we are concerned even this rationale has disappeared since DHSS now propose to pay foreign nationals on an urgent needs basis (including EC nationals) until they actually leave the country. We could previously justify the time and effort devoted to curtailment work on the grounds that there was a tangible saving to public funds but any saving on Supplementary Benefit will now, presumably, be eaten up by indefinite urgent needs payments in cases where we are not able to effect deportation. And this, of course, is irrespective of the legal difficulties outlined above.
4. I am grateful for Lesley Richards' letter of 10 January on this subject which has just reached me and which is also copied to you. Perhaps I might pick up one or two of her points now in a preliminary way. I hope that I have said enough about our legal difficulties with the curtailment procedure to make it clear why action on our part could not possibly wait any longer given the necessity of keeping procedures in line with decisions of the appellate authorities. The background to all this was set out in some detail in my correspondence with her predecessor, Miss Gwynn. We are not just talking about manpower and costs, although it would be useful to have DHSS's response to my point about the effect of their own new system for urgent needs payments on the Supplementary Benefit and other savings which she has identified. The final sentence of her penultimate paragraph seems to confirm that urgent needs payments would continue until deportation.
5. At the risk of making this letter very long it may help if I say a little more about the difficulties of deporting EC nationals. Our legal advice is that an EC national exercising Treaty rights cannot be removed from a Member State on public policy grounds (which together with public security and public health are the only grounds permitted under Council Directive 64/221/EEC) solely because he has drawn public funds and this means that we cannot deport him under the Immigration Act 1971. It is arguable that work-seekers do not have the same protection as workers and, as you know, Council Declaration 1451/68 specifically provides that an EC national seeking work may be asked to leave a Member State if he becomes a charge on public funds within three months of his entry. This, however, is only an entry in the Council Minutes and does not in itself confer a deportation power on Member States. If we wished to deport such a person we should have to justify it on the grounds that the person's presence was not conducive to the public good (section 3(5)(b) of the 1971 Act). Again, our legal advice is that merely drawing Supplementary Benefit would not constitute "non-conducive" ground. Section 3(6) of the Act deals with recommendations for deportation following a criminal conviction, which leaves us with the "overstayer" provisions of section 3(5)(a). This is difficult in the case of an EC national because we have to be able to show that, "having only a limited leave to enter or remain", he did not observe a condition attached to the leave or remain beyond the time limited by the leave. The difficulties as regards "leave" for EC "workers" have been described above and it follows that, in practical terms, an EC national who can claim to be a "worker" cannot be deported as an overstayer. To bring him within section 3(5)(a) we should need to be able to show (as with curtailment action) that he had no claim to remain under the Treaty of Rome. We should then need to show that he had in fact overstayed his leave (since we maintain that leave to enter and remain may be imposed on EC nationals who are outside the Treaty of Rome) and he could easily counter this assertion (given the absence of landing and embarkation information about EC nationals) by claiming to have left the country on a day trip and obtained fresh leave to enter for a further six months on his return. Incidentally, Lesley Richards raised the question of calculating the six month leave period. This is done through form IS120 which is given to EC nationals on arrival and which shows the date of entry. A stamp is not put in EC passports since EC nationals may travel on their identity cards and it was found most practicable to give each of them a form. They frequently present this form to DHSS when claiming benefit. If they do not we are rather in the position of having to take their word for their most recent date of entry. As far as Supplementary Benefit cases are

/concerned we should

concerned we should have to calculate six months from the date of their first claim but for obvious reasons the absence of firm information about their travel could make deportation action under section 3(5)(a) potentially difficult to sustain even where there was evidence of an intention to abuse the Supplementary Benefit system.

6. I should also, perhaps, take up Lesley's point about appeal rights. Essentially, all "workers" have to be regarded as having rights of appeal whenever they entered the country (this is one effect of one of the adverse curtailment decisions which I mentioned above). However, in our view, EC nationals outside the Treaty of Rome have only the same appeal rights as other foreign nationals, that is, they make an application for variation of their leave to enter or remain within the currency of that leave. We would argue that an EC national who has drawn Supplementary Benefit for six months after entry was not a "worker" and must have outlived the six months leave given to him on entry. Unless he had made an application for an extension of his leave (or for a residence permit as a "worker") we would feel justified in offering him no right of appeal when we wrote to remind him that his leave had (surely) expired although it would be open to him to challenge us on that and on his status under the Treaty of Rome. I should say that writing these letters to claimants after six months is undertaken with some reluctance on our part. Lesley is right in assuming that it will not leave us free of all challenge (although we hope that it will help the workload of the EC Group which is extremely high at present). We still question the savings to DHSS in our taking even this much action given that, as I have explained, we shall be no nearer to enforcing departure in the majority of cases and DHSS will presumably go on paying out public funds in the form of urgent needs payments. This aspect of our procedures will therefore be particularly subject to review in the course of 1985 to see if it serves any useful purpose. From the immigration point of view it serves little if any. Whether it helps DHSS will depend on the extent to which they are able and willing to stop paying public funds to EC nationals who cannot be deported.
7. To sum up, cessation of routine curtailment of the leave of EC Supplementary Benefit claimants is necessary because:
 1. the appellate authorities have questioned our legal right to do it under EC law;
 2. the appeal rights built in to the curtailment procedure left us too exposed to challenge both before the appellate authorities and, ultimately, in the European Court;
 3. even if we curtailed the stay of an EC claimant DHSS would not now stop his access to public funds entirely but would pay him on an urgent needs basis until he left the country, thus removing the justification for our undertaking this work in the first place (which was to help DHSS to protect public funds). If the claimant did not leave we could not easily deport him because of the constraints of the deportation provisions of the Immigration Act 1971, so that any cost savings to DHSS on the Supplementary Benefit side are reduced to nothing, ultimately, by their own commitment to making urgent needs payments, presumably for an indefinite period;
 4. the old system frequently took the best part of six months to complete anyway so that the new system will make little if any practicable difference to the point at which we attempt to "guillotine" the claimant;
 5. the new procedure is, however, subject to review and our involvement may diminish further over 1985 if it appears that DHSS are not able to cut off public funds to EC nationals at some point;
 6. this does not necessarily mean that your joint effort with DHSS to tighten up the handling of claims by holidaymakers is rendered nugatory but it does mean that our ability to take effective action will depend

/on our being

on our being able to deploy evidence of deliberate intention by the claimant to abuse the Supplementary Benefit system. If this evidence is forthcoming we should attempt speedy curtailment action followed, if appropriate, by deportation. If we could not deport it would be up to DHSS to take responsibility for taking any further action to protect public funds.

8. I am sorry to have written at such length. I am afraid that I have not as yet found a way of explaining the difficulties both legal and procedural, in which the Home Office finds itself by virtue of its "DHSS work" in a way both short and lucid. Both you and Lesley will appreciate, I am sure, that a simple return to routine curtailment is not practicable. It remains to be seen whether a better system than that set out in my letter of 4 January to Stephen Bowen can be devised. Our view remains that the only satisfactory solution rests with DHSS and a change in their policy of making Supplementary and other public funds payments to EC nationals.
9. I am copying this to the recipients of my previous letter, plus Charles Powell at No. 10.

MRS. C. A. L. KELLAS

Euro-Pol. Budget 17 28



MS JAN 1975

CONFIDENTIAL

PRIME MINISTER

DECISION-TAKING IN THE COMMUNITY: DOOGE COMMITTEE

Mr. Rifkind is to circulate a paper on decision-taking in the Community at the next meeting of the Dooge Committee. The purpose is to wean the other Member States away from unrealistic proposals to make majority voting the norm and to undermine the Luxembourg Compromise.

A 2. The paper is attached. Paragraphs 1-8 are rhetorical flourish. The important bits are paragraphs 9-13. The main points are:

Para. 9 - There should be more use of majority voting where it is already provided for in the Treaty.

Para. 10 - A search should be made for areas where we could all agree not to invoke unanimity. An example is your suggestion at Dublin that we dispense with unanimity on Community Standards.

Para. 11 - The indispensable need to retain the Luxembourg Compromise.

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- 2 -

Para. 12 - The suggestion that people should explain more fully why they are invoking the Luxembourg Compromise.

Para. 13. - A proposal for the European Council to set priorities.

Annex - an explanation why it would be misconceived to give the European Parliament a greater role in decision-taking, together with a suggestion for an improved conciliation procedure.

The paper seems to me well within the guidelines which you set. David Williamson agrees (please see his minute at B B).

Agree that Mr. Rifkind may circulate his paper?

C.D.P.

Please see specific
comments. I think we are
in danger of going
too far.
mb

11 January 1985

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

11 January, 1985

Dear Charles,

Decision-Taking in the Community

At the last meeting of the Dooge Committee on 13 December, Mr Rifkind was able to ask, to good effect, a number of questions about the likely attitude of Member Governments to some of the proposals on decision-taking which had been put forward in the Dooge Committee's interim report to the European Council. The Chairman of the Committee, Senator Dooge, himself drew attention to the fact that no Head of Government had been able to accept the Prime Minister's suggestion that they agree to the Committee's recommendation to reduce the number of Commissioners. Mr Rifkind referred to the Prime Minister's proposal that Member States might also agree to consider not insisting on unanimity for the development of EC standards for new products and the high technology sectors.

Following this discussion, Mr Rifkind was invited to put forward a paper setting out our ideas on decision-taking for the next meeting of the Dooge Committee on 16/17 January. I enclose a copy of the paper which has been discussed interdepartmentally.

The paper reflects the fact that all Members of the Committee, and other Member Governments, wish to see improvements in Community decision-taking and consider this indispensable if a Community of Twelve is to function effectively. Concern at abuse of the unanimity principle has been increased by Papandreou's behaviour over Integrated Mediterranean Programmes and Greek behaviour generally. At the same time, the paper fully safeguards the UK's position in relation to the Luxembourg compromise by insisting that it must be up to an individual Member State to judge where its very important national interests are at stake and that, in those circumstances, discussion must continue until unanimous agreement is reached. The Member State concerned would be required to explain more fully and more formally why it considers very important interests to be at stake.

This formulation on the Luxembourg Compromise has been the subject of prior discussion with the French. They are no less concerned than we are to preserve the unanimity principle whenever very important interests are at stake, but are concerned about decision-making in the enlarged Community. Although the French probably would agree to see /majority

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majority voting extended to some other areas of the Treaties, subject always to maintenance of the Luxembourg Compromise, M. Dumas said in a recent speech in Bonn that it was essential that it remain open to a Member State to be able to invoke a vital national interest provided that the Member State concerned objectively justified so doing in the Council (the relevant extract from his speech is enclosed). The Germans, Italians and Benelux will of course wish to go further on majority voting than we or the French will allow. For this reason, Mr Rifkind has judged it necessary to address in the paper and to answer the arguments others have advanced (paragraph 6 reflects proposals the Belgians have now put forward). As necessary in the discussions we shall of course enquire whether members of the Committee believe that Germany would agree to be voted down on the sugaring of wine, Italy on reform of the olive oil regime, Ireland on milk quota. France and Luxembourg on the seat of the institutions etc.

The paper also covers the role of the European Parliament. The Italian representative on the Committee is to produce a report on the powers of the Parliament. This no doubt will follow much of the thinking behind the Parliament's own draft. We need to set out our views on the powers of the Parliament as a counter-weight to the kind of proposal the Italians will be making. Our paper raises a number of pertinent questions about some of the ideas which are in the Committee's interim report, and which the Committee so far has avoided addressing, eg about the ill-considered suggestion, which we firmly oppose, that the Parliament should be given some powers in relation to revenue.

Our aim is to steer the Committee away from commitments which are unrealistic and unacceptable, by (a) making some positive and practical suggestions of our own; (b) questioning precisely what others have in mind in some of the ideas so far put forward. It is noteworthy, for example, that the German representative so far has gone along with suggestions for development of the ECU which the Bundesbank are likely to find unacceptable. The Prime Minister has endorsed our line on this as set out in the Chancellor's minute of 17 December and the Foreign Secretary's reply of 28 December.

The Foreign Secretary saw and approved a slightly earlier version of this paper. I shall be showing him a copy of the final version with this letter over the weekend. It needs to be circulated by the next meeting of the Committee on 16-17 January.



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

*For me,
Peter Ricketts*

C D Powell Esq
10 Downing Street

(P F Ricketts)
Private Secretary

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SOSADL

DECISION TAKING IN THE COMMUNITY

1. It is misleading to suggest that Community decision-making is paralysed. The past year has been one of considerable achievement in the Community. Following the Stuttgart European Council the Community has shown itself able to take important decisions on difficult issues such as own resources, budgetary imbalances, agricultural expenditure and Lomé. With a view to enlargement and the functioning of a Community of Twelve, however, we need to look for practical ways of improving the Community's decision-taking performance. Our Interim Report has put forward some major recommendations on this.

2. A fundamental problem is that issues of detail are regularly referred for decision at too high a level. Issues which should be settled in COREPER are referred to the Council, and the Council in turn refers problems to the European Council. A very important practical improvement we can recommend would be for governments, as a normal rule, to give their representatives in COREPER the discretion necessary to settle there the detailed issues which currently are referred from COREPER to the Council of Ministers. It is no less important that the Council of Ministers should take the decisions which properly lie within its responsibility and that these should not constantly be referred, as too often they are at present, to the European Council.

3. There is a general understanding in the Community that it is not possible and would be fundamentally damaging to Community cohesion to override the very important interests of Member States. But we need to do more to promote early decision-taking and the formulation of satisfactory compromises.

Questions arising from the Committee's Interim Report

4. Section III(a) of our interim report begins with the statement that easier decision making in the Council "means primarily changes in practice and certain adjustments to existing rules".

This is the right approach. The report goes on to make much more far-reaching proposals: the adoption of new general voting principles under which only decisions concerning new areas of action or new accessions would be taken by unanimity. Other decisions would be taken by qualified or simple majority.

5 The Committee has not yet discussed the practical implications of these proposals. These include the following:

(a) Although the Treaty provides for majority voting on agriculture would it have been wise to try to settle the difficult negotiations on the wine regime by majority voting? Would it not cause difficulty if majority voting were to be applied to issues such as the seat of the Community institutions, vehicle emissions, imports of Mediterranean products, emission standards for the Rhine or migrant workers? Is it proposed that Member States should be voted down on issues such as these?

(b) What exactly is meant by "new areas of action"?

(c) How would such proposals bear on the question of new own resources?

(d) Is it proposed to aim for generalised treaty amendment requiring the agreement of all Member States and ratification by all national parliaments?

6. Our interim report states that a member state should be able to plead a vital interest provided it could objectively justify it to the Council. The report states that account must also be taken of the interests of the Community as a whole. It is certainly desirable that a Member State should have to explain its invocation of a very important interest as fully and objectively as possible and we need to establish a procedure for this which can also help to reconcile the views of the Member State and that of other members of the Council. Mechanisms have been suggested involving:

a) The Commission. The Commission could not be expected to be the final judge of a country's very important interests. as the author of proposals for legislation, it would naturally be likely to endorse its own proposals. Would the member state directly affected be able to accept the Commission's judgment as being objective?

b) The European Court. To ask the Court to intervene would be to involve it in issues that are political rather than legal. This would be inappropriate for the Court and prejudicial to its ability to act impartially on the same issue in its judicial capacity.

c) The European Parliament. Given that the European Parliament often takes a differing view of Community interests from the Council would the Council as a whole or any of its members be able to accept the European Parliament's definition of what constituted their vital interests?

d) A majority on the Council. It would not be realistic to expect a Member State which has invoked a very important national interest in opposition to the majority view to accept that the same majority should then decide the objective standard by which its action was to be justified.

7. What is required is not a procedure which entrenches disagreement, but one which creates a framework in which the interests of the member state concerned and that of the remaining members of the Council can be reconciled.

8. Our mandate from heads of government is to seek the widest possible area of agreement. We should concentrate on seeking solutions which are capable of being adopted and which would have positive practical effects.

Each of those members is accountable to his own national Parliament

That case needs strengthening

Better Decision Making

i) Majority Voting

9. Over 40 Treaty provisions call for majority voting. Consensus is a desirable objective, but the search for it on all issues can bring the Council machinery to a halt. In the Community of 12 this problem will become more acute. When very important interests are not at stake, there should be more majority voting in accordance with the ^{existing} Treaties. The Presidency of the day will be primarily responsible for deciding when a majority vote is appropriate. The search for consensus should not be abandoned. The majority voting procedures should be used in such a way as to build Member States' confidence in the system.

10. We should also try to identify cases where not insisting on the unanimity requirement under the Treaties would be advantageous and acceptable to all Member States. The Solemn Declaration on European Union (Section 2.2.2) suggested that in order to facilitate decision making where unanimity is required Member States should make use of the possibility of abstaining. Our report should endorse this general injunction. But we can be more precise. Agreement by all Member States on a self-denying ordinance in some specific areas could improve decision-making without the need for Treaty amendment. We should examine areas where this might be done. At the Dublin European Council, as an amendment to a proposal made by Mr Lubbers, Mrs Thatcher suggested that Member States should consider agreeing that the unanimity rule need not be invoked for the development of Community standards for new products or technologies, ie that there could be a self-denying ordinance in this area. We should endorse this suggestion.

11. In the interests of the cohesion and proper functioning of the Community and the reconciliation of the sometimes conflicting interests of Member States the Community needs to retain the possibility of a Member State explaining that its very important

This means going beyond unanimity

No

No

The advice of the decision to accept was a mistake not to be repeated

interests are at stake and that a vote should be postponed. This reflects the important principle that, whatever the voting rules might say, Member States will not ask one of their number to accept what is politically impossible, and will not override an important national interest by outvoting the Member State concerned. Overriding such interests would be more dangerous for the cohesion of the Community than some delay in decision taking.

12. While recognising the need to proceed on this basis when very important interests genuinely are at stake, we should look for ways of preventing abuse. We believe that, if a Member State feels obliged to insist that a vote should be postponed, then the Minister concerned should be required to explain fully and more formally, either in writing to his colleagues or in a special restricted session of the Council, the reasons why his Government considers that a very important national interest is at stake. This would provide an opportunity for the Council, with the help of the Commission, to seek a way of reconciling the interest of the Member State with that of the Community as a whole.

ii) Other improvements

13. Our report suggests that the European Council should play a strategic role and give direction and political impetus to the Community. One way of achieving this would be for the European Council to adopt a brief annual statement setting out the Community's priorities. To help the Community achieve its priority objectives the Commission should weed out annually hopelessly blocked items of legislation. The Commission should also bring to the notice of the Council of Ministers unnecessary cases of obstruction.

14 A note is attached on the role of the Parliament in relation to decision-taking.

It will be meaningless. The diff. with choosing is on the detail.

ANNEX

I think this
is in need
of
less
work

Role of the European Parliament

1. Relations between the Council, Commission and European Parliament are not operating satisfactorily in some regards. They need to be re-examined. Joint decision-making has been suggested as a possible improvement.!! But it is not clear how this would work. The procedure suggested in Article 38 of the Spinelli Draft Treaty would be likely to cause much greater delay in reaching decisions. It could increase rather than diminish conflicts between the institutions. Moreover, as Community law has to coexist in Member States with national law, would it be wise to give the Parliament the last word on legislation? Should this not rest with Member States acting in the Council, who are conscious of the full implications for their national law and of the reactions of their own Parliaments?

why?

Too
work

2. In particular:

a) the Parliament is already able to participate in fixing the VAT rate through the budgetary procedure (up to the ceiling laid down in the Own Resources Decision). Would the Parliament be able to increase revenue beyond the VAT ceiling, which has Treaty force?

b) would Article 201 governing Own Resources be amended? (This was rejected at Fontainebleau and is unlikely to be acceptable to national Parliaments).

c) what would be the implications for budgetary control? How would any proposal of this kind make the Parliament more responsible in relation to the control of public expenditure?

d) would such powers be compatible with each Member

State's constitutional arrangements? Do any national Parliaments have the power to unilaterally to increase taxes?

3. An immediate issue is whether the Parliament should have the power to alter the Commission's revenue forecasts. The Council itself did this last summer. Would it not be better for the Council and the Parliament to agree not to challenge the Commission's forecast? This would avoid some of the difficulties which the Community has faced this year.

4. The Treaty amendment of 1975 was intended to improve relations between the Parliament and the other institutions. It has not had that effect. The Parliament has adopted a series of budgets which go beyond its constitutional powers. We should not compound these difficulties, but seek alternatives which will genuinely improve relations between the Parliament and the Council.

5. The Parliament considers that it has little or no effective voice in legislation because the Commission proposes and the Council takes an often immutable position before the Parliament's views have made any impact. The right of initiative under the Treaties rests with the Commission. But nothing in them prevents the Parliament from working with the Commission in this field. This could be done by the Parliament holding hearings on draft legislation at an early stage with interested parties. The Parliament's own ideas could then be put forward as an annex to its resolution for consideration by the Council.

6. The introduction of a genuine and effective conciliation procedure would be a major improvement. The revised conciliation procedure - to which 9 Member States could agree at the Foreign Affairs Council in June 1983 - would extend formal conciliation to important acts of general application which do not however have appreciable financial implications.



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11/1

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Your reference
IMG/8436/161/6
Our reference
EUN 1/4
Date
10 January 1985

attached
PAYMENT OF SUPPLEMENTARY BENEFIT TO EC NATIONALS

You copied to me your letter of 4 January to Stephen Bowen, in which you asked for copies of the final version of DHSS's note for No 10 and their reply. These I enclose.

I was surprised to see that you had made the decision to change, from 2 January, the system for dealing with EC nationals who claim supplementary benefit. You will recall that my predecessor Miss Gwynn wrote to you on 25 June explaining that removal of the routine curtailment procedure would cause problems for DHSS and asking for further consultation. After David Waddington wrote to Rhodes Boyson on 31 August, there was a meeting here, chaired by Alan Turner, at which I understand it was agreed that the Home Office would not pursue its proposals further at that time. On 9 November I wrote to you, enclosing the first draft of the note for No 10, asking that you let us see your figures on the numbers and costs of routine curtailments, and suggesting a meeting to discuss the possibility of improving the effectiveness of current procedures. As you know, the note for No 10 referred to the fact that we were in touch about this.

I am sure you will appreciate that cessation of routine curtailment will make a nonsense of the joint DE/DHSS initiatives to tighten up the handling of claims from EC nationals who may in fact be on holiday in this country, and I understand that John Sprague at Employment has already pointed this out. (By the way, I see that your letter was not classified: the issue is a very sensitive one and it would cause both DE and my Department considerable embarrassment if your plans were to be leaked to the press).

I have attempted a very rough costing of the change, on the basis of the latest figures available (316 curtailment notices in the first 7 months of this year - say 540 in a full year). If the £300 you quote per appeal (I take it that means a completed appeal) does not include staff costs and if about a quarter of an EO is costed in as well as the two COs, I calculate your total savings at something under £110,000. This would assume that the appeals procedure is expedited for every case, though I gather that only four hearings had been completed in 1984 by the end of October, compared with 68 in 1983. A conservative estimate of the costs of paying supplementary benefit and housing benefit to those who otherwise might not have claimed because of the proposed UBO action, and those who would not have appealed against curtailment, suggests a cost exceeding £175,000. A good many guesses are obviously involved but, as I say, I consider the estimate conservative: nor does it take account of the fact that the problem is growing, since in 1983 there were only 421 curtailments.

As well as the political difficulties for DE and DHSS, and the question mark over costs and savings, there seem to me to be some problems of principle. I am not sure whether we could regard someone who has been on supplementary benefit for 6 months as having had their 6 months' leave to find work, since they would not have been given a piece of paper at the outset which stated a date from which the 6 months was to run; I am surprised that you say there would be no right of appeal, since I should have thought there must be appeal rights at least against refusal of an application for extension of leave; and I am by no means certain that we could stop urgent needs payments on expiry of a period of leave, before actual deportation was effected (indeed there is a relevant case before the Commissioner at this moment).

I am copying this to those who received your letter and to Charles Powell at No 10.

MRS L M RICHARDS

EUN 1/1/2 CCDW.



HOME OFFICE
Lunar House Wellesley Road Croydon CR9 2BY

Telephone 01-686 0333 ext

S. J. Bowen Esq
Cabinet Office
70 Whitehall
LONDON
SW1A 2AS

Please reply to The Under Secretary of State
Your reference
QS/03026
Our reference
IMG/84 36/161/6
Date
4 January 1985

PAYMENT OF SUPPLEMENTARY BENEFIT TO EC NATIONALS

Thank you for copying to me your letter of 19 December to Lesley Richards in which you asked Departments to keep you in touch with their work on this subject. I have also seen Lesley's reply of 21 December. We do not appear to have seen a copy of the final form of the DHSS note of 13 December (although I have it in draft) or of No 10's reply of 17 December. Perhaps, in view of our interest, Lesley could let me have copies for our papers?

We would certainly endorse what you say about the necessity for continuing interdepartmental contact on this matter. Whenever this subject hits the newspapers pressure inevitably comes to bear on the Home Office to remove the EC nationals concerned. The practical difficulties of doing so were set out in the attached letter which David Waddington sent to Rhodes Boyson on 31 August 1984. We estimate that processing DHSS notifications of EC claimants requires, in manpower terms, two full-time clerical officers (who could be better employed on other EC casework) and is a considerable burden to the executive officers in the EC Group. From a sample taken during three months of 1984 it appears that well over 50 per cent of those whose stay we attempt to curtail make use of the appeal procedures and each appeal, at 1982/83 prices, is reckoned to cost over £300. As you know we see no justification for continuing to involve ourselves in the routine curtailment of stay of EC claimants now that DHSS have decided to continue to pay them, albeit on an urgent needs basis, rather than cut off their funds once they no longer have leave to remain. From 2 January 1985 we are proposing to hold all notifications in respect of EC nationals claiming Supplementary Benefit within six months of arrival. After six months a check will be made with DHSS to see if the claim is continuing and, if it is, the EC national will be told that he should leave the country as he has not established a right of residence as an EC "worker" and his leave has expired. He would have no right of appeal. We will inform DHSS when this has been done but will take no further action except in those cases, which we expect to be very rare, in which it subsequently appears that we have a chance of successful deportation action. This would be deportation as an overstayer under section 3(5)(a) of the 1971 Immigration Act and could only succeed where we could show that the person had not acquired fresh leave to remain e.g. by taking a day trip to France (difficult in practice as details of landing and embarkation by EC nationals are not kept) and where the EC national could not show that he had in fact acquired a right of residence as a "worker".

We hope that this change of procedure will provide some much needed relief in the EC Group and on the appeals front and enable our manpower resources to be used more efficiently. Given the length of time taken to process notifications under the old

/procedure, including

procedure, including warnings and appeals, we do not think that DHSS will be much worse off in terms of the Supplementary Benefit budget and we shall in future consider deportation action in appropriate cases. In any event, as you will appreciate, it was getting increasingly embarrassing for Home Office Ministers to be attempting to curtail the stay of EC nationals purely on the basis of their having exercised a legitimate entitlement to Supplementary Benefit.

I am copying this to the recipients of your letter.

MRS. C. A. L. KELLAS



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

31 AUG 1984

Dr. Rhodes,

PAYMENT OF PUBLIC FUNDS TO EUROPEAN COMMUNITY NATIONALS

I have seen your reported public response to the articles of 21 and 22 August in the Daily Mail about the payment of supplementary benefits to EC nationals. Our officials have been in contact over this problem for some time. I thought that it might be helpful if I set out some of the difficulties from our point of view, so that they can be taken into account in your review.

Our chief problem is that the Immigration Act is not an efficient mechanism for protecting public funds from abuse by EC nationals. Both the Rules and our practice are designed to maximise free movement with the minimum of formality consistent with keeping a careful watch for such types of people as criminals, returning deportees, and those who threaten our security. Within this context immigration officers try to weed out those whom they can, at that stage, identify as likely to abuse public funds. But any further steps in this direction would conflict with our primary objective and rapidly clog some ports. In these circumstances, as drawing supplementary benefit is not grounds for deportation under the Act we have tried to help you instead by curtailing the stay of EC nationals who fall a charge on public funds since this, apparently, enables you to cut off their access to benefit. Curtailing stay requires the EC national concerned to leave the country and threatens him with prosecution if he does not comply. He must, however, be given a right of appeal and in the past year EC nationals have had some success before the appellate authorities in arguing that anyone who can claim to be an EC worker has a right to reside here which cannot be curtailed if he loses his job unless we can show that his unemployment is voluntary. We are not in a position to discover whether this is the case or not and nor, apparently, is the Department of Employment. It is therefore becoming increasingly difficult for us to curtail the stay of any EC national who has worked here even if he is now unemployed. Of course we should do our best to claim that he was no longer a worker and therefore no longer entitled to the protection of EC law, but our success is uncertain except perhaps in cases of obvious abuse of public funds extending over a period of years.

We have had better success, so far, in curtailing the stay of EC nationals who fall a charge on public funds within three months of their arrival having failed to establish themselves in employment. I am attaching a list of curtailments in 1983 and to July 1984. 400 curtailments per year seems to be about average but we estimate that this represents only about one quarter of the total number of claims notified to us. The others either get work, go home or win an appeal and the whole exercise is extremely cumbersome for us and costly in manpower terms. We have some doubts as to whether it will be any practical use to continue curtailments once your new system of continuing to pay them on an urgent needs basis until they leave the country is introduced. Since, for practical reasons, we cannot deport them the way will be open for unscrupulous EC nationals to remain here on public funds indefinitely.

/Cont...

Dr. Rhodes Boyson M.P.

From our point of view it would be much more effective (and cheaper) to refuse payment to EC nationals rather than rely on the Immigration Act to put public funds out of their reach. You could not of course refuse benefit to someone who could claim an entitlement through having worked here but I wonder whether you could consider the possibilities of tightening up on your payments to people who claim within three months of their arrival i.e. those who are currently of concern to the Daily Mail? They do of course claim to be unemployed "work seekers" and I understand that your advice is that they are entitled to benefit on that basis. But Council Declaration 1451/68 entitles a Member State to require a work seeker to leave if he fails to find work within three months or becomes a charge on public funds. We take this as indicating a consensus within the Community that Member States are not obliged to maintain each other's "work seekers" and we are not aware of anything in the free movement of labour provisions of the Treaty of Rome which obliges Member States to extend supplementary benefits to work seekers as opposed to those who have actually taken employment. In any event, what is the need of an unsuccessful work seeker from abroad? His fare home, not permanent support here.

The other difficulty which we face under present arrangements is the nature of the procedures as not all claims are notified to us. We do not have figures but we hear of claims from other sources (e.g. anonymous letters or the claimant himself) which have not been notified to us by DHSS and which may have lasted for years. Claims are supposed to be notified to us within two weeks of the claim but often it has been as many months before we have received it. We then have to warn the claimant that he has no claim to remain if he continues to live off public funds and then check with you to see if the claim has ceased. Confirmation of a continuing claim can also take weeks and information as to the length of the claim is often incomplete. By the time we have issued a curtailment notice four months can have elapsed since the claim began. If the claimant exercises his right of appeal his stay on supplementary benefit is further prolonged. We try to expedite these appeals but they have to take their turn.

We would obviously prefer it if you were able to refuse benefit to "work seekers" whether genuine or otherwise. Failing that it would help if your staff could exercise some discretion when benefit was first claimed in deciding whether a claimant really was a genuine work seeker or just a holidaymaker hoping to sustain himself at public expense. We invite claimants to explain themselves to us when we warn them but a claim can already be two or three months old by that time. If it became known that DHSS officials would ask for evidence of work seeker status e.g. correspondence with employers and details of jobs actually applied for, some of these people might be deterred with consequent savings in time and money to both our Departments. It would also be useful to know

/Cont...

whether there is any possibility of your assuming a level of personal funding for these claimants either from their own resources or from parents and deducting that from their benefit; it is not after all unreasonable to expect a work seeker with no job to go to to come with some funds to tide him over. Some "work seekers" claim within days of getting off the plane. I understand that an EC national would certainly need to fund himself in other EC countries. Perhaps you could decline to accept a claim for supplementary benefit within a certain period, say three months after arrival on the basis of Council Declaration 1451/68 and the notion that a work seeker should either find employment, fund himself or return home if he cannot do either? The Daily Mail of 22 August says that the FRG would give a destitute person just enough to get home. Could we not try that?

You will know that this is not the first time that this kind of article has appeared in the press and inspired Parliamentary interest. A similar exercise in 1980 led to a Written Answer from Lynda Chalker (OR 21 November 1980 Col 8) to the effect that Community nationals could not be denied access to the supplementary benefits scheme but that those who came here with the deliberate intention of relying on the scheme for support could be asked to leave by us. We have in fact continued to take action on all claims notified to us without regard to whether there was evidence of "deliberate intention" but our recent experience with the appellate authorities suggests that we shall have to be much more selective in the future. It is very difficult to explain to an EC national that the Home Office is taking action under the Immigration Act when the DHSS have told him that he is entitled to claim supplementary benefit. If you decide to continue paying them, and want us to continue to take what action we can, I rather fear that we shall need to ask in the future for evidence of that "deliberate intention" to rely on the supplementary benefit system to which Lynda Chalker referred. We cannot, of course, assess this ourselves and it is hard to see it merely in the fact of a person's having sought to exercise an entitlement.

I am copying this to Malcolm Rifkind and to Alan Clark.

Answer
David Waddington

(DAVID WADDINGTON)

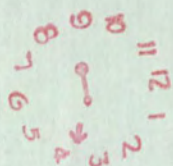
CURTAILMENTS 1983

Belgium	11
Denmark	12
France	96
Germany	42
Italy	245
Netherlands	15
Luxembourg	0
Other	0
Total	<u>421</u>

CURTAILMENTS TO JULY 1984

Belgium	8
Denmark	6
France	88
Germany	39
Italy	171
Luxembourg	0
Netherlands	4
Other (i.e. Greece)	0
Total	<u>316</u>

Euro P57: Budget Pt 28.



11 JAN 1985



CONFIDENTIAL

Qz.04156

MR POWELL

DOOGE COMMITTEE

The Minister of State, Foreign and Commonwealth Office (Mr Rifkind) will be submitting to the Prime Minister very shortly a paper on decision-taking in the Community which he wishes to distribute in the Dooge Committee. Underlying this paper there is a real issue of substance, namely the Luxembourg Compromise. It seems to me that, in order to avoid getting on to a slippery slope, it is important to distinguish between our attitude to majority voting and our attitude to the Luxembourg Compromise. Some flexibility on majority voting could be in the United Kingdom's interest but any change in the Luxembourg Compromise would be politically and economically unacceptable.

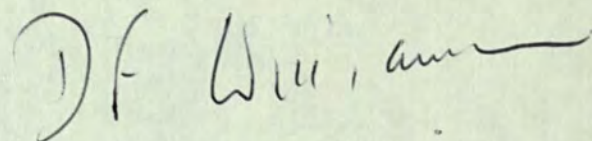
2. My reasoning is as follows:-

(i) majority voting is at present used in the Community widely in the budget and agricultural sectors where the United Kingdom has the most to lose. It is either not used or not at present available in other sectors more closely related to the internal market, where other member states (eg Germany on insurance) take full advantage of unanimity requirements or of the hesitancy of Council Chairmen to vote even when a qualified majority is permitted. In the enlarged Community decision-taking will be difficult and the creation of a Mediterranean bloc more likely. It is quite probable that more majority voting on minor subjects, provided that we have the essential trump card of the Luxembourg Compromise, would be to our advantage;

/(ii)

(ii) on the Luxembourg Compromise we have already indicated that we are against its frivolous use and that any member state invoking it should justify this formally. It is implicit in this position - and of vital importance - that the decision whether to invoke the Compromise rests with a member state itself and not with any other body. This is the critical point on which there should be no equivocation in any of our statements or documents. It is not important whether the justification is described as formal or objective. It is important that the last word on the decision whether to invoke the Luxembourg Compromise rests with a member state. I understand that some members of the Dooge Committee are suggesting that it should not be a member state but the European Parliament which decides whether the Luxembourg Compromise could be invoked in a particular case. This seems to me to be bordering on the farcical. It is for this reason that it is important, as proposed in the latest text, that Mr Rifkind's paper (paragraph 6) should demolish arguments for any alternative arbiter of the national interests of a member state.

I am sending a copy to Sir Robert Armstrong.



D F WILLIAMSON

10 January 1985



Ref. A085/79

PRIME MINISTER
_____Cabinet: Community Affairs

If the point has not already been dealt with under Parliamentary Affairs, the Chancellor of the Exchequer may refer to the handling of supplementary finance for the 1984 Community budget under the Intergovernmental Agreement of 2-3 October 1984. It was originally planned to obtain Parliament's approval by a section 1(3) Order under the European Communities Act 1972. Attempts by Mr Oliver Smedley to challenge this procedure were rejected by the Court of Appeal, but he intended to seek authority next week from the Appellate Committee to take his appeal to the House of Lords. He would probably not succeed again but the delay has made this procedure more vulnerable since there is a reference to contributions being "paid in 1984". The Solicitor General's Opinion is that, although the balance of probabilities remains in the Government's favour, there would be some risk of a successful challenge. The Economic Secretary therefore proposed to his colleagues on 7 January that the alternative procedure of a Supplementary Estimate and Special Consolidated Fund Bill should now be followed. This might appear to concede the procedural point to Mr Smedley, but it would be much less vulnerable to legal challenge. You endorsed the Economic Secretary's recommendation, which the Lord Privy Seal has also agreed.

2. The Minister of Agriculture, Fisheries and Food may also refer to the milk supplementary levy. Cabinet decided on 13 December (CC(84) 41st Conclusions, Minute 3) that the United Kingdom should not collect and pay the levy owed in respect of Northern Ireland if another member state such as France was not doing so, but that we must not be the only member state to refuse



to collect and pay over the levy. There seems no reason to revise this decision now, particularly since we do not yet know what the new Commission will propose. So far, no member state has actually paid over the levy due although Germany and the Republic of Ireland have collected it. The Commission had already deducted from their advances to member states the amounts they considered to be due. They have also penalised member states who have not collected the levy by removing 25 per cent of the normal advance for milk expenditure in January - £11.8 million in the case of the United Kingdom. This is not expected to cause the Intervention Board any immediate problems.

Flag B — The Minister of Agriculture, Fisheries and Food's letter of 21 December to the Foreign and Commonwealth Secretary recommended that the United Kingdom should wait for the views of the new Commission and that, unless the French move, the best solution might be to defer levy collection until April (end of the milk year). The Chancellor of the Exchequer, in a letter of 7 January to the Minister, doubts whether this is in our best interests. He would prefer the United Kingdom to persuade the other member states in our position to agree before the next Agriculture Council on 14-15 January to collect the levy this month provided that the Commission takes effective action against France and other defaulters. This may be a possible solution later but it would be premature to decide until we know whether or not the new Commission will propose a deferment of the levy collection.

Flag D — 3. A summary of the Council meetings held after the last Cabinet in 1984 is at Annex A. Agreement was reached with Spain on the whole of the industrial chapter, including cars, on terms satisfactory to the United Kingdom; on the single administrative document replacing a multitude of documents accompanying goods at the Community's internal frontiers; on fish quotas for 1985 and related agreements with third countries; and on Community research programmes for the next four to five years. In general, these results were good for the United Kingdom.



4. There will be an Agriculture Council on 14-15 January, and you are meeting Chancellor Kohl on 18 January.

RA

ROBERT ARMSTRONG

9 January 1985

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MEETINGS OF COUNCILS OF MINISTERS IN LATE DECEMBER 1984

1. There were a number of meetings of Councils of Ministers after the Cabinet meeting on 13 December in the period up to the Christmas holiday.

2. The Foreign Affairs Council on 17-18 December, at which the Minister of State, Foreign and Commonwealth Office (Mr Rifkind) and the Minister for Trade (Mr Chammon) represented the United Kingdom, was primarily devoted to enlargement. The Council was at last able to adopt the Community's negotiating position on the long-outstanding fisheries and wine dossiers, while meetings with the Spanish and Portuguese led to agreement with Spain on industrial tariffs including cars, the European Coal and Steel Community, and institutions. The important agreement on industrial tariffs provides for the dismantling of tariffs in seven years so that after three years the tariffs will be reduced by $52\frac{1}{2}$ per cent. In addition there is a low tariff ($17\frac{1}{2}$ per cent) quota for cars starting at 32,000 in 1986 rising to 36,000 and 40,000 over the next two years. A major problem was the allocation of national shares of this quota; on any basis acceptable to other member states, the United Kingdom share would have been miniscule. In fact, the United Kingdom and Italy were given reserved annual shares of 2,000, with the rest freely available subject to Commission monitoring. However, the Minister for Trade made a private agreement with the Spanish Foreign Minister which gives us a guaranteed allocation of 5,000 cars in 1986 with 6,000 and 7,000 in subsequent years. The Spanish also agreed to make interim improvements to the existing quota for the second half of 1985. This agreement gives the United Kingdom a reduced duty quota more than double what we have now at a substantially improved level of duty, and when Spain introduces VAT on her accession the

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present 60 per cent tax and duty disadvantage for British cars trading outside the quota will be more than halved.

3. The Internal Market Council on 18 December, at which the Minister for Trade represented the United Kingdom, agreed the Single Administrative Document to speed up the clearance of goods across internal frontiers; the starting date is 1 January 1988 but it will be introduced on a trial basis beforehand.
4. The Fisheries Council on 19-20 December, at which the Minister of Agriculture, Fisheries and Food, the Minister of State (Mr Macgregor) and the Minister of State, Scottish Office (Lord Gray) represented the United Kingdom, reached agreement on total allowable catches and quotas for 1985 and on the related third country agreements, subject to a United Kingdom Parliamentary scrutiny reserve; this will be lifted after the fisheries debate later this month.
5. The Research Council on 19 December, at which the Minister for Information Technology (Mr Pattie) represented the United Kingdom, agreed a package of eight research programmes within an overall cost of 1225 mecu over their full duration of four to five years. The Commission originally proposed 1310-1340 mecu, and the United Kingdom, which had received only limited German support in seeking to limit this figure, agreed to 1225 mecu only on receiving a commitment from the Commission to reduce staff levels accordingly. We also made a unilateral statement about the need to consolidate the agreed programmes before embarking on any new decisions.
6. The Social Affairs Council on 13 December, at which the Secretary of State for Employment and the Parliamentary Under Secretary of State (Mr Patten) represented the United Kingdom, agreed the second EC anti-

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poverty programme; the United Kingdom was successful in reducing the expenditure total from 35 mecu over four years to 25 mecu, obtaining a review after three years to assess effectiveness, avoiding any commitment to further expenditure, and in cutting back intervention rates. The Council also agreed a young workers exchange scheme, a Recommendation on positive action for women, and a Resolution on long term unemployment which generally reflected United Kingdom policy.

7. The Industry Council on 17 December, at which the Minister of State, Department of Trade and Industry (Mr Lamont) represented the United Kingdom, made only limited progress and will return to steel issues at its first meeting in 1985. After the Council the Commission reached an agreement with the United States to restrict exports of EC steel pipes and tubes to 7.6 per cent of the American market; the United Kingdom's share will be almost unchanged at 0.4 per cent.

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PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

9 January 1985

Dear Ian,

NBM
CD 99;

SUPPLEMENTARY FINANCE FOR 1984 COMMUNITY BUDGET:
INTER-GOVERNMENTAL AGREEMENT (IGA)

Thank you for your letter of 7 January 1985 in which you present your new proposals for securing Parliamentary approval for the implementation of the Government's commitment to contribute to supplementary finance for the 1984 Community Budget. We subsequently spoke about this.

I note what you have to say about the financial position of the Community and the effect on the timescale of our actions. I also note the fresh legal difficulty which has emerged in relation to the IGA Order.

In the light of the new circumstances, I must agree with your conclusion that a Supplementary Estimate and special Consolidated Fund Bill is the correct way to proceed. I am sure that this can be presented as a recognition of the legitimate need of the House of Commons to exercise a greater control over expenditure, and that the legal problem arising from the fact that we have missed the end 1984 deadline can be used to advantage.

As far as the timetable is concerned, I am afraid that, as I explained, it would be difficult to arrange a debate on the Supplementary Estimates next week; indeed this could be counter-productive. However, I could make time available on 21 January. All stages of the Bill in the Commons and the Lords could then be taken on 22 January with Royal Assent also being given then. We shall therefore meet your target date of Royal Assent on 22 January.

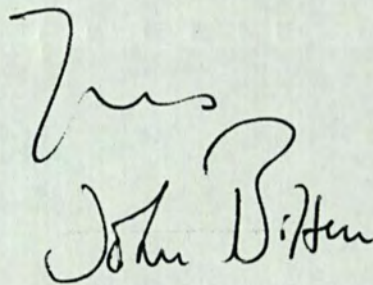
I must emphasise, however, that if this timetable is to operate to our best advantage, considerable care will have to be taken to ensure that the Treasury and Civil Service Select Committee and the Liaison Committee are kept fully informed of our plans. As you know, a debate on the Estimate is recommended to the Liaison Committee by the Treasury and Civil Service Select Committee; and by the Liaison Committee to the House, which then agrees. I am sure that this is what will happen, but to go through this process in the very short space of time allowed, will itself cause comment and we must be careful not to give any further cause for concern. You agreed to talk to Terence Higgins about this as soon as possible.

Ian Stewart Esq MP
Economic Secretary
HM Treasury

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We also agreed that it would be best for you to announce the change in approach by Written Answer on 10 January and to write to the Chairman of the Joint Committee on Statutory Instruments, explaining the fate of the IGA Order. In the very unlikely event of there being no recommendation for debate on the Estimate, We must consider further how to proceed.

I am copying this letter to the Prime Minister, Members of L and OD(E) Committees and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'John Biffen'. The signature is written in a cursive style with a large, sweeping initial 'J'.

JOHN BIFFEN

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CCP



Foreign and Commonwealth Office

London SW1A 2AH

9 January 1985

From The Minister of State

Ian Stewart Esq MP
Economic Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG

NBPM
aj 10/1

Dear Sir,

SUPPLEMENTARY FINANCE FOR 1984 COMMUNITY BUDGET:
INTER-GOVERNMENTAL AGREEMENT (IGA)

In Geoffrey Howe's absence, I am replying to your letter to John Biffen of 7 January.

Like you, we were confident of our ability to proceed on the basis of a Section 1(3) Order, so long as this could have been put through Parliament during 1984. In the light of the Solicitor-General's advice about the risk of a successful legal challenge now that payment was slipped into 1985, however, I agree that we should now opt instead for a special Consolidated Fund Bill and Supplementary Estimate.

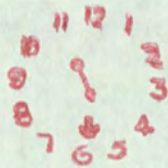
For the reasons set out in your letter we should aim to complete the procedures as soon as possible. The conditions we set for payment of our contribution to the IGA were met over a month ago and the majority of Member States (including France and Germany) have now paid their contributions. We shall be requiring the other Member States to meet their commitments to us under the Fontainebleau agreement. It is important that we should be seen to be honouring our own undertakings.

I am copying this letter to the Prime Minister, to members of L and OD(E) Committees and to Sir Robert Armstrong.

Malcolm Rifkind

CONFIDENTIAL

MO JAN 1985





10 DOWNING STREET

HMT
DTI
MAFF

8 January 1985

2 ES, HMT
FCO
Cap. H of Arms
FS, HMT
LCO
LPO

Handwritten initials

RB MOS, HTO
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CO

From the Private Secretary

SUPPLEMENTARY FINANCE FOR 1984 COMMUNITY BUDGET: INTER-
GOVERNMENTAL AGREEMENT

The Prime Minister has considered the Economic Secretary's letter of 7 January on this subject.

Subject to the views of colleagues, she agrees with the Economic Secretary's conclusion that a Special Consolidated Fund Bill and Supplementary Estimate is the better course.

I am copying this letter to the Private Secretaries of members of L and OD(E) Committees and to Richard Hatfield (Cabinet Office).

CHARLES POWELL

Adrian Ellis, Esq.,
Economic Secretary's Office,
H.M. Treasury.

GRS 50
CONFIDENTIAL
FM BONN 081400Z JAN 85
TO IMMEDIATE FCO
TELEGRAM NUMBER 13 OF 08 JANUARY

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MIPT: CALL ON CHANCELLOR KOHL

1. WHEN I ASKED THE CHANCELLOR ABOUT HIS IDEAS ON EUROPEAN UNION HE TWICE EXPRESSED THE WISH TO DISCUSS THIS SUBJECT WITH THE PRIME MINISTER SOMETIME BETWEEN THE BRUSSELS AND MILAN EUROPEAN COUNCILS, EG BY A QUICK VISIT TO CHEQUERS FOR THE INSIDE OF A DAY.

FCO PLEASE ADVANCE TO NO. 10 DOWNING STREET

BULLARD

LIMITED

WED
MR JENKINS.

COPIES SENT TO
No 10 DOWNING STREET

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PC (1)



Prime Minister
This has become very complicated.

Treasury Chambers, Parliament Street, SW1P 3BQ

The Rt Hon John Biffen MP
Lord Privy Seal
Cabinet Office
68 Whitehall
LONDON SW1A 2AS

Agree to switch to
the route of a Special
Consolidated Fund Bill
January 1985
and Supplementary
Estimate?

Yes
Mr

Dear Lord Privy Seal,

C.D.P.
71

SUPPLEMENTARY FINANCE FOR 1984 COMMUNITY BUDGET: INTER-GOVERNMENTAL AGREEMENT (IGA)

We need to decide as soon as possible when and how Parliamentary approval should be sought for the implementation of the Government's commitment to contribute to supplementary finance for the 1984 Community Budget under the IGA signed on 2-3 October.

State of Community Finances

As to cash flow, in the event the Community scraped through to the end of 1984 despite the fact that a minority of Member States (Italy, Belgium and Luxembourg as well as ourselves) have not yet paid up their contributions under the IGA. This does not, however, mean that the Supplementary Budget or the full amount of the IGA were unnecessary. The Community will still be seriously short of cash in the early months of this year and the unpaid contributions under the IGA will still be needed. That the Commission has been able to manage a budget without the full contributions due under the IGA to the end of 1984 is largely attributable to a substantial shortfall (500-600 mecu) in spending from the Structural Funds and other non-obligatory parts of the Budget. These unspent credits will, however, under normal Community rules now be carried forward and spent in 1985, though still charged to the 1984 Budget. The full amounts due under the IGA will still therefore be required. Our latest information is that the Commission may ask us for an overdraft which would in effect be an advance on the IGA if we have not paid by 21 January and may be ready to take us to Court if we do not pay. We should therefore aim to get Parliamentary authority to pay as soon as possible. It is clearly in our interests both in Parliament and in Brussels to get the payment out of the way as quickly as possible.

The Legal Problem

The Court of Appeal gave judgement on Mr Smedley's application to quash the Section 1(3) Order on 19 December. All three

judges decisively rejected Mr Smedley's contention that the IGA could not be regarded as ancillary to the Community Treaties and his application was accordingly refused. During the course of the hearing Lord Justice Donaldson made it clear, as had Mr Justice Woolf at first instance, that there was no reason why Parliament should not debate the draft Order while it was before the Courts. The Court of Appeal also turned down Mr Smedley's application for leave to take the case to the House of Lords. He is now, however, as he is entitled to do, seeking leave for this purpose from the Appellate Committee of the House of Lords. The Appellate Committee is expected to look at his application in the week beginning 14 January.

Unfortunately, although there is no reason to believe that Mr Smedley can succeed with his present case and the odds are against him being allowed to appeal to the House of Lords, the Treasury and FCO Legal Advisers have identified a further problem arising from the fact that the draft Order in Council was not approved by Parliament before the end of calendar 1984.

The use of the Section 1(3) Order rests on the fact that the IGA is an international treaty which creates an obligation for the UK to contribute to the financing of the 1984 Supplementary Budget. The first paragraph of the IGA, however, refers to the Member States' supplementary contributions being "paid in 1984". The question therefore arises whether the legal obligation (as opposed to the political commitment) to pay still continues after 31 December 1984. Moreover, the declared purpose of the IGA is to finance the 1984 Supplementary Budget and some question also arises whether revenues paid after the end of 1984 can technically, under Community law, be attributed to the 1984 Budget. If there is doubt on these two points, then there must also be a doubt as to whether the implementation of the IGA through the Section 1(3) procedure would be proof against a further legal challenge on the grounds that the obligation contained in the IGA had expired.

In view of these doubts the Law Officers' views have been sought again. I am also enclosing a copy of Patrick Mayhew's Opinion. You will see that in his view, although the balance of probabilities is that the Government would win any fresh case brought by Mr Smedley or AN Other in the Courts, there is a significantly greater chance that the Government would lose than in the present case brought on different grounds before Christmas. In short, although reasonably strong arguments can be advanced to justify the proposition that the Section 1(3) procedure is still justified, the Government's case for this procedure is less strong in 1985 than it was in 1984.

Options

We accordingly need to decide afresh between the two options for getting Parliament's approval to the payments under the IGA:-

- (a) to proceed with the Section 1(3) Order and make arrangements for it to be debated in both Houses

in the week beginning 14 January. A special Privy Council would be needed for the final approval of the Order. A more detailed time-table is at Annex A;

- (b) to withdraw the Section 1(3) Order and substitute a Supplementary Estimate and Special Consolidated Fund Bill. The Estimate should be laid as soon as possible after Parliament returns on 9 January. It could be debated and passed in the House of Commons on 17 and 21 January and passed formally by the Lords on 21 January also, though it is just possible that the Bill would not be taken in the Lords until the following week. A more detailed time-table is at Annex B.

The advantages and disadvantages of these options are as follows:-

- (a) Section 1(3) Order. The advantage of proceeding with the Order is that, if carried through successfully, there is no change of course or loss of face for the Government and it is the most rapid method of effecting payment. Given Patrick Mayhew's advice, however, there is a significant risk that a new legal challenge could be mounted against the Order on the grounds that it is now out of time. If that happened, the Government would then have suffered a public defeat. If the payment under the IGA had not already been made, then a Special Consolidated Fund Bill or full primary legislation would be needed to authorise the payment. The delay could run into February or March, in which case there is a risk that the payment could be linked in Parliament with any difficulties over the CAP price fixing or the financing of the 1985 Budget. If the Order in Council had been passed and payment made, retrospective primary legislation would be needed to legitimise the payment;
- (b) Special Consolidated Fund Bill and Supplementary Estimate. The advantage of this route is that it is much more secure from legal challenge. The Government would be seeking Parliament's authority for a voluntary contribution to meet the political undertaking contained in the IGA. It cannot absolutely be excluded that Mr Smedley or A N Other might bring a new case, alleging that the IGA is illegal in Community law, because incompatible with the Own Resources Decision. Such a challenge would, however, be akin to that which has been brought against the Section 1(3) Order and the prospects of defeating it would seem good. But the case would be likely to be referred to the European Court and further delay would ensue. There are considerable disadvantages in this option, which involves abandoning our preferred and chosen route (which we could have

used before Christmas) despite the Courts having uncompromisingly endorsed it, apparently giving Mr Smedley in Parliament the victory he had failed to achieve in the Courts, and adding substance to the argument of those who contend that almost anything unusual relating to EC finances should be the subject of primary legislation.

Conclusions

We have to choose on the one hand between the immediate embarrassment of seeming to concede to those who have lost the argument, if we opt straightaway for the Supplementary Estimate procedure, and on the other the risk that, if we continue with the Section 1(3) Order, we might well be challenged on new and more difficult grounds in the Courts. The first course would be awkward presentationally. But if we are to be certain of being in a position to pay our IGA contribution quickly and so forestall further legal disputes either here or in Europe the Supplementary Estimate route seems the least unattractive one. Therefore I reluctantly conclude that we should adopt it.

If you and colleagues agree we would table the Supplementary Estimate this week. If we table it on Wednesday we could, if all went well, complete all the necessary steps to pay by Tuesday the 22nd. If we do not move until Thursday we should be unable to pay before Wednesday 23 January. There is a risk that the Commission will, in effect, ask for an advance on the IGA and it would be desirable to pay as early as possible. I should therefore be most grateful for your agreement by close of play on Tuesday 8 January.

The presentation will need careful handling. I shall circulate a Written Answer as soon as possible. Subject to the comments of yourself and colleagues that will provide briefing for you should this issue come up in the Business Statement.

I am copying this letter to the Prime Minister, Members of L and OD(E) Committees, and to Sir Robert Armstrong.

Yours sincerely,
Adrian Ellis
(Private Secretary)
for IAN STEWART

01-405 7641 Ext.

3229
Communications on this subject should
be addressed to
THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

Miss J L Wheldon
The Treasury Solicitor
Queen Anne's Chambers
28 Broadway
London SW1H 9JS

21 December 1984

See for list.

cc
M. Smedley
M. Fitchew
M. Martine
M. Saunders
M. ...

IGA: PAYMENT IN 1985

The Solicitor General has seen your letter to me of 19 December and has advised as follows: -

"Smedley would have a stronger case than he ever had last time round the buoy. The balance of probabilities is in our favour, but there is now a significant risk of a successful challenge".

I am copying this letter to Geoffrey Fitchew and Martine Eaton

Yours ever

M L Saunders

M L SAUNDERS

434/12

SECTION 1(3) ORDER

Order already laid before Parliament
Recommended for debate by Joint Committee on Statutory Instruments

10 January Timing of Commons debate on positive resolution
announced in Business Statement

 Timing of Lords debate on positive resolution
announced through Whips Network

14 January Debate in Commons after 10pm

 Debate in Lords

17 January Special Privy Council meeting to approve Order

17 January Payment to EEC No.1 Account from Consolidated Fund.

The next Privy Council meeting is scheduled for 13 February.

13 February Privy Council approves Order

13 February Payment to EC No.1 Account from Consolidated Fund.

Supplementary Estimate and Consolidated Fund Bill

- 9 January Supplementary Estimate laid before Parliament
- TCSC look at Estimate. TCSC probably take evidence from Treasury officials or Ministers and may issue a report. Recommendation made to Liason Committee for Estimate Day debate. Liason Committee decide on this.
- 17 January Estimate Debate (if requested).
- Estimate Resolution
- First reading of Consolidated Fund Bill in Commons
- 21 January Second and Third reading of Consolidated Fund Bill in Commons
- 21 January All stages of Bill in Lords, following expedited procedure.
- 22 January Royal Assent
- Payment to EEC No.1 Account from Consolidated Fund.



file

bc: Sir P. Craddock

059

10 DOWNING STREET

From the Private Secretary

3 January 1985

EMS AND THE DOOGE COMMITTEE

The Prime Minister has noted the Chancellor's minute of 17 December to the Foreign Secretary on the Government's attitude to the recommendations of the Dooge Committee on the future development of the EMS, and the Foreign Secretary's minute of 28 December in reply. The Prime Minister agrees that our opposition to the unrealistic and undesirable proposals which have been put forward in the Dooge Committee and are identified in the Chancellor's minute must be made clear, and that we should make a major effort when discussions resume in the Dooge Committee to have such proposals dropped. She hopes that, as suggested in the Foreign Secretary's minute, we can obtain German support for our position.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office) and David Williamson (Cabinet Office).

Charles Powell

David Peretz, Esq.,
H.M. Treasury.

DG2AAI

05



10 DOWNING STREET

Prime Minister

EMS.

You may like to see these papers, which deal with the altitude we should take to proposals for developing the EMS. Both Treasury & FCO agree that the proposals made in the Dooze Committee are unrealistic & must be opposed - though the FCO want to say some positive things too.

No decision required at this stage.
CDP 2/5



FCS/84/334

CHANCELLOR OF THE EXCHEQUEREMS and the Dooge Committee

1. Thank you for your minute of 17 December.
2. We are preparing briefing material on all aspects of the Dooge Committee's Interim Report (which is due to be published in mid-January). This will be circulated to all interested Departments early in the New Year.
3. I agree that if we are asked about the references on page 2 of the Report to economic and monetary union and on page 10 to the eventual creation of a common independent Central Bank system, a European Monetary Fund and a common currency we should draw attention to the reserve entered by Malcolm Rifkind. We have been assured by the Council Secretariat that this and other UK reserves will definitely appear in the published version.
4. I do not think, however, that we need take a defensive position. Our overall strategy towards the work of the Dooge Committee is to show that in practice we are at least as forthcoming as other Member States. We should therefore try to bring the discussion back on to ground of our own choosing, for example by emphasising that:
- no-one is keener than we are on achieving a more united European economy by strengthening the internal market, not only by removing barriers to trade in goods and services, but also by liberalising capital movements. As we both well remember, we were the first EC country to lift exchange controls.
 - we agree that the continued convergence of economic policies and performances of the Member Countries

/would



would help to strengthen the EMS. We have welcomed growing consensus in the Community (reflected in the Commission's latest Annual Economic Paper) that firm monetary policies and better supply performance offers the best prospect of sustained growth and rising employment

- we have welcomed the growth in the private use of the ECU (unlike the Bundesbank which does not permit German residents to hold ECU deposits). London is an important centre for the market in ECU-dominated assets
- we have accepted the Commission's recent package of proposals to promote the official use of the ECU by Central Banks, including the ECU mobilisation scheme
- progress on all these issues - the elimination of internal barriers to trade in goods and services, liberalisation of capital movements, greater convergence of economic policies and performance, and further development of the official use of the ecu - would be an essential prerequisite for any more far-reaching developments.

5. When discussions resume in the Dooge Committee our aim will be to steer the Committee away from commitments which are unrealistic and unacceptable to a number of other Member States as well as the UK. I agree that the advice which the Dooge Committee is likely to receive from the Monetary Committee and Central Bank Chairman should be helpful in this respect. I hope that it will also be possible to establish some common ground with the Germans. You will remember that Tietmeyer was at pains during the last ECOFIN Council to emphasise that the



Germans do not think the time is ripe for further developments in the EMS. Herr Pohl's recent speech in Bonn also makes it quite clear that the Bundesbank is not prepared to accept the reduction of its autonomy which would result from transferring Central Bank functions to a European Monetary Fund. In the light of these firm statements from the Bundesbank and the German Finance Ministry, it may be difficult for Herr Ruhfus to continue to associate himself with some of the propositions to which he has hitherto lent support in the Dooge Committee.

6. I am sending copies of this minute to the Prime Minister and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office

28 December, 1984

FILE

da

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

MR. WILLIAMSON
CABINET OFFICE

The Prime Minister has now seen your minute of 20 December about the current position on the revised own resources decision and the 1985 budget. She agrees that you should have the negotiating authority to which you refer in your minute although she has recorded that she is not very keen on another intergovernmental agreement since the currency is becoming devalued.

Timothy Flesher

27 December 1984

CONFIDENTIAL



CONFIDENTIAL

Qz.04063

MR POWELL

CDD
1/12.

①
Prime Minister
This is the Williams
NOTE. The important
part is para 3/4.
Agree?
CDD
27/11

EUROPEAN COMMUNITY: THE REVISED OWN RESOURCES DECISION AND
THE 1985 BUDGET

The Prime Minister may find it helpful to know, before the briefing meeting tomorrow for the Anglo-French summit and the European Council, the latest situation on the revised Own Resources Decision and on the dispute between the Council and the European Parliament on the 1985 budget. It can be summarised as follows -

(i) the text of the revised Own Resources Decision properly implements the Fontainebleau agreement (including the ad hoc 1000 million ecu reduction of our VAT contribution in 1985 in respect of 1984). The launching of the ratification by all member states is held up only by the disagreement on the date of application (German reserve) and by the need for the Council to take a firm decision not to accept the European Parliament's wrecking amendments;

(ii) the Council proposed the 1985 budget within the 1 per cent VAT ceiling; accepted that there would be some irreducible overrun which would need a supplementary budget when the own resources become available; and correctly dealt with the United Kingdom's 1000 million ecu as a reduction in our VAT contribution. The European Parliament has taken the opposite view: it has proposed very large increases in the 1985 budget and the payment of the 1000 million ecu for the United Kingdom by an expenditure programme rather than by reduction of the VAT contribution. The next step is for the Council to throw out the European Parliament's amendments. This should be achievable but, as the Council/European Parliament dispute continues in high key, experience indicates that other member states will tend to weaken.

CONFIDENTIAL

2. We recommend that the United Kingdom objectives should be -

(i) Own Resources Decision: text. The European Parliament's ideas for tampering with the text must be comprehensively rejected. We stand on the Fontainebleau agreement;

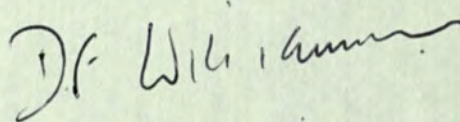
(ii) 1985 budget. The two essential conditions for the United Kingdom are that the United Kingdom's 1000 million ecu should be effected by reduction of our VAT contribution (as agreed at Fontainebleau) and that total Community expenditure in 1985 should be held down as effectively as possible.

3. The fundamental conditions are clear and can be obtained. The tactics are more open. We can sit the matter out, with the revised Own Resources Decision in suspense and the 1985 budget disagreed between Council and European Parliament. If, however, we cannot get early agreement to bringing forward own resources in 1985, the Economic Secretary may find in the next rounds in the Budget Council, that it would be to the United Kingdom's financial advantage to get the text of the revised Own Resources Decision launched quickly and to settle the 1985 budget overrun through an intergovernmental agreement. This could make available earlier the 1000 million ecu abatement of our VAT contribution and could hold down total 1985 expenditure by setting the budget limit now before other member states and the European Parliament think up new expenditures. If we were to go for an intergovernmental agreement, it would of course only be on the condition that both the revised Own Resources Decision and the 1985 budget were settled; that the 1000 million ecu was made available by abatement of our VAT contribution and that this was an integral part of the Own Resources Decision; that our contribution towards any intergovernmental agreement was covered by the Fontainebleau mechanism (it would be so covered if the agreement were in the same form as this year); and that the member states' contributions to the budget overrun should not be reimbursable.

CONFIDENTIAL

4. I understand that the Chancellor of the Exchequer takes the view that there should be discretion to settle the 1985 budget overrun either by bringing forward some own resources into 1985 or through an intergovernmental agreement subject to the conditions above. This would make it possible to choose the option more financially favourable for the United Kingdom at the appropriate point in the further budget discussions.

5. I am sending copies to Colin Budd (FCO), David Peretz (Treasury) and to Sir Robert Armstrong.



D F WILLIAMSON

27 November 1984



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Mls, fco.
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Perry Wadock

10 DOWNING STREET

From the Private Secretary

23 December 1984

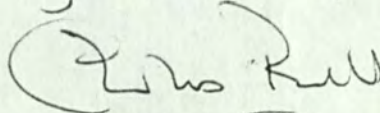
Dear David,

1985 COMMUNITY BUDGET
PROVISIONAL TWELFTHS REGIME

Thank you for your letter of 19 December about the consequences of the European Parliament's rejection of the Draft 1985 EC Budget.

The Prime Minister has noted this.

I am copying this letter to Private Secretaries to members of OD(E) and to Richard Hatfield (Cabinet Office).

Yours sincerely

C.D. POWELL

David Peretz, Esq.,
HM Treasury.



DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

NRM

Charles Powell Esq
Private Secretary
10 Downing Street

21 December 1984

Dear Charles

PAYMENT OF SUPPLEMENTARY BENEFIT TO EC NATIONALS

FR Thank you for your letter of 17 December. ^{*Attached*} DHSS will produce as quickly as possible a paper for Ministers on what is involved in introducing a residence test for supplementary benefit.

I am copying this letter to FCO, Department of Employment and Cabinet Office.

Yours

S A Godber

S A Godber
Private Secretary



①

CONFIDENTIAL

PERSONAL

Prime Minister

Qz.04114

MR POWELL

Do you agree to grant the negotiating authority sought by Mr. Williamson?

Yes - but I am keen on another not very important agreement in view of the current situation.

CJP 23/12

EUROPEAN COMMUNITY: THE REVISED OWN RESOURCES DECISION AND THE 1985 BUDGET

The European Parliament having rejected the 1985 budget, we are now on to the provisional twelfths regime. Despite the current difficulties over the inter-governmental agreement for financing the 1984 supplementary budget, we continue to take the view that we ought to have, as sensible contingency planning, negotiating authority to deal with the 1985 budget overrun either through advancing some own resources (our current public position) or through an inter-governmental agreement subject to the conditions set out in my minute of 27 November. I sent forward that minute with the agreement of the Treasury and the Foreign and Commonwealth Office and, as you know, the Chancellor of the Exchequer does take the view set out in paragraph 4 of my minute.

D F WILLIAMSON

20 December 1984

CONFIDENTIAL



CCND
PC

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

19 December 1984

Charles Powell Esq
10 Downing Street
LONDON SW1

Prime Minister (2)

Dear Charles,

1985 COMMUNITY BUDGET : PROVISIONAL TWELFTHS REGIME

As you will be aware, the European Parliament voted on 13 December to reject the Draft 1985 EC Budget. Accordingly from 1 January the Community's finances will, as also happened in 1980, function under the "provisional twelfths" regime laid down in Article 204 of the EC Treaty.

The Chancellor has suggested that the Prime Minister might find it helpful to have the attached note, prepared in the Treasury, describing how the system is likely to work over the coming months. The Chancellor has asked me to draw attention to three main consequences arising from the application of the "provisional twelfths" regime.

First, the main impact of the regime will be on agricultural guarantee spending. The Commission's original estimate was that the total required for guarantee spending in 1985 was 19.3 becu ie 1.6 becu per month. The provision in the draft 1985 Budget was cut back by the Council to 18 becu, because of the need to keep within the 1% VAT ceiling. However, under the provisional twelfths regime the total available will be only 16.1 becu - just over 1.3 becu per month. If, as seems probable, the Commission is unable as well as unwilling to hold down agricultural spending much below 1.6 becu, it will be necessary for the Council - as is permitted under the rules - to bring forward extra twelfths within the 16.1 becu total. The probable result is that, in the absence of a supplementary budget going above the 1% ceiling, the appropriations available for CAP spending will be exhausted by early October.

Second, because of the seasonal pattern of CAP spending, the Community will face a cash shortfall early next year. To forestall this, the Commission is likely to request advances under the own resources regime fairly quickly. Though this step would



be unpopular with Member States there are precedents for such a request and the Commission would be acting within its legal rights. A supplementary estimate would be necessary for us to comply. The Chancellor's view is that we should go along with any such request for advances, as we did in both 1983 and 1984.

Third, we will need to keep a close watch on the residue of the UK's 1983 refunds. Payment of the final 10% of the 1983 refund - some £59 million - cannot take place until the Commission's audit checks have been completed. Part of the 10% may still be paid before the end of the year. But the remainder will be carried over into 1985. Given the expected cash shortfall (see paragraph 5 above), it may be necessary to put strong pressure on the Commission to ensure that the rest of the refund is paid before the end of our current financial year.

The Chancellor sees no need for any Ministerial discussion of these issues at this stage. It seems probable, however, that the difficulties caused by the provisional twelfths system, particularly for CAP spending, will lead other Member States to start pressing early next year for a rapid agreement on how to provide extra financing to cover Community spending in excess of the 1% limit in 1985. Our aim must be to ensure that this pressure is directed at making the Germans agree to bring forward new own resources into 1985. The Chancellor suggests, however, that a meeting may be necessary to discuss the options and tactics before the 28-29 January Foreign Affairs Council.

I am sending copies of this letter to the Private Secretaries to Members of OD(E) and to Sir Robert Armstrong.

*Yours ever
David*

D L C PERETZ
Principal Private Secretary

THE PROVISIONAL TWELFTH BUDGETARY REGIME

On 13 December the European Parliament rejected the draft 1985 Budget by 390 votes to 5 with 16 abstentions. Consequently from 1 January 1985 the Community will have no agreed Budget covering its revenue and expenditure. This note is a preliminary commentary on the consequences of the Parliament's action.

Legal position

2. (i) Expenditure

Article 204 of the Treaty of Rome lays down the basis of the so called "provisional twelfth regime" which comes into force in the event of the Community institutions not having adopted an annual Budget. Payments appropriations in each month are limited to one twelfth of the total appropriations available, chapter by chapter, in either the 1984 Budget or the 1985 draft Budget, whichever is the lower. Since the twelfth regime makes no allowance for inflation, nor for planned increases in spending provisions, its overall effect is to restrain expenditure.

Commitment appropriations are similarly limited in total; but an advance of one-quarter of commitment appropriations can be made.

If the Commission considers that it cannot meet its commitments in any spending chapter without more funds it can ask for payment of two or more twelfths in any month. Additional twelfths are authorised by a qualified majority of votes in the Council of Ministers. Non-obligatory expenditure decisions are subject to change by the European Parliament within 30 days of their adoption.

(ii) Revenue

Traditional Own Resources - agricultural levies and customs duties - are paid as normal to the Community. There

is uncertainty over the precise level of VAT to be paid. The 1970 Own Resources Decision states that if a budget has not been adopted at the beginning of the financial year, the rate previously fixed should remain applicable. But during the 1980 provisional twelfth regime Member States insisted on paying only the (lower) VAT figure which they had paid in the previous year's Budget and not the same proportion of a larger VAT base. Assuming the 1980 precedent is followed, the UK would pay only the VAT amounts paid under the 1984 Budget (and excluding the Inter-Governmental Agreement totals from the calculation). Total monthly VAT payments to the Community would be 1.2 billion ecu, and the UK's share would be some 240 mecu.

Problem areas

3. In 1980 the Community functioned fairly smoothly under a provisional twelfth regime for almost six months, following the Parliament's first rejection of an annual budget. But with the Community already up against its revenue ceiling, in 1985 financial pressures will become intense more quickly.

4. The likely major difficulties are as follows:

(i) Obligatory expenditure

EAGGF agricultural guaranteed expenditure will on the Commission's forecast that 19.3 billion ecu are required during 1985 cost on average roughly 1.6 billion ecu per month. There is traditionally a higher level of payments during the first two or three months of the year, perhaps as much as 2 billion ecu per month. The Commission estimate however is that the twelfth regime will permit total guarantee appropriations of 16.1 billion ecu, ie about 1.3 billion ecu per month. Meeting Member States requirements for EAGGF advances will therefore require higher monthly amounts than will be available under the twelfths regime. The Commission could either ask for supplementary twelfths to be provided; or - following a precedent set in 1980 - treat guarantee sector advances as being equal to commitments, thus allowing for a three month advance of funds immediately. Despite the

dubious legality of this latter course Member States are likely to accept it as the simplest way of avoiding major agricultural disruption. Even so, the Commission estimate that all appropriations for agriculture will be exhausted by September 1985.

(ii) Non-obligatory expenditure

Where insufficient expenditure was provided for in the 1984 Budget, or a new programme is due to begin, the twelfth regime does not provide sufficient basis for starting payments. The ESPRIT programme, food aid and fisheries structures measures will therefore be restricted.

The Social Fund Regulations lay down that 50 per cent of commitments should be paid before 31 March. Additional twelfths will therefore quickly be needed; or the Regulations temporarily amended. Agricultural guidance expenditure twelfths are likely to cover less than 75 per cent of the planned 1985 expenditure.

The provisional twelfths regime does not allow for transfers from the Reserve (Chapter 100) thereby limiting the Commission's scope for financial management during the year.

(iii) Cash flow

The Commission normally start the year with a substantial unspent balance from the previous year. The position at the end of 1984 is likely to be extremely tight financially, with more commitments carried over to 1985 than credits to cover them. In addition the agreed contribution under the Inter-Governmental Agreement will not have been paid by the United Kingdom nor (probably) by Italy. Since EAGGF expenditure will require significantly more than the revenue available under the provisional twelfth regime the Commission will quickly face a serious cash flow problem. Member States would

then be likely to receive demands for advance payments of traditional Own Resources and perhaps also for overdraft facilities on VAT Own Resources payments (Articles 10(2) and 12(2) Treaty of Rome). Article 10(2) advances have been made available by the UK over the last two years, in the first instance by drawing on the Contingencies Fund, with Parliamentary authority subsequently sought through a Parliamentary Estimate.

A further expedient to relieve the Commission's financial pressures would be to refuse to fund expenditure in the dairy sector while the milk super levy is not being paid to Brussels. This step would perhaps save the Commission some 400 mecu per month and cost the UK some 70 mecu per month.

Conclusion

5. Several important legal disputes over the Commission's scope for interpretation of the provisional twelfth regime remain unsettled. In addition provisional twelfths have never operated against the background of exhaustion of the Community's financial resources. The practical implications of the regime will depend on the level of agricultural expenditure during the early months of 1985; and on the approach taken by the incoming Commission which formally takes office on 1 January.

HM TREASURY
17 December 1984

Arvo Budegilt

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20 DEC 1984



FCS/84/331

PARLIAMENTARY UNDER SECRETARY FOR HEALTH

Commission Proposal for a Second European Community Programme
to Combat Poverty

1. Thank you for your letter of 10 December. I have also seen Peter Rees' comments. Clearly, our line at this week's Social Affairs Council should be to stick with the Germans and to seek to limit the cost of the programme to around the 20 mecu mark. But we must not veto the programme in isolation; to do so would be difficult to defend in both Community and domestic political terms.

2. I note that Peter Rees has insisted that from 1986/87 you should find off-setting savings from your domestic programme should there be any overrun on your Euro-PES provision caused by this programme. If any offsetting savings are required, they will have to be made in accordance with the PESC-EC arrangements agreed by E(A) last February.

3. I am copying this minute to members of E(A) and OD(E).

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office
17 December, 1984



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

FOREIGN SECRETARY

Mr Fletcher: to see

**PUBLICATION OF DOOGE COMMITTEE INTERIM REPORT:
EMU AND THE DEVELOPMENT OF THE EMS**

We need to consider rapidly how we should respond to questions about the Government's attitude to the recommendations in the Dooge Committee's Interim Report, following the agreement at Dublin that it should be published. (I understand that from questions he asked during Tuesday evening's European Debate Robin Cook appeared already to have a copy of the Report). I confine my comments in this minute to those parts of the Report dealing with the future development of the EMS. But there are other parts of the Report which are equally, if not more, difficult for us - eg on majority voting and the powers of the European Parliament - on which I suggest our officials will need to prepare briefing material straightaway.

Development of the EMS and Steps Towards EMU

2. It is clearly most helpful that in the Dooge Committee Malcolm Rifkind entirely reserved his position on the references on page 10 of the Report to:-

"developing the EMS into a common independent Central Bank system and eventually the creation of a European Monetary Fund and a common currency".

I assume that the version of the Interim Report to be published will include this and other statements of reservation; I understand your officials are checking that this will be the case.

3. When discussions resume in the Dooge Committee, our aim should be to persuade the Committee that gradiose commitments of this kind are simply unrealistic, as well as unacceptable to some Member States. With this in mind I



entirely endorse the tactic which our officials have agreed of getting the Dooge Committee to call for expert advice from the Monetary Committee and the Central Bank Governors. If, however, at the end of the day the majority in the Dooge Committee insist on retaining these proposals in their Report, Malcolm Rifkind will clearly have to disassociate himself from them. We will need to decide in due course how exactly this should be done

- whether by a simple statement of disagreement or a more extended minority report.

4. More immediately, however, once the Report is published, the Government will certainly be asked its views on the EMS section of the Report and on the rather vaguer reference to EMU at the beginning of chapter 2. If so, I suggest that our line can only be:-

- we regard proposals for a common currency and a common independent Central Bank system as wholly unrealistic. The Government has accepted no commitments to them. Mr Rifkind has entirely reserved his position in the Dooge Committee.
- as regard the creation of a European Monetary Fund (EMF), this was referred to as an objective in the Resolution of 5 December 1978, setting up the EMS (and accepted by the then Labour government). But there is no agreement between Member States as to what the function or powers of an EMF would be or when it might be set up. The Dooge Committee Report offers no advice on these issues;
- as regards EMU, if this is intended to mean a single currency and a common Central Bank, we do not accept any commitment. We are committed only to achieving a more united European economy through the achievement of the internal market, removal of trade barriers etc.

CONFIDENTIAL



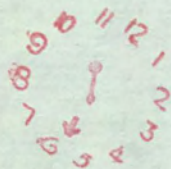
5. I am sending copies of this minute to the Prime Minister and Sir Robert Armstrong.

N.L.

N.L.

17 December 1984

118 DEC 1984



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10 DOWNING STREET

From the Private Secretary

17 December 1984

Future Development of the Community: Payment of
Supplementary Benefit to EC Nationals

Thank you for your letter of 13 December about the scope for restricting payment of supplementary benefit to EC nationals.

The Prime Minister is disturbed by the situation which your letter reveals. Her own view is that primary legislation to impose residence tests will be needed. The further work which your department is doing should therefore examine this option in greater detail, with the aim of producing a recommendation for Ministers to consider. In parallel there might also be further examination of a 'non-tariff barrier' approach, for instance the scope for slowing down the procedure for paying benefit to foreigners as well as speeding up curtailment action.

The Prime Minister would be grateful to have proposals for Ministerial consideration as rapidly as possible.

I am copying this letter to Colin Budd (FCO), Judith Rutherford (Department of Employment) and to Richard Hatfield (Cabinet Office).

C.D. Powell

S.H.F. Hickey, Esq.,
Department of Health and Social Services.



Foreign and Commonwealth Office

London SW1A 2AH

14 December 1984

Dear Charles,

Speech by Mr Tugendhat

At the Dublin European Council, the Prime Minister commended the Commission's Annual Economic Report as much more realistic than its predecessors. The Foreign Secretary believes that the Prime Minister may also be interested to see the enclosed speech which Mr Tugendhat delivered at a conference organised by the US missions in Brussels on 16 November.

Like the Annual Economic Report, Mr Tugendhat's analysis differs significantly from traditional Commission attitudes, both in presentation and in substance. We will want to do all we can to encourage such moves towards greater realism on the Commission's part.

I am sending copies of this letter to the Private Secretaries of other members of OD(E). We have also sent a copy for Sebastian Birch to pass to Lord Cockfield.

Yours ever,
Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

Already seen
by [initials]
[initials] H/12



The Challenge of Change :
The Western Economies and the Atlantic Relationship

PAPER BY MR CHRISTOPHER TUGENDHAT, VICE-PRESIDENT OF THE COMMISSION OF THE EUROPEAN COMMUNITIES, FOR THE US MISSIONS CONFERENCE, BRUSSELS, ON 16 NOVEMBER 1984

Some thoughts on the European Economy

I. Introduction

I have been asked to address myself to the state of the European economies, and to the pre-requisites for bringing about an improvement in their performance.

This theme is, of course, central to answering a question that lies at the heart of the business of this conference: are the Europeans sufficiently robust economically to maintain their expenditures on defence and, if possible, to increase them to levels more acceptable to the United States?

We all know that economic difficulties weaken the political consensus for defence expenditure.

High unemployment, in particular, erodes the fabric of our societies, and saps the will to defend ourselves. It makes more popular the illusion that détente and East-West negotiations can, if only they were more energetically pursued, substitute for strong defences, or make them less necessary. Indeed, we see this happening today within the Socialist parties of the two greatest European contributors to NATO: the United Kingdom and the Federal Republic of Germany.

Inflation erodes the value of those resources that the public has consented to allocate to defence. In addition, it makes it extremely difficult to undertake long term planning on defence and arms procurement, which is increasingly essential at a time of rapid growth in the sophistication and cost of weapons as well as of growing lead times for their development.

— If only for these reasons, the management of the European economies is crucial to the maintenance of healthy defences in the Alliance. Other speakers will, no doubt, develop this point further. I shall now turn to the first part of my own themes: how sick have the European economies really become?

II. How sick is the European Economy?

There can no longer be any doubt that the European countries of OECD are in a worse position, from a macroeconomic point of view, than the United

States and Japan. Growth of output continues to lag far behind that of North America and Japan. Most European countries have been far less successful than the two other regions in reducing inflation, though a group of low-inflation countries in Europe has emerged led by the Federal Republic of Germany, Switzerland and the Netherlands - with the United Kingdom as a prospective member. Above all, unemployment is considerably worse than it is in the US. The recent annual survey on unemployment of the OECD again confirms this finding. It points out that between 1973 and 1983 almost 18 million extra jobs were created in North America, compared with a 5 million increase in Japan and a loss of 1 1/2 million jobs in Europe.

This picture of European unemployment needs to be qualified in two ways.

First, there is much evidence to suggest that, over the last decade, new jobs in Europe have tended to consist of rather more productive activities than many of those created in the United States. This can be inferred, at the most general level, from the fact that a 23% growth in real national output in the US from 1975 to 1983 was supported by a 17% increase in total employment, whereas an 18% expansion of output in Europe was supported by a reduction of 0.8% in employment (Source: OECD Second Annual Survey on Employment).

But some of the most compelling evidence for this thesis comes from the services sector, which has provided such a large proportion of the gains in employment in the US. In the US the creation of jobs in the service sector reflects, to a far greater extent than it does in Europe, the tendency of employers to reduce their permanent staff and to cover holiday and demand peaks by contracting out to service agencies which employ part-timers. This trend is, in reality, a form of market-generated work-sharing, and therefore does not contribute as much to output and full time employment as the figures might at first suggest.

Thus, while the US was generating all those new jobs about which we hear, it was until recently actually losing its commanding lead over the rest of the world in both productivity and living standards. Since 1973, output per head in the whole US economy has grown by only 0.3% a year, against 2% in the European Community. Moreover, after a brief upward boost at the start of the economic recovery, growth in United States productivity slowed again in the last quarter to an annual rate of barely 1%. In short, what has happened since 1973 is that the US has chosen a path of high employment, at the cost of stagnant productivity and wages, while Europe has chosen greater growth in productivity and living standards (for those in work) at the expense, it would appear, of a rise in unemployment.

The second way in which the statistical trends in European unemployment need to be qualified is that there is sadly no reason to hope that unemployment will greatly decrease as economic recovery takes place. For example, the OECD report points out that some of the developments which have mitigated the problem of unemployment until now may be near maturity. Financial services, to take the sector on which so many hopes for new employment rest, may shed rather than create jobs as competition intensifies,

as may distribution, while new employment in public services is limited by the squeeze on public expenditure to which most countries are subjecting themselves.

III. The problems - and some remedies

My analysis of Europe's economic problems will focus primarily on their intra-European causes. There are two reasons for this, the first one economic and the other political:

- First, from a strictly economic point of view, I am profoundly convinced that the main causes of Europe's sluggish growth and insufficient competitiveness in some industrial sectors are domestic. The US budget deficit, and the sky-high interest rates to which it and the accompanying tight monetary stance have contributed, do, of course, seriously exacerbate Europe's economic problems; but they are not the fundamental causes of them. Why else are the South-East Asian countries and Japan going from strength to strength, even though they are as exposed as Europe is to the effects of current US policies? Above all, why has there been such a considerable increase in employment in the US and in the after-tax profits of so many American companies operating in the US itself?
- Second, the US decision-making process is extremely difficult to influence from overseas. Thus, to the extent that US monetary and fiscal policies are responsible for high interest rates and do therefore damage the European economy, we should not see diplomatic pressure on the US Administration and Congress to bring down interest rates, important though that is, as a reliable way of improving our own economic prospects. Moreover the difficulty of influencing the US budget deficit is compounded by the fact that there is a continual growth in the structural component of it - that is to say, the component that currently comprises growing entitlement expenditures, the proposed erosion of the tax base through indexation of tax brackets and allowances, and continued projected growth in military spending. All these costs to the budget are supported and perpetuated by massive vested interests - whose susceptibility to influence by Europeans or Japanese is negligible if not non-existent.

I should now like to turn to what I see as the principal domestic causes of Europe's economic problems. I must emphasize that there are no easy answers, no single slogan such as wage flexibility, public investment or shorter working hours, depending on one's political standpoint, that encapsulates the magic formula for bringing about growth and employment. A broad mix of policies and policy instruments is required. These fall, I believe, into five broad categories.

(a) Inflexibilities of the labour market.

As you see, I place these at the top of my list. They encompass a number of crucial issues:

- Insufficient geographical mobility of labour.

This has long been seen in, for example, the United Kingdom, where loyalty to the local community has historically been very great and where whole communities were for decades or even centuries formed around particular industries, such as coal in Wales and textiles in Lancashire. Even in Germany, where the physical and psychological destruction of communities by the Second World War ensured that mobility was peculiarly great, it is now substantially declining.

Government has a major role to play in providing inducements to industrial mobility. There are at least four priorities here: the first is to encourage a more fluid housing market with a large rented sector, in order to reduce the transaction cost of moving. The second is to make company pension schemes more easily transferable if a worker moves from one employer to another, an area where the Federal Republic, for example, has made much progress. The third is to provide grants to unemployed individuals to go to interviews for jobs in other parts of the country and to move to those parts should they secure jobs - an area where the Germans and the British, amongst others, have taken important initiatives. The fourth is to ensure that those who move from one region to another are in a position to obtain proper education for their children by making the curricula of schools compatible, the availability of places reasonably assured and their final examinations recognised as equal tests of ability.

Although for the time being these are objectives which must be sought within the Member States of the Community, I hope that they will, in time, also be attained between Member States so that free movement of persons within the Community as a whole could at last become a reality.

- Excessively high wages

This is, I believe, a problem common to almost all countries of the European Community. There has been a steady growth in real wages - in contrast to the US where wages have maintained a far more realistic relationship to output and productivity. High technology will not make the question of wages in the economy as a whole less relevant, as so many commentators suggest. For we must not overlook the fact that many if not most of the jobs of the future will be in labour-intensive service industries which deploy

little or no sophisticated technology. In such industries, wages will continue to account for a large proportion of input costs.

The current fixation of many trades unions in Europe on the reduction of working time is, therefore, totally self-defeating, unless reductions in working time are accompanied by corresponding cuts in pay or increases in productivity. Although this obvious truth has not been fully acknowledged by most unions, some of them have implicitly recognised it by accepting shorter working hours as a partial substitute for wage increases. I believe that if cuts in working hours are accompanied by improvements in efficiency, they could help in the short term to curb the increase in unemployment, until it once again becomes possible to relax the tight monetary and fiscal policies which are currently needed to contain inflation.

- The power of corporatism in modern society

Corporatism is of course part and parcel of modern industrial societies. It helps to make possible the crucial economies of scale required to generate employment and to remain competitive. It contributes to the orderly articulation and reconciliation of innumerable conflicting interests. And it is an inevitable concomitant of the organization of labour into trade unions. Yet, for someone like me who believes profoundly that the key to economic growth lies in the maximum freedom of enterprise from restraints, a major obstacle to growth must be the capacity of such organizations to pursue their special interests to the detriment of society as a whole - and, I would contend, ultimately of their own members as well. Mancur Olson, in his important book 'The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities', has brilliantly analysed the way in which this happens. He suggests, I believe rightly, that these interest groups flourish in societies in proportion to the length of uninterrupted stability in the latter - one reason for the deep-seatedness of the so-called 'British disease'. They frequently hamper efficient production and technological innovation, largely by slowing down decision-making and by impairing the nation's capacity for adaptation and change; they distort distribution and increase the complexity of regulation; and they tend to evade political control.

I conclude from this analysis that a condition for conquering the present 'stagflation' - a word as ugly as the phenomenon it describes - is to place restrictions on the irresponsible use of power by special interest groups. With respect to industrial corporations, many such rules already exist in the form of controls on mergers, cartels and the abuse of dominant market positions. Strict rules of competition exist both at the level of nation states, such as the Federal German Cartel office, and at the level

of the European Community - which has very considerable powers in this area. Moreover the trend towards deregulation which is catching on in Europe, and particularly in Britain and the Federal Republic, will contribute in a major way to the promotion of competition and thereby to limiting the power of individual corporations or interest groups. This is an utterly healthy trend, which I wholeheartedly welcome.

Action must also be taken, by employers and employees together, to ensure that workers do not automatically price themselves out of jobs. I have two particular points in mind here.

The first is that we should re-examine what was, in some countries, once thought to be the god-given right of workers to automatic increases in wages. This is already happening in several Community Member States, notably Italy, Belgium, France and Denmark, in all of which a de-indexation of wages has been agreed. I hope it will last.

The second point is a peculiarly British one. It is the need to curb in the United Kingdom the ability of Union leaders to use their formidable powers in irresponsible ways. I welcome the measures which the Thatcher government has so far taken in this respect. Under the Trade Union Act of 1984, workers will have to be given a secret vote on whether or not to strike if their Unions are to retain their legal immunity. And since 1 November of this year any closed shop that fails to gain the support of the overwhelming majority of its members in a secret ballot will cease to have any legal standing. These measures will defend the rights and jobs of individual workers. They will limit only the opportunity for their union leaders to pursue courses of action, such as Arthur Scargill has followed with such tenacity during the current Miners' strike, which will ultimately put at risk thousands of jobs as well as the incomes of those lucky enough to remain employed.

- Better training and re-training of labour

No industrial economy can keep its head above the waters of international competition unless it has effective means for training and re-training workers - and managers. The need for training is going to be more important than ever as a result of the information revolution which we are now experiencing. In the computer industry, for example, fundamental job changes requiring re-training probably occur every 18-36 months. Moreover, jobs in information services - which account for over 70% of the 19 million new jobs created in the US since 1970 - are often highly specialised. We can be sure that they will not absorb factory

workers as smoothly as factory jobs absorbed agricultural workers 100 years ago.

Training is an area in which the state has a legitimate and necessary role to play: individual companies - particularly when profit margins are narrow, as they are at the present time of low growth and increasingly severe international competition - are often reluctant to invest the necessary resources in training workers, particularly young ones looking for their first jobs. Since skill needs are difficult to forecast with precision, it makes sense to aim for modes of training that are broadly-based and flexible. These are just the modes that government schemes should be in a good position to promote. Indeed, I believe that a greater proportion of state assistance to the unemployed should be provided in the form of entitlement to re-training and adjustment schemes, rather than being provided so largely in the form of straight cash transfers. In general, governmental policies should not only seek to relieve the hardships of the unemployed by way of income support, but also be designed to facilitate their return to employment as soon as jobs are available by means of retraining, job placement, geographic mobility aids, viable job creation schemes and the like.

Improved facilities for the training of workers must, however, go hand-in-hand with the development of early warning systems at the level of companies and plants, which can provide a flow of information about the planned introduction of new technologies.

(b) Taxation systems insufficiently oriented towards encouraging profits

Here we may have something to learn from the experience of the US, and particularly from the tax reform begun in 1981 which seems to have contributed in a major way to the remarkable increase in the profitability of investment in the US over the past two years or so. Progress has been made in Europe too. For example, the German Government has announced DM 20 billion in cuts of income tax to be made over three years from 1986. The French Government in its 1985 budget is to cut taxes by an amount of 1% of GDP. The Dutch budget for 1985 makes tax cuts amounting to 1/3 to 1% of GDP. And the British Government unveiled major tax reforms last April in which the emphasis has been switched from indiscriminate subsidies to lower tax rates for businesses of all kinds, thereby providing more scope for flexible investment decisions. It is perhaps in part a reflection of this that both fixed investment, particularly in manufacturing, and exports have grown rapidly in the United Kingdom over the past year.

(c) Sharing by workers in corporate profits and decision-making

There is hardly a human being whose motivation and sense of responsibility are not increased by feeling a master of his own destiny.

There are several different ways of achieving this. Germany and the Netherlands have done it by worker participation. One of the best of the other methods is to find ways of allowing employees to become co-owners, together with outside investors, of the new technologies acquired by their firms and to share directly in the benefits from them. This does not mean that enterprises need to be cooperatives or union-owned. Instead, pay-cheques might include a portion in cash and a portion in the common stock issued to purchase labour-saving devices. Such schemes would provide incentives to each and every worker which cannot be achieved to anything like the same degree by the legislation appearing all over Western Europe to increase employee representation on boards of directors. The reasons are straightforward: first, the overwhelming majority of workers cannot, by definition, be representatives on the board, and therefore cannot feel directly involved in the process of decision-making. Second, that process is often so complicated in the modern industrial firm that it is usually very difficult for the worker to gauge what precise role he, or his representative, has had in it. We Europeans should not, therefore, see the participation of workers in decision-making as anything more than a modest contribution to the task of seeking greater motivation in the labour force.

Fortunately the problem of motivation will be helped by the likely trend towards the creation of small firms in the future, particularly in the sector of information services. In this sector, workers will increasingly have the opportunity to become entrepreneurial partners, rather than resentful employees.

(d) The European Common Market

The assault on unemployment requires not merely a more flexible labour market and a more motivated work-force, but better functioning of markets for goods and capital.

Let me give an example:

Frontier formalities represent a disgraceful anachronism. They are very expensive and swallow up between 5 and 10% of the pre-tax value of the goods concerned. The time lost merely in waiting and hold-ups amounts to about £500 million per year. In their internal markets which provide the basis on which their export trade is built, American and Japanese companies suffer no comparable disadvantage.

What we need in Europe is to create a situation in which managements can consider the Community as a single market in which they can take decisions on the basis of economic efficiency rather than having constantly to try to maximise the benefits and minimise the disadvantages arising from the continued existence of separate national markets. If Europe really became a single market in which manufacturers and those who provide services could sell their wares freely from Scotland to Sicily and from Brest to Bavaria, the consumer through the market place could determine which would prosper and which would not.

The Community's Institutions have a two-fold task in order to bring this situation about. On the one hand they must work to ensure that the legal and taxation systems of the Member States are sufficiently transparent, non-discriminatory and compatible with each other to ensure that the competition is fair and the adaptation possible. On the other, they must work to eliminate the bias in favour of national suppliers that still exists in the field of public procurement and to introduce common standards throughout the Community.

Persuading governments of the need to make the myriad specific changes that will be required and even more, persuading them to carry those changes into effect will be a massive task. It will also be politically difficult, not to say thankless, since in every country any domestic special interest that feels threatened will try to rouse government and public opinion against what is being attempted. Progress will not be made in the sort of dramatic leaps and bounds that attract favourable publicity but through the undramatic pursuit of what will often appear to be boring and rather minor issues. In my view, timetables with deadlines and specific objectives backed by the authority of the European Council have an essential role to play in bringing about such progress.

To plead for the creation of a genuine common market does not require one automatically to attach great importance to the encouragement of cooperative ventures between European companies of different nationality.

If companies wish to engage in such cooperation they should certainly be able to do so. Artificial barriers and political constraints should be removed. On occasion, if the objectives are sufficiently clearly defined and limited to sufficiently specific operations and if the management structures are appropriately constructed, they have a useful role to play. But in my view, if a real European common market can be constructed, the future will lie with companies with clearly defined command centres and domestic markets in one Community country extending their activities into others, either by means of direct sales across frontiers or through the take-over or creation of subsidiaries, and generally by a mixture of all these methods.

There will of course always be those who argue that the pursuit of similar lines of research and development within several different firms is wasteful. They will say the same about the production of basically similar and competing products within a single politico-economic unit such as the Community. But I am sure they are wrong. In general the more competitive a domestic market - and in this sense we should regard the Community as a single market - the more competitive on international markets the companies concerned are likely to be. Per contra, when large units are created by government action and given preferential positions in their home markets, they are unlikely to be competitive internationally. Thus, a dirigiste Community industrial policy would, I fear, be more likely to reflect the political bargaining process between the Member States, with work being allocated on political grounds or grounds of so-called fairness between nations, than hard industrial reality. One has only to look at the history of the Common Agricultural Policy over the years to appreciate some of the dangers.

(e) Coordination of macro-economic policies

I have deliberately left the need for more closely coordinated macro-economic policies to last. As you might expect of a Vice-President of the European Commission, I attach great importance to this. I believe that the more coordination can be achieved the better.

But I am also a realist. I share the view of one of my distinguished predecessors as Vice-President of the European Commission, Raymond Barre, that "the fundamental necessity is for the national will in every country to maintain conditions required for balanced growth and international competitiveness". He is right in saying that the convergence of economic policies among industrialized economies "ultimately depends on the political will of each government, and on the pressure of events, more than on international mechanisms for the coordination of policies" (Source: 'Unemployment and Growth in the Western Economies', Andrew J Pierre, Editor, Council on Foreign Relations, New York, 1984).

I believe M Barre is right for two reasons: one is economic, namely that the real obstacles to increased growth and employment lie in the rigidities to which I have referred. The second is political, namely that at the present stage of development of the Community we are simply not in a position to enforce coordination of economic policies. Coordination still depends primarily on the political will of each government and on the pressure of the money markets on it, far more than on negotiated mechanisms or on meetings of the Council of Ministers.

Nonetheless, the so-called 'divergence indicator' of the

European Monetary System has made a significant contribution to bringing about a closer coordination of economic policies in Europe. I recognise that this is difficult to demonstrate; but on the basis of my own observation, I believe that the adoption of agreed target zones for exchange rates has not only done much to stabilise parities within Europe, but has also been an instrument for the convergence of economic policies and performances, without which the European economy would be in still worse shape and protectionism would have made greater advances in all our Member States.

There are, I believe, two modest ways in which the European Monetary System now needs to be strengthened.

The first is to confer upon the European Currency Unit the status of a fully convertible foreign currency in each Member State of the Community. The ECU has now emerged as a significant currency for private investors. It is no longer merely an accounting unit for the big banks, or funny money in which governments can denominate their accounts. The volume of ECU deposits and credits has increased six-fold in two years. Moreover, so far this year the ECU has been the third major currency to be issued in the Eurobond markets, after the US Dollar and the Deutsche Mark. And just a few weeks ago an ECU denominated bond for the EEC institutions was floated on the New York Financial Market. In most Member States, including the UK, the private individual can open an account in ECUs at his local bank. All this is giving rise to an independent interest rate structure for the ECU.

Yet the reaction of some Community governments to the ECU, particularly the German Government, has sadly been very much less positive than the attitude taken by most private banks and investors. The German Government continues to refuse even to grant the ECU the status of a foreign currency or to permit it to be used by German residents. I do not accept the argument that the ECU is in effect an indexation clause and I urge the German authorities to find ways of overcoming their objections.

Unless and until they do, the ECU will inevitably labour under a serious handicap because the German financial system will not be playing its full part. This, in turn, will considerably impede the development of the EMS as a whole.

My second point on strengthening the EMS concerns the United Kingdom.

One cannot mention the benefits of the EMS and its great potential as a pillar of the International Monetary System, without urging Britain to become a full member by joining the exchange rate mechanism. As I have often said before, the absence of Sterling from the exchange rate arrangements denies British industry the chance of

a more stable Pound in the Community, to which it now sends 43% of its exports, and weakens Britain's influence in the overall management of the System.

It is also unsettling for other European currencies that the Pound is in the ECU - whose stability it upsets as a result of its wide fluctuations - while Britain fails to participate in the intervention mechanisms which are designed both to avoid these fluctuations and to enable Europe to deal on a more equal basis with the United States and Japan.

Finally, it is very difficult to see how the EMS can be fully developed in the absence of what is after all one of Europe's major currencies.

IV. Conclusions

What are the prospects for Europe of successfully applying the policies I have advocated? Difficult and dangerous though it is to predict the behaviour of states, I am optimistic, and for two basic reasons.

First, the Europeans are scared. No visitor to our shores can fail to notice the state of near panic about Europe's lag in high technology and her poor performance on unemployment compared with the US and Japan. Nor can anyone fail to notice the great sensitivity to inflation which has developed in recent years. It is as if we have all suddenly been saddled with the historical experience of inflation that has for long made Germans so prudent in their monetary and fiscal policies.

Second, the power of foreign exchange markets - which I believe can no longer be effectively resisted by exchange controls - will ensure that we remain scared. This is bound to exert a strong and continuing influence on governments. As France has already discovered, it makes it virtually impossible for any European economy to go for growth regardless of the policies of its neighbours.

Third, Europe is increasingly conscious of being on its own in the world. This is where attitudes in the spheres of security and economics interact. At the same time as Europe has come to recognise its economic lag in relation to Japan and the United States, it has also become acutely aware (indeed, to an exaggerated degree) of its lack of influence in the sphere of East-West relations and in relation to both Superpowers. The cancellation of Mr Honecker's visit to the Federal Republic of Germany only underlines this stark reality.

The crucial question is, of course : will this powerful sense of impotence galvanize Europe into making the sacrifices and efforts needed for it to gain greater command over its destiny. In the sphere of security, this question remains open. In the realm of economics, I am increasingly convinced that it will.

PRIME MINISTER

PAYMENT OF SUPPLEMENTARY BENEFIT TO EC NATIONALS

You asked for a report on this.

There are really two ways to deal with it:

(a) Primary legislation to impose residence tests so that people cannot start claiming as soon as they get here. There are problems with this, but the option should be examined further.

(b) A 'non-tariff barrier' approach, i.e. just slowing down the procedures for paying benefit to foreigners. There cannot be another country which starts paying benefits in the first week.

Agree to ask DHSS to pursue both options and come up with recommendations?

CDP

Yes - I think we shall need a) not

14 December 1984



DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

C D Powell Esq
Private Secretary
10 Downing Street

13 December 1984

Dear Charles,

FUTURE DEVELOPMENT OF THE COMMUNITY: PAYMENT OF SUPPLEMENTARY BENEFIT TO EC NATIONALS

You asked in your letter of 24 September to Colin Budd for a note about the scope for restricting the payment of supplementary benefit to British nationals.

The legal and administrative background

An EC national has freedom of access to seek work under EC Regulation 1612/68 and is admitted to Britain in the first instance for six months. He will then be issued with a residence permit, either for the expected duration of his employment or for five years, as appropriate. Once in the UK, he has entitlement to social assistance (supplementary benefit) on the same terms as a UK national, both as an EC national and under the terms of the European Convention on Social and Medical Assistance 1953. So long as the EC national is lawfully in Great Britain, he cannot be excluded from supplementary benefit entitlement if he qualifies for it under the normal rules.

However, in accordance with the construction placed on EC legislation by Council Declaration 1451/68, if a person comes to another member state seeking work and becomes a burden on public assistance, he may be asked to leave. The procedure in Britain has been that if an EC national has claimed supplementary benefit for more than two weeks (reduced from eight weeks in 1981) the Home Office is notified and action is set in hand to curtail the person's stay. In 1983, 421 curtailment notices were issued as a result of DHSS action; and another 316 in the first seven months of this year. Unfortunately, this procedure is not always quick because there is a right of appeal. The number of cases may mean that it takes several months for an individual case to work its way through the system and during this period supplementary benefit is payable under the regulations governing people in urgent need.

Improving procedures

In the late summer there was extensive press coverage of Italian students coming to this country and claiming supplementary benefit as unemployed people when in fact they were on holiday and had no intention of taking work. A large number of MPs expressed concern. DHSS and DE have since been working together to grapple with this problem and DE have drafted new instructions for unemployment benefit offices which will tighten up procedures considerably. Under the new procedures a claimant will be interviewed by a more senior officer (an HEO) who will press him on the question of his intentions to seek work; inform him of the possible consequences of persisting with a claim for supplementary benefit; and alert the DHSS local office. If a claim is then made, the social security office will be able to notify the Home Office immediately instead of waiting for two weeks and the Home Office can start curtailment action straightaway, since the necessary warning would already have been given at the unemployment benefit office. DHSS officials are in contact with the Home Office about the scope for further improving the effectiveness of current procedures.

There is also the case of a person who has completed an initial six months in the country and has been granted a residence permit but then becomes unemployed. Where such people appear to settle down to live on public funds this will be treated similarly to a new arrival. However, the genuine worker who loses his job is clearly entitled to some opportunity to find a new one. In these cases a person will be sent a warning letter but no action will be taken until enough time has elapsed to establish whether or not he is likely to return to employment.

Access to social assistance in the UK and other EC countries

The Prime Minister also noted that the UK is the only country which makes supplementary benefit available on a national scale. This is true in the sense that the UK scheme is administered centrally. We understand, however, that some other countries (such as Germany) also have national schemes but they are administered with less central control and much greater local discretion. This greater local discretion makes it possible to operate the system in such a way as to restrict access to benefit: in Italy, for instance, we understand that it can be very difficult not only for foreigners but also for Italian nationals to obtain benefit. In this country we have sought to limit discretion in the supplementary benefit scheme (particularly in the 1980 legislative changes) as a means of achieving tighter financial control and reducing unfairness in administration.

Residence tests

One possible means of restricting access to benefit might be to impose a residence test so that benefit would be refused to people for the first few weeks or months of arriving in this country. Neither national assistance nor supplementary benefit has ever had such a test and to introduce one would require primary legislation. It would almost certainly have to apply equally to British nationals (eg those returning after some time abroad) and people such as political refugees. Other benefits (Child Benefit, Attendance Allowance, Mobility Allowance and Invalid Care Allowance) have residence tests

E. R.

but these are applied equally to British nationals and others; and this is easier to do because they are not maintenance or "safety net" benefits. Some other countries have residence tests for their equivalent of supplementary benefit and these are beginning to be challenged: we understand, for example, that Belgium is having to change its rule that five years' residence is needed to claim social assistance for the elderly; and Northern Ireland has recently been advised that its supplementary benefit residence test is not consistent with the Treaty of Rome and will have to be amended.

Further action

DHSS is aware that the present situation has unsatisfactory features and is continuing to explore the scope for some test to exclude claims which are not appropriate to the supplementary benefit scheme. The aftermath of the current review of supplementary benefit would provide an opportunity to make legislative changes if these seem desirable. It will not, however, be easy to find legislative and administrative measures for tightening up on benefit payment to those who are not British nationals without putting ourselves at risk of challenge in the European Court, or of causing an undesirable row with our EC partners.

I am copying this letter to Colin Budd (FCO), Judith Rutherford (DE) and to Richard Hatfield (Cabinet Office).

Yours sincerely,
S H F Hickey

S H F Hickey
Private Secretary

Caro Pot: Budget A 27



Ref. A084/3336

PRIME MINISTER

Cabinet: Community Affairs

You may wish to tell Cabinet of the decisions of the Commissioners-designate on their portfolios and to express satisfaction that Lord Cockfield has obtained responsibility for the internal market (including financial institutions, banking and insurance), for taxation and also for a considerable slice of industry including the sponsoring divisions for major sectors such as chemicals, pharmaceuticals, textiles, shipbuilding and food manufacturing. Mr Clinton Davis will have responsibility for the environment, forestry, transport, consumer affairs and nuclear safety. It is also satisfactory that Mr Andriessen, not Mr Natali, has the agriculture portfolio.

2. The Secretary of State for the Environment will report on the Environment Council of 6 December, at which the United Kingdom was represented by the Parliamentary Under Secretary of State (Mr Waldegrave) and, on vehicle emissions, by the Parliamentary Under Secretary of State, Department of Trade and Industry (Mr Butcher). This Council could have been difficult for the United Kingdom, but the results were better than expected. Agreement was reached on the directive on the introduction of lead-free petrol, a British initiative within the Community. Lead-free petrol will now be available by 1989 at the latest. Member states are free to introduce it earlier and also to reduce the lead content of leaded petrol in the interim. There was also agreement on another controversial point, the octane level of the premium lead-free petrol (95 RON). The text of the directive has not yet been formally adopted but there should be no further discussion of the dates or technical content. On vehicle emissions the Council agreed



on guidelines for further work by the high-level official group, with a view to decisions before the March European Council. The discussion was on the basis that any revised directive will not be mandatory, ie there will be no requirement for catalysts in the United Kingdom. The guidelines state that the Community should aim for a "substantial reduction in pollutant emissions from motor vehicles" while respecting the integrity of the common market and taking account of production and energy costs. Most member states were in favour of some differentiation between large and small cars. The Germans were isolated at one point but finally accepted the guidelines for further work. On the large combustion plants directive (acid rain) Mr Waldegrave argued strongly that, although further emission reductions were necessary, rigid targets and deadlines were not acceptable. The question was then deferred. The Council reached agreement on a directive for monitoring nitrogen dioxide levels, eg at the roadside.

Handwritten: 3. The Chancellor of the Exchequer will report on the Finance Council on 10 December. An interesting development was that the Council adopted negotiating mandates on tied aid credits and on aircraft by qualified majority, outvoting France on the first point and Italy on the second; this is one of the first occasions on which, at the suggestion of the Chancellor, France has been outvoted. The Council agreed to adopt the very good annual economic report which was before the European Council; discussed ways of strengthening the European monetary system; and told the Agriculture Ministers that it wished a further discussion of financing before any agreement were reached on the agricultural structures proposals.

4. The Chancellor of the Exchequer and the Minister of State, Foreign and Commonwealth Office (Baroness Young) may also comment on the following financial questions. The Budget Committee of the European Parliament has recommended that the Community's 1985 draft budget, which is within the 1 per cent



VAT ceiling, should be rejected. It is expected that the European Parliament tomorrow will take a formal decision to reject the budget. The result will be a monthly interim system known as "provisional twelfths" which will definitely restrain Community expenditure in the period between 1 January 1985 and the formal adoption of a 1985 budget. In the end we expect that there will be an agreement on a 1985 Community budget covering also the irreducible overrun: nine member states, including the United Kingdom, have been ready to finance this, for example by making available a limited amount of new own resources in 1985, but the Germans did not agree (link with enlargement). Within the United Kingdom the appeal of Mr Smedley about the draft Order under Section 1(3) of the European Communities Act is now being heard and is likely to go in the Government's favour. If so, the draft Order, which provides finance for the Community's 1984 supplementary budget, should be debated in the Houses of Parliament next week.

5. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council of 10-11 December. The Council reached no agreement on the proposed new package of agricultural structure measures, largely because of United Kingdom (and some German) objections to the cost. The financing has been referred back to the Finance Council - some practical effect of budgetary discipline - and there has been no rollover of existing measures which expire on 31 December. On the milk superlevy the Commission is taking a robust line to make all member states pay up the levy due by 15 December; they have already deducted the amounts estimated to be due from their December advances to member states. The Council, however, adopted a declaration requesting the Commission to delay collection.

6. The Secretary of State for Transport will report on the Transport Council of 11-12 December. This Council is still in progress but the 38 tonne maximum lorry weight derogation for the United Kingdom and the Republic of Ireland seems likely to



be obtained without a specific time limit and with any change subject to a unanimous decision.

7. The Social Affairs Council is meeting on 13 December. The Foreign Affairs Council will meet on 17-18 December, the Steel Council and the Consumer Affairs Council on 17 December, the Internal Market Council on 18 December and the Research Council on 19 December.

RA

ROBERT ARMSTRONG

12 December 1984

Conservative Research Department BriefTHE EUROPEAN COMMUNITY

NOTES ON EUROPEAN COMMUNITY DOCUMENTS
AND THE WHITE PAPER, COMMAND NO. 9348

Prepared For:

Debate in the House of Commons on
Tuesday, 11th December 1984

CR

Contents	Page
1. List of Documents (a-L) before the House	1
2. The Draft General Budget of the European Communities for 1985 (Documents e-g)	2
3. The 1984 Supplementary Budget (Documents a-d)	2
4. Own Resources (Documents h-j)	3
5. Financial Regulation (Document k)	4
6. Budgetary Discipline (Document L)	5
7. Main Developments in the European Community, January - June 1984 (Summary of White Paper)	6
8. Events Since the Fontainebleau Summit	9

12 items are before the House:

1984 Supplementary Budget

- a) 8322/84 Preliminary Draft Supplementary and Amending Budget No 1 for 1984
- b) 8879/84 Letter of Amendment to the Preliminary Draft Supplementary and Amending Budget No 1 for 1984
- c) (Unnumbered) Draft Supplementary and Amending Budget No 1 for 1984
- d) 10222/84 Amendment and Modifications by the European Parliament to the Draft Supplementary and Amending Budget No 1 for 1984

1985 Draft Budget

- e) (Unnumbered) Draft General Budget of the European Communities for 1985
- f) 9482/84 Letter of Amendment to the Preliminary Draft Budget of the European Communities for 1985
- g) 10690/84 Amendments and proposed Modifications to Draft General Budget for 1985

Own Resources

- h) 8454/84 Amended proposal for a Council Decision on the Community's system of own resources
- i) 8445/84 Draft Regulation introducing reserve measures to cover requirements in 1985
- j) 8514/84 Commission Communication concerning budgetary requirements of the Community in 1984 and 1985

Financial Regulation

- k) 5899/84 Amended proposal for a Council Regulation amending the Financial Regulation of 21st December 1977 applicable to the general budget of the European Communities

Budgetary Discipline

- l) (Unnumbered) Budgetary Discipline: common position of the Council of Ministers

NB The draft European Communities (Definition of Treaties) (Undertaking on Supplementary Finance for the Community) Order 1984 is not before the House.

2. The Draft General Budget of the European Communities for 1985 consists of seven volumes, including individual budgets relating to the Community institutions. The Budgets of the Council, the European Parliament, the Court of Justice and the Court of Auditors are almost entirely for their administrative and running expenses. The main Community policies (eg the Common Agricultural Policy, the Social Fund, the Regional Development Fund, Aid etc) are financed out of the Commission's budget, which accounts for some 98 per cent of the expenditure in the Draft Budget, as amended and modified, by the Parliament.

The 1985 Draft Budget (Documents e-g)

The 1985 draft budget (Document e) was established by the Foreign Affairs Council on 2nd-3rd October 1984 within the 1.0 per cent VAT ceiling but accompanied by a Council Declaration that the Council would undertake to meet by 1st October 1985, the Community's inescapable financial obligations in 1985, including the UK's abatements for 1984 on the revenue side. The Council reduced the Commission's provision for the European Agricultural Guidance and Guarantee Fund (EAGGF, often known by its French initials FEOGA) in the Preliminary Draft Budget by 1,315 million ECU.

The European Parliament which considered the draft budget in its November Plenary adopted a number of amendments and modifications (Document g) which included proposals:

- to place the United Kingdom's 1,000 million ECU (about £605 million)* compensation for 1984 on the expenditure side of the budget, rather than as an abatement of our contributions, in contravention of the agreement reached at Fontainebleau;
- to increase the agricultural provision by 1,306 million ECU, thus taking total expenditure to some 2.8 million ECU above the 1.0 per cent VAT ceiling;
- to make alterations relating to the revenue side of the budget.

The Budget Council on 29th November rejected most of the Parliament's amendments and modifications, including those concerning UK compensation, and brought the budget back within the 1.0 per cent VAT ceiling. But the Budget Council went some way to meet the Parliament's wishes by including provisional figures in the budget to cover unavoidable additional budgetary requirements in 1985 as envisaged in the Council Declaration of 2nd October. These provisional figures were in square brackets and not included in the budget totals.

Timetable. The European Parliament will debate the draft general budget of the European Communities for 1985, as modified by the Council, in its December Plenary (10th-14th December). It will finally adopt or reject the Budget.

The UK Contribution to the 1985 Draft Budget is estimated to be 5,764 million gross ECU (about £3,296 million) which is equivalent to 22.4 per cent of the total. Total expenditure provided for in the 1985 Draft Budget amounts to 27,873 million ECU in Commitment appropriations.

3. The 1984 Supplementary Budget (Documents a-d)

The Preliminary Draft Supplementary Budget (Document a) presented by the Commission to the Council on 6th July proposed additional FEOGA of 1,983 million ECU and supplementary finance of 2,071 million ECU. (The figure for supplementary finance had already been revised downwards from 2,333 million ECU agreed by the Commission in April). This was reduced further at the September Budget Council when provisional agreement was reached on a figure of 1,003 million ECU. At the Foreign Affairs Council on 2nd October the Draft Supplementary Budget No 1 for 1984 was established. Supplementary finance totalling 1,003 million ECU will be provided by an Inter-Governmental Agreement (IGA). (Document c)

The Government has made it clear that it will not be in a position to seek Parliament's approval for the payment of our share (200 million gross ECU or £120 million) of

* Converted at the exchange rate £1=1.65 ECU

the Supplementary finance until agreement has been reached on effective arrangements for budget discipline.

The European Parliament adopted a number of amendments and modifications to the draft supplementary budget (Document d) on 23rd October, including a proposal to increase the amount of supplementary financing from 1,003 million ECU to 1,475 million ECU.

The Budget Council on 24th October rejected nearly all the Parliament's amendments. The Council of Minister has consistently taken the view that the European Parliament does not have powers over the Revenue side of the Budget. Its views on the Parliament's powers in this respect remain unchanged.

Timetable. The European Parliament finally adopted the Draft Supplementary and Amending Budget No 1 on 25th October, without increasing the total amount of supplementary finance.

(Document b) is a letter of amendment to the preliminary draft supplementary budget presented by the Commission on 3rd August to take account of technical VAT adjustments in respect of 1983.

4. Own Resources (Documents h-j)

On 9th July the Commission tabled a proposal for a Council decision on new own resources (Document h) to implement the Fontainebleau Agreement on new own resources and the UK abatement. This would replace the present decision dated 21st April 1970, which is one of the pre-accession Treaties for the purposes of the European Communities Act 1972. The new decision would implement the agreement of the European Council to increase the VAT ceiling to 1.4 per cent, set up a system for correcting budgetary imbalances (from which the UK will benefit from 1985), and make a 1,000 million ECU ad hoc abatement of the UK's VAT payments in respect of 1984. The main changes between the current proposal and the text of the present Own Resources Decision of 21st April 1970 are set out below:

Article 3 refers to VAT own resources and section 2 sets the new ceiling at 1.4 per cent. Sections 3-5 set out the arrangements for the budget imbalances scheme for the UK. This scheme will apply from 1985 onwards. Section 4 provides that, in relation to our budget contribution in 1984 the UK will receive an abatement of 1,000 million ECU. It is proposed that this should be made in 1985 on the entry into force of the new decision.

Article 8. The draft proposes that the Own Resources Decision should enter into force on 1st October 1985 but come into effect on 1st January 1985. This would allow the Commission to set a rate of VAT which, if agreed by the Council, would apply retrospectively to 1st January 1985.

Reasons for the need to increase Own Resources

There are four basic reasons why the UK agreed that an increase in the own resources ceiling was justified:

- a) to allow for the costs of enlargement. These are not precisely quantifiable while negotiations, especially on the transitional period, are continuing, but they will clearly exist. It was estimated last summer that the net costs could amount to a 7 to 8 per cent increase in the total budget;
- b) to give headroom in the budget to finance new policies of benefit to the UK, especially the regional and social funds. This new expenditure will still be subject to overall constraint of budgetary discipline arrangements;
- c) to enable other member states to finance within the own resources system the cost of the UK's abatements;
- d) to meet the costs of the Community's existing obligations.

Impact on United Kingdom law

The Own Resources Decision has the force of a Treaty under the European Communities

Act 1972. The Government would expect to lay a draft order in Council under section 1(3) of the ECA 1972 for the approval of each House of Parliament.

Policy implications

The adoption of the Own Resources Decision will involve increasing the VAT ceiling to 1.4 per cent. However, the UK's VAT rate will be abated by the arrangement provided for in Article 3.

The proposed decision requires unanimity in the Council and ratification by all member states' Parliaments before it can come into force. The Government will submit the proposal to Parliament for ratification when it has been processed through the Council and when agreement has been reached on effective arrangements for budget discipline (this was achieved at the Dublin Summit on 3rd-4th December).

Timetable

The European Council at Fontainebleau agreed that the increase in own resources should be ratified no later than 1st January 1986. The Commission are proposing that this ratification should be completed by 1st October 1985 with an implementation date of 1st January 1985.

(Document i) is a Commission proposal of 9th July, under Article 235 of the EEC Treaty, that member states should make an advance of own resources not exceeding 1,913 million ECU (£1,094 million)* in 1985. This would be used to finance the difference between available own resources up to the 1.0 per cent limit in 1985 and the size of the 1985 Preliminary Draft Budget. This proposal is a contingency measure in case a new own resources decision does not come into force in 1985. It would enable the Commission to finance expenditure beyond the present 1.0 per cent limit.

(Document j) sets out the background to (Document i) and a similar proposal to cover the 1984 budget overrun (a document not before the House today). Both these proposals have now been overtaken by events.

5. Financial Regulation (Document k)

(Document k) is a Commission proposal of 15th March, for a Council Regulation amending the Financial Regulation of 21st December 1977 applicable to the general budget of the European Communities.

The Commission's amendments are designed to introduce symmetry in the budgetary powers of the institutions; improve relations between the institutions; make special provisions applicable to external aid; and make certain technical improvements.

Policy Implications

The Financial Regulation sets out the general principles which govern the Community Budget and the detailed rules for its structure, presentation, implementation and audit.

Although the arrangements governing the Community budget differ from our own domestic public expenditure system, the Government consider that the Financial Regulation should reflect the principles of economy and discipline which characterise its approach to domestic public expenditure. The Commission's proposals have implications for the relations between the Community institutions, which will need to be considered carefully.

Timetable

No date for its consideration by the Council has yet been fixed.

* Converted using the exchange rate of £1=1.7491 ECU, the rate used in drawing up the 1985 Budget.

Budgetary Discipline (Document L)

The EEC Heads of Government formally adopted the text on Budgetary Discipline at the Dublin Summit on 3rd-4th December. The measures necessary to guarantee implementation of the conclusions of the Fontainebleau European Council on budgetary Discipline were originally adopted on 12th November by Economic and Finance Council Ministers. Budgetary discipline is now therefore firmly enshrined in the budgetary procedures of the Community and will have its effect on all future budgets.

Background

It has long been an objective of UK policy to secure greater financial discipline in the European Community. The principles of this were endorsed by the Brussels and Fontainebleau European Councils earlier this year and since then then, the Economic and Finance Councils have been working out the measures to ensure the effective application of these principles.

The Council's common position covers four main items:

- a) agricultural expenditure
- b) an overall reference framework
- c) the maximum rate for non-obligatory expenditure
- d) an enhanced role for Finance Ministers.

Agriculture

Article 2 of the text commits the Council to ensure that agricultural expenditure grows by less than the rate of increase in the Own Resources base. Articles 3 and 4 lay down precise definitions and a method of calculation for achieving this. Article 5 provides for 'claw back' of any excess expenditure over the following two years.

Reference Framework

Article 1 provides for the fixing by the Council, at the beginning of the budgetary procedure of an overall reference framework defined as the maximum level of expenditure to finance all Community policies. Article 6 commits the Council as legislative authority, or branch of the budgetary authority, to respect the reference framework. The reference framework is the maximum level of expenditure to finance all Community policies.

Maximum Rate

Article 9 commits the Council not to exceed the maximum rate for non-obligatory expenditure provided for in Article 203(9) of the EEC Treaty.

Role of Finance Ministers

Articles 7 and 8 provide for enhanced monitoring and intervention by Community Economic and Finance Ministers to ensure that Budgetary Discipline is effectively applied. Article 7(4) provides for a joint meeting of the Agriculture and ECOFIN Councils to take final decisions on issues affecting agricultural expenditure, if necessary.

Policy Implications

The Government has made clear that it will only recommend to the House approval of the Inter-Governmental Agreement (IGA) for supplementary finance for 1984 when agreement has been reached on the measures necessary to guarantee the principles of Budget Discipline approved by the European Council. The Government believe that these measures, finally adopted in Dublin, will satisfy that requirement.

Impact on UK law

There is no direct impact on UK law from the common position on Budgetary Discipline: however the IGA is the subject of a draft Order under section 1(3) of the European Communities Act.

7) Main Developments in the European Community, January - June 1984 (Summary of White Paper)

The Brussels (19th - 20th March) and Fontainebleau (25th - 26th June) Summits: Agreement was reached on a package of measures covering United Kingdom contributions to the Community budget, the future control of Community expenditure, the level of the Community's own resources and new Community policies.

The UK Budget Contributions: The agreement reached at Fontainebleau resolved an issue which had been under negotiation since 1979. The Government had set as its clear objective the establishment of a lasting system which would ensure that the United Kingdom paid no more than a fair share of Community expenditure. At Fontainebleau the United Kingdom secured the agreement of the other member states to:

- a refund for 1984 of about £600 million net
- a lasting system, to come into effect from 1985, whereby the United Kingdom will receive a refund each year of 66 per cent of its budgetary burden in the previous year, measured on the basis of the gap between our value added tax (VAT) share and our expenditure share of the Community budget.

Both the refund for 1984 and the refund for subsequent years will be paid by abatement of the United Kingdom's VAT payments in the following year, rather than by additional Community expenditure, as has hitherto been the case.

The agreement will endure as long as the revised own resources decision, also agreed at Fontainebleau, and can therefore only be changed with the agreement of the United Kingdom Government and Parliament.

The agreement on the United Kingdom budget contributions will remove a basic inequity in United Kingdom membership of the Community which has been a constant source of irritation in our relations with other member states.

The Control of Community Expenditure (Budgetary Discipline): The Fontainebleau Summit endorsed the outline agreement reached at the Brussels Summit in March:

- i) to apply the principles of control that govern budgetary affairs in individual member states to the budgetary affairs of the Community as a whole;
- ii) to ensure that a total amount of money available to the Community is fixed annually so that revenue determines expenditure (not as in the past the other way around);
- iii) to restrict any future growth in agricultural spending over a three year period to less than the rate of growth of the own resources base.

Finance Ministers have been asked to agree the measures necessary to guarantee the effective application of this agreement.

The agreement on budget discipline will help ensure a proper balance in the Community's policies. The Government's aim over the next six months will be to ensure the implementation of the agreement reached at Fontainebleau including the effective application of budget discipline.

The Community's Own Resources: The Government agreed at Fontainebleau that the ceiling on own resources should be increased to 1.4 per cent of VAT. This is an increase of about 24 per cent of the overall budget. As a result of the budget agreement, while the VAT ceiling will be increased to 1.4 per cent for the Community as a whole, the United Kingdom will be contributing substantially less

than it is at present liable to contribute under the 1.0 per cent limit. The Government will be prepared to recommend the increase to Parliament when the arrangements for the control of Community expenditure are in place. There can be no further increase in the ceiling without the agreement of all member states and of national parliaments.

New Policy Priorities: The agreement reached at Fontainebleau opens the way for the Community to pursue a number of new policy priorities, including:

- i) measures to break down the remaining barriers to the common market, such as the simplification of trade and customs formalities and harmonisation of standards and products. These will play an important role in economic recovery and job creation;
- ii) the liberalisation of trade and services, notably road transport, air travel and insurance;
- iii) action on the environment, including a firm date - no later than 1989 - for the introduction of unleaded petrol in the Community.

Development of the Community: The Heads of Government at Fontainebleau established two high level 'ad hoc' Committees to issue reports on practical steps which might be taken to strengthen the Community. The remit of the Dooge Committee will be to make suggestions for the improvement of European co-operation in both the Community field and that of the political, or any other field. That of the People's Europe Committee will be to prepare and co-ordinate measures to strengthen and promote the Community identity.

The Government's own ideas on future developments in Community policy were set out in a paper 'Europe - the Future', which was sent to all Community Heads of Government before the Fontainebleau meeting and which has since been made public.

Direct Elections to the European Parliament (14th to 17th June): In the United Kingdom polling took place on 14th June; turnout was 32 per cent (but 65 per cent in Northern Ireland). Average turnout in the rest of the European Community was 60 per cent. Turnout in all member states but two was lower than at the first European election in 1979.

Agricultural Price-Fixing 1984-85: There was for the first time an overall reduction in the weighted average level of Community common prices of about 0.5 per cent. Agreement was reached on the introduction of a quota/supplementary levy scheme in the milk sector. It was also agreed in principle to introduce guarantee thresholds for products in or likely to be in surplus or incurring rapidly rising expenditure. The United Kingdom welcomed the recognition in the Community of the need to curb over-production and control expenditure on the Common Agricultural Policy.

Common Fisheries Policy: The revised CFP, agreed in January 1983, has continued to develop. The main results have been timely agreement on 1984 catch quotas.

Social Affairs: Resolutions on youth employment, local employment initiatives, women's unemployment, and a second action programme on health and safety at work were adopted. Revised rules for the European Social Fund have been in force since January 1984; it is expected that the United Kingdom will continue to benefit substantially. The allocation to the United Kingdom in 1983 of £321 million amounted to almost 30 per cent of the funds available, and was the largest to any member state.

Regional Policy: The Regulation establishing the revised European Regional Development Fund was adopted on 19th June. It provides opportunities for the improved administration of the fund and should improve the efficiency and effectiveness of its operations.

Research and Development: The Community adopted a programme for Research into Information Technology (ESPRIT) on 28th February in response to the challenge in this sector from developments in the United States and Japan. The main programme builds on the experience gained from the pilot programme by which it was preceded. The United Kingdom is involved in 21 out of the 38 pilot projects and in 11 of those instances provides the lead contractor. This reflects the United Kingdom's considerable strengths in information technology in industry and universities.

External Trade: The Government welcomed confirmation on 14th May that the Community would advance tariff cuts agreed under the Tokyo Round of multilateral trade negotiations. The community expects similar action by its principal trading partners. In the Community discussions on the proposal for a new round of multilateral trade negotiations, the Government stressed the importance of proper preparation and full consultation among all members of the General Agreement on Tariffs and Trade (GATT). As permitted by GATT rules, the Community increased tariffs and imposed quotas on certain United States goods in response to United States restrictions on Community exports of special steels.

The Community also -

- i) pressed the United States Government to resist domestic protectionist pressures in order not to jeopardise economic recovery.
- ii) maintained pressure on Japan for more concrete action to encourage imports of both manufactured goods and services.
- iii) welcomed the latest Japanese import liberalisation packages but is keen to see further specific action to meet European Community concerns.

Steel: It was agreed, in the interest of market stability, to prolong the system of mandatory quotas on production and Community sales by steel producers until 31 December 1985. Most member states submitted restructuring plans to the Commission for their steel industries.

The Government supported the extension into 1984 of the Community's external steel anti-crisis measures. Voluntary restraint agreements to cover trade in steel have now been negotiated with 14 countries. Imports from countries which have not concluded voluntary restraint arrangements are subject again to a system of basic import reference prices. The Government will work with the Commission in the operation of these measures to minimise damaging disruption to the Community steel market by imports from third world countries.

Environmental Issues: There were several significant developments -

- i) Agreement was reached to adopt a Community-wide system of supervision and control of the transfrontier shipment of hazardous waste which will come into force on 1st October 1985.
- ii) In response to a United Kingdom initiative, it was agreed that unleaded petrol should be introduced throughout the Community not later than 1989.
- iii) A framework for a Community-wide policy against air pollution was set up with the adoption of a Directive on the combating of air pollution from industrial plants.

Community Transport Services: The Government continued to stress the importance it attached to increased liberalisation of Community transport services, and to removing the remaining obstacles to the movement of goods across frontiers. Two high level working groups were established in May, with the objective of making rapid progress with liberalisation of air transport and of road haulage.

Enlargement of the Community: The Fontainebleau Summit confirmed that the accession negotiations should be completed by the set deadline. There is political determination to make rapid progress and good progress has already been made. By June the Community was ready to begin what should be the final phase of the accession negotiations with Spain and Portugal: the Community presented substantive declarations on agriculture and fisheries to both candidates, so enabling negotiations to begin on these areas. The Community and Spain were able to narrow the difference between them on industrial tariff transition.

Political Co-operation: The Ten have continued to seek alignment of their policies on major international issues including East-West relations, the Middle East, the Conference on Disarmament in Europe and international terrorism.

Development: Substantial progress was made in the major negotiations with African, Caribbean and Pacific states on the successor to the second Lomé Convention, the Community's major contractual relationship with the developing world.

Addendum: Members requiring further information might care to refer to 'Politics Today', No 9 (28th May 1984) and No 12 (16th July 1984). Copies available from the CRD

8. Events Since the Fontainebleau Summit

The Enlargement of the Community by the Accession of Spain and Portugal

The negotiations on enlargement represented the major outstanding issue facing the Community since Fontainebleau.

'...It is important that we should conclude these negotiations. It is a matter of concern to the United Kingdom that the stability of democratic systems of government in the Iberian peninsula is helped and not diminished. It is also important to the British people that access to the highly protected industrial markets of Spain should become available to our industrial manufacturers'. Sir Geoffrey Howe, Foreign Secretary, in the House of Commons, 24th October 1984 (Hansard, Col. 696).

The recent agreement on wine should herald a series of other deals on outstanding problems (agricultural trade, fisheries and Spanish industrial tariffs). Then the Member States will be able to complete their final terms to Spain and Portugal; and the formal bilateral negotiations will follow. It is still the intention to meet the 1st January 1986 deadline for accession.

The Community Budget

Progress in Implementing Fontainebleau Agreement

- UK's 1983 refund (£440 million net) released and paid;
- text guaranteeing implementation of Fontainebleau agreement on budget discipline adopted;
- payment of UK's 1984 abatement on revenue side in 1985 reconfirmed;
- achieved substantial economies in 1984 supplementary budget thanks to UK pressure for savings.

(For progress on The Draft General Budget of the European Communities for 1985, the 1984 Supplementary Budget, the new Own Resources decision and Budgetary Discipline see the earlier section of this brief).

Agriculture

Agreement was reached in November on a detailed text to impose budgetary discipline on the Community's runaway farm spending. It is a considerable achievement by Britain, in establishing for the first time, a tight and enforceable guideline - a sort of EEC cash limit - which would hold the growth of farm spending at or near the increase in the Community's overall income.

Agriculture takes up over two-thirds of total Community spending of £16 billion a year, and is the single greatest cause of both the Community's present financial crisis and the budget distortions.

The new disciplines will pave the way for increased spending on programmes which Britain and others feel have more relevance. These include industry, energy and social projects to attack the problems of structural unemployment.

'I believe that in future years we shall regard 1984 as a watershed throughout the Community for agricultural policy. We shall see it as a year when, at British insistence, the Common Agricultural Policy was at last made to face reality'.

Mr Michael Jopling, Minister of Agriculture, Fisheries and Food, at the Conservative Party Conference, 11th October 1984.

Internal Market

The creation of a fully integrated internal market is near the top of the British agenda. This may be reflected in the fact that the internal market portfolio in the European Commission has been given to Lord Cockfield. He assumes office as a Commissioner on 6th January 1985.

The Treaty of Rome envisaged the expansion of trade, not the protection of home markets.

'...The Community's founding fathers would be horrified at the labyrinth of its bureaucratic regulations which entwine us like Gulliver pinned down by the little men of Lilliput'.

The Prime Minister in her address to the Franco-British Council dinner in Avignon, 30th November 1984.

Development

The new five-year trade and aid pact between the Community and the 64 African, Caribbean and Pacific (ACP) developing countries, Lomé III was signed on 8th December in Lomé, Togo. The Convention provides a total aid package of £5.1 billion in EEC grants and loans, a 40 per cent increase on the existing pact which expires in February. The United Kingdom contribution to the aid package, not included in the general budget of the Community, will be about £740 million, or £142 million a year.

AG/AW

10th December 1984

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Qz.04080

MISS LAMBERT

DECISION BY CONSTITUTIONAL COUNCIL OF FRANCE ON TRANSFER OF
POWERS TO COMMUNITY INSTITUTIONS

This information from the British Embassy, Paris, was helpful. As in all such decisions there is some ambiguity but I still think that we can judiciously use in discussions on the work of the Dooge Committee or elsewhere the fact that the Constitutional Council ruled that any new "limitation" of French sovereignty must be agreed by treaty and could not result from the progressive, internal development of the Communities and that a "transfer" of sovereignty would require not only a treaty but also prior revision of the French Constitution.

D F Williamson

D F WILLIAMSON

11 December 1984

cc: Mr Powell, 10 Downing Street, minute only.
Mr Renwick, FCO
Mr Hatfield, minute only
Mr Stapleton

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TO IMMEDIATE FCO

TELEGRAM NUMBER 4169 OF 10 DECEMBER

INFO ROUTINE COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG

ATHENS

INFO SAVING BRUSSELS

ECOFIN COUNCIL ON 10 DECEMBER 1984

ANNUAL ECONOMIC REPORT

SUMMARY

1. COUNCIL AGREED TO ADOPTION OF ANNUAL ECONOMIC REPORT. ONCE PARLIAMENT'S OPINION HAD BEEN RECEIVED. GENERAL PRAISE FOR QUALITY AND DIRECTNESS OF COMMISSION REPORT, THOUGH SEVERAL DELEGATIONS SAID THEY COULD NOT AGREE WITH EVERYTHING IN IT.

DETAIL

2. BYATT (CHAIRMAN OF ECONOMIC POLICY COMMITTEE) REPORTED ON THE COMMITTEE'S DISCUSSIONS OF THE REPORT. THEY WELCOMED THE CLARITY OF THE MESSAGE THOUGH DIFFERENT MEMBER STATES WOULD EMPHASISE DIFFERENT ASPECTS OF IT. THE REPORT CONCENTRATED ON STRUCTURAL PROBLEMS AND NECESSARY ADJUSTMENTS AND THE WORK PROGRAMME OF EPC WAS GEARED TO THIS. BYATT DREW ATTENTION TO FIVE PARTICULAR MESSAGES IN THE REPORT:

- I) EXCESSIVE REAL WAGES HAD HAD A HARMFUL EFFECT ON EMPLOYMENT;
- II) THE COST OF LABOUR RELATIVE TO CAPITAL IN EUROPE WAS SUCH THAT INCREASED INVESTMENT DID NOT CREATE EXTRA EMPLOYMENT;
- III) A SWITCH OF PUBLIC EXPENDITURE FROM CURRENT EXPENDITURE TO INVESTMENT COULD BE ADVANTAGEOUS IF THE EXTRA PROJECTS HAD A POSITIVE RATE OF RETURN;
- IV) REDUCTION OR REORGANISATION OF WORKING TIME MUST NOT INCREASE LABOUR COSTS;
- V) THE IMPORTANCE OF GREATER MARKET FLEXIBILITY.

3. ANDRIESEN (COMMISSION) SAID THAT THE REPORT TRIED TO PRESENT A BALANCED BUT FORTHRIGHT SET OF POLICY RECOMMENDATIONS. HE HOPED THE COUNCIL COULD AGREE ON THE FOLLOWING MAIN POINTS: A REDUCTION IN THE SHARE OF PUBLIC EXPENDITURE IN MOST MEMBER STATES; DEVELOPING THE INTERNAL MARKET; STRENGTHENING THE EMS; GREATER MARKET FLEXIBILITY; AND THE NEED FOR GREATER CONVERGENCE OF ECONOMIC POLICIES.

4. DUKES (PRESIDENCY) SAID THAT PREPARATORY DISCUSSIONS AND THE EUROPEAN COUNCIL HAD SHOWN A HIGH DEGREE OF AGREEMENT ON ECONOMIC POLICY. IN THE LIGHT OF THIS HE PROPOSED THAT THE COUNCIL ADOPT THE REPORT AS A WHOLE. (GREECE HAD INDICATED PRIVATELY THAT THEY COULD NOT AGREE TO 'APPROVAL OF THE GUIDELINES IN PART II').

RESTRICTED

Pine Linster
It's was the
Commission Economic
Report which you
praised.

EDP

11/12.

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5. ARSENIS (GREECE) SAID HE HAD MANY RESERVATIONS ABOUT THE REPORT WHICH DID NOT ACCORD WITH THE SITUATION IN GREECE OR SOCIALIST POLICIES OF HIS GOVERNMENT, BUT HE COULD AGREE TO DUKES'S FORMULA. SCHLECHT (GERMANY) COMMENDED THE REPORT FOR ITS CLEAR STRATEGY. HE ENDORSED BYATT'S COMMENTS. BEREGEVOY (FRANCE) HAD RESERVATIONS ABOUT SOME OF THE POLICY PRESCRIPTIONS AND SOME OF THE FORECASTS FOR FRANCE BUT COULD AGREE TO ADOPT THE REPORT. GORIA (ITALY) SPOKE SIMILARLY.

6. ELLIOTT (UK) CONGRATULATED THE COMMISSION ON THE REPORT. WE SHARED THE CONCERN TO PROMOTE STRUCTURAL ADJUSTMENTS AND WELCOMED THE FACT THAT THE EPC WAS CONCENTRATING ITS EFFORTS IN THIS FIELD. THE UK DID NOT AGREE WITH EVERYTHING IN THE REPORT. FOR EXAMPLE, HIGHER INVESTMENT IN PUBLIC PROJECT HAD TO BE JUSTIFIED IN TERMS OF THEIR RATE OF RETURN.

7. RUDING (NETHERLANDS) THOUGHT THE REPORT WAS EXCELLENT AND NOTED THAT THERE WAS NOW AMUCH GREATER CONVERGENCE OF ECONOMIC POLICY IN THE COMMUNITY. GREECE SHOULD TAKE A LEAF OUT OF SOCIALIST FRANCE'S BOOK IN THIS RESPECT. CONCERNING PUBLIC INVESTMENT HE ADDED TO THE RATE OF RETURN CRITERION A REQUIREMENT THAT PUBLIC FINANCE BE AVAILABLE. IF FUNDS WERE NOT AVAILABLE FOR PROJECTS WITH POSITIVE RATES OF RETURN THEY SHOULD EITHER NOT PROCEED OR BE OFF-SET BY REDUCTIONS IN CURRENT EXPENDITURE.

8. ANDERSEN (DENMARK) PRAISED THE REPORT. DOYLE LIKED ITS FORTHRIGHT NATURE. BLAND BANALITIES WERE POINTLESS. THE COUNCIL SHOULD DISCUSS PARTICULAR ECONOMIC ISSUES FROM TIME TO TIME IN AN EFFORT TO STRENGTHEN CONSENSUS. SOME QUANTIFICATION OF THE EFFECTS OF THE COMMISSION'S PROPOSALS WOULD BE USEFUL. BELGIUM AGREED THAT CONTROLLING INFLATION WAS NOT A SUFFICIENT CONDITION FOR CREATING JOBS. MARKET RIGIDITIES ALSO HAD TO BE OVERCOME.

9. DUKES CONCLUDED THAT THE REPORT WOULD BE ADOPTED AS AN 'A' POINT AT A COUNCIL NEXT WEEK ONCE THE EUROPEAN PARLIAMENTS OPINION HAD BEEN RECEIVED.

FCO ADVANCE DESKBY TO:

FCO - RENWICK, FAIRWEATHER, MARSDEN
CAB - WILLIAMSON, BURR
TSY - PS/CHANCELLOR, BYATT, UNWIN, MS BARBER
BANK - BALFOUR

BUTLER

FRAME ECONOMIC
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TO ROUTINE FCO
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KOHL ON EUROPEAN UNION

1. IN ANSWER TO A QUESTION ABOUT THE FURTHER DEVELOPMENT OF EUROPEAN INTEGRATION AND WHETHER TWO-SPEED EUROPE WAS STILL ON THE AGENDA, KOHL, IN AN INTERVIEW TODAY WITH DIE WELT, AFTER REFERRING TO THE DOGGE COMMITTEE, SAID THAT "WE WANT TO RESERVE A DAY AT THE EUROPEAN COUNCIL IN ROME IN JUNE FOR DISCUSSING THE REPORT AND, IF POSSIBLE, TAKING DECISIONS ON IT. OUR AIM IS CLEAR. WE WANT TO TAKE A DECISIVE STEP IN THE DIRECTION OF POLITICAL INTEGRATION. WE KNOW THAT OTHER MEMBER STATES ARE ALSO READY. WE DO NOT WANT, AND SHALL NOT BE CONTENT WITH, A DECLARATION OF INTENTION AND FINE PHRASES. THE FATHERS OF THE EUROPEAN COMMUNITY WANTED A POLITICAL COMMUNITY AND NOT SIMPLY A FREE TRADE ZONE. THE TIME IS NOW RIPE. WE SHALL DO EVERYTHING TO WIN ALL PARTNERS FOR SUCH A DECISION. WE DO NOT WANT TO EXCLUDE ANYONE. BUT I AM NEVERTHELESS FIRMLY DECIDED TO GO THIS WAY, EVEN IF ONE OR ANOTHER MEMBER COUNTRY IS NOT IN THE POSITION TODAY TO RALLY TO SUCH A DECISION. I HAVE REPEATEDLY SAID THAT THE SLOWEST SHIP SHOULD NOT BE ALLOWED TO DETERMINE THE SPEED OF THE WHOLE CONVOY. WHO TODAY CANNOT FOLLOW COULD DO SO TOMORROW. WE HAVE ALREADY IN THE EUROPEAN MONETARY SYSTEM A COMPARABLE SITUATION. NOT ALL MEMBER STATES ARE MEMBERS BUT THOSE NOT MEMBERS CAN JOIN AT ANY TIME. THE SUBSTANTIVE DECISIONS ARE TO BE TAKEN NEXT SUMMER. WE SHALL BE PREPARING FOR THEM IN INTENSIVELY BILATERAL AND MULTILATERAL DISCUSSIONS WITHIN THE COMMUNITY."

FCO PLEASE PASS SAVINGS

BULLARD

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PSIMR RIFKIND
MR DEREK THOMAS
MR RENWICK
MR JENKINS

THIS TELEGRAM
WAS NOT
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FILE

by

cc: PC

10 DOWNING STREET

From the Private Secretary

5 December, 1984

EUROPEAN UNION

Bonn telegram No. 1138 mentioned that Horst Teltschik was intending to propose talks on the European Union between himself and members of the Prime Minister's staff.

Both Robin Butler and I spoke to Teltschik in the margins of the Dublin European Council about the Prime Minister's views on the future of the Community. He was characteristically imprecise about what Chancellor Kohl really wanted from the Dooge Committee exercise. We agreed that it would be helpful to remain in touch informally and that the next opportunity would be in the margins of the Anglo-German Summit in January.

I understand that Robin Renwick also had some talks with Teltschik about the European Union.

I am copying this letter to Christopher Mallaby at the Embassy in Bonn.

(C.D. Powell)

L. Appleyard, Esq.,
Foreign and Commonwealth Office.

RESTRICTED

A handwritten signature or mark in the bottom right corner of the page.



Ref. A084/3253

PRIME MINISTERCabinet: Community Affairs

You may wish to tell Cabinet that your talks with President Mitterrand on 29-30 November showed a good deal of common ground on Community affairs. It seems that, as France moves into the position of a net contributor, there is a more favourable development of French views on budget discipline and against some extravagant spending proposals.

2. You will also wish to inform Cabinet of the outcome of the European Council on 3-4 December. United Kingdom objectives (agreement on budget discipline; agreement on the Community's position on fish in the enlargement negotiations in line with United Kingdom views; no prejudging of the Dooge Committee's final report) were achieved. The problems were mainly Greek. Nonetheless the European Council did

clear the way for completing the negotiations with Spain and Portugal by taking Community decisions on wine and fish, On other issues, including industrial tariffs, there is already an acceptable Community position. Mr Papandreou threatens to block enlargement if the Greek bid for a large identifiable allocation of funds for an integrated Mediterranean programme is not met, but other member states will not meet his exaggerated demands;

have a good discussion on the Community's economic situation and the way to create more jobs (internal market, job mobility, encouraging enterprise);

decide on a bigger programme (1.2 million tonnes of grain) for famine relief in Africa, including Ethiopia, in 1985.



3. The Chancellor of the Exchequer may refer to the Budget Council on 29 November, when the United Kingdom was represented by the Economic Secretary. This rejected the European Parliament's amendments to the 1985 draft budget which would have illegally increased the budget beyond the 1 per cent VAT ceiling and transferred our 1984 rebate to the expenditure side, in contravention of the Fontainebleau agreement. Small presentational changes were made as a gesture towards the European Parliament. There will be further discussions with them in the week beginning 10 December. The most likely result is that the European Parliament will reject the 1985 budget.

4. The Minister of Agriculture, Fisheries and Food may report on the Fisheries Council on 4 December, which had an initial discussion of the Commission's proposals for 1985 support prices and total allowable catches and quotas.

5. There was a meeting of Health Ministers on 29 November at which the United Kingdom was represented by the Minister for Health (Mr Clarke).

6. The Environment Council meets on 6 December and the Finance Council on 10 December. The Agriculture Council is meeting on 10-11 December and the Transport Council on 11-12 December. The Third Lome Convention will be signed on 7-8 December, with the Minister for Overseas Development (Mr Raison) attending on behalf of the United Kingdom.

A handwritten signature in black ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

ROBERT ARMSTRONG

5 December 1984



Prime Minister ②
Reassuring advice.
CDP
4/11

CHANCELLOR OF THE EXCHEQUER

APPLICATION BY MR W.O.SMEDLEY FOR JUDICIAL REVIEW

At last Thursday's Cabinet reference was made to an application by Mr Smedley for judicial review in relation to the European Communities (Definition of Treaties)(Undertaking on Supplementary Finance for the Community) Order 1984. We had been informed that Mr Justice Hodgson had granted leave for the application to be made. It was agreed in Cabinet that we should take steps to expedite the hearing of the case, so that the proposed time-table for debating the Order would not be jeopardised.

I can now report that the application will be heard on Thursday of this week, probably before Mr Justice Woolf. I have had the opportunity to consider the papers served by the Applicant on the Treasury Solicitor and, together with Treasury Counsel (who will appear for the Crown), to develop the broad outline of our defence.

Mr Smedley is seeking to quash your "determination or intended determination" that the Undertaking can properly be regarded and specified as a Community Treaty under Section 1(2) of the European Communities Act 1972. In the alternative, he is seeking a declaration that the "determination or intended determination" was made ultra vires. His Affidavit in support, besides expressing his "shock" that the Undertaking was not to be given by "customary scrutiny of each House of Parliament" contends that in permitting the Draft Order to be promoted on the basis of regarding the Undertaking as a Community Treaty, you were wrong in law because such Undertaking cannot be correctly determined as either a Community Treaty as defined in the 1972 Act, or as a Treaty ancillary to a Community Treaty.

Our defence to this action will be based on three different arguments. First, we will argue that a Draft Order, whilst it is under the consideration of Parliament, cannot be challenged in the Courts. We have reservations as to whether this Order could even be challenged once Parliament had approved it;



- page two -

but to allow challenge to it whilst still before Parliament would be an assault on Parliamentary sovereignty and would conflict with the fundamental right of each House to be the sole judge of the lawfulness of its own proceedings. You will appreciate that the principle at stake on this head of our defence is much wider than the instant case.

Secondly, we will maintain, in line with the advice given by the Attorney General, that the Undertaking is ancillary to the EEC Treaty, the ECSC and Euratom Treaties and the Own Resources Decision. The Applicant's^{best} case in this respect would be to argue that it would be unlawful under the terms of the Own Resources Decision for the Community to receive money by way of contributions from Member States - rather than by way of own resources - and that anything unlawful cannot possibly be said to be "ancillary". Article 4 of that Decision provides that "From 1 January 1975 the budget of the Communities shall, irrespective of other revenue, be financed entirely from the Communities' own resources". I am confident that we can answer this line of attack, if it materialises, successfully.

Finally, we will maintain that the Applicant does not have sufficient interest to bring the proceedings. Mr Smedley's only claim to bring the proceedings is that he is a "citizen, taxpayer and elector". We may derive some assistance from the Judgment of the House of Lords in R -v- Inland Revenue Commissioners ex parte National Federation of Self-Employed and Small Businesses Ltd., in which it was held that the Federation merely as a body of taxpayers had shown no sufficient interest in the matter raised (arrangements for taxation of casual Fleet Street workers) to justify its application for relief.

I believe that our defence to these proceedings is sound and I would expect Judgment in our favour on Thursday. Assuming that it is in our favour, I do not myself at present see any reason to delay the debate, even if an appeal is lodged by the Applicant. I will, however, consider this matter urgently on receipt of the Judgment.



- page three -

I am copying this minute to the Prime Minister, the Lord President,
the Foreign and Commonwealth Secretary, the Lord Privy Seal, the Economic
Secretary to the Treasury and Sir Robert Armstrong.

Richard Hayken

4 December 1984.

- 4 DEC 1984

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H. Lay - CH

Interim report of the Dooge Committee: staking out the
United Kingdom position

1. We consider that the Fontainebleau agreement was a watershed, which enables the Community to turn its attention to longer term objectives for a more united Europe. The United Kingdom is participating and will participate fully in the further work of the Dooge Committee and, more importantly, in the discussions between governments resulting from this initiative.

2. Like other member states, the United Kingdom has its own clear objectives. Some of these are well covered in the interim report of the Dooge Committee and we are glad that this is so. Other objectives have not been treated as boldly as they should be by the Committee.

- on the internal market, of course we must sweep away the costly, protective arrangements of non-tariff barriers. We must set a strict timetable for this action

- on political cooperation we must make our combined efforts more effective, if necessary in a more formal framework. The Community should have an active role in the world, not only a reactive one

- on areas for cooperation not covered by the Treaty of Rome, such as health and terrorism and some aspects of defence, we should identify the scope for action

- on institutional improvement it is self-evident that we shall need this in an enlarged Community. Successive presidencies have weakened the Community by not voting when they should have done [mainly because of a fear of French or German reactions]. I am quite prepared to examine the articles of the Treaty to see where there is scope for majority voting.

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3. In the Dooge Committee my representative, Mr Rifkind, has made some reservations on one or two specific references, such as the suggested common currency and the transfer from national parliaments to the European Parliament of some revenue raising powers*. I have some doubts in any event that all my colleagues here will be able to accept all the proposals under discussion in the Dooge Committee. The United Kingdom will certainly welcome further contacts between Governments in the period between now and the presentation of the Dooge Committee's final report, in order to clarify views on some points. I should like expressly to assure my colleagues that the United Kingdom has not taken a position against an intergovernmental conference. A decision now would be premature but, if the final report demonstrates that this would be the best way forward, we shall take it.

4. We are for the substance, not the shadow, of a more united Europe.

Only met 5 times

* (Dooge Committee Interim Report IIIc "An enhanced role will be sought for the European Parliament . . . by giving it responsibility in decisions on revenue as the coping-stone of the establishment of a new basic institutional balance, which will develop in line with the system of own resources".

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FRANCE, BRITAIN AND THE EUROPEAN COMMUNITY: PUBLIC STATEMENTS
BY PRESIDENT MITTERRAND DURING HIS VISIT TO BRITAIN

We have analysed President Mitterrand's public remarks as they are published in The Times' interview of 24 October and in the transcripts of his speech at the Guildhall on 24 October and to the joint session of the Houses of Parliament the same day.

So far as European Union is concerned, President Mitterrand is continuing to choose his words with great care. France is in favour of the more frequent application of majority voting but will remain fully sovereign on certain precise concrete points; France accepts the Spinelli draft Treaty as a basis for further work; the moment has come to make Europe a genuine political reality capable of asserting itself on the international scene. But he avoids defining very clearly what European Union means, contenting himself with a reference back to the Genscher/Colombo Declaration. His main concern seems to be that the Community should look like a political entity (to use the phrasing in M. Faure's draft report for the Dublin European Summit) seen from the standpoint of a third country.

As for his remarks on industrial cooperation, if we want to strike a positive note at the Anglo-French Summit next month, it may be worthwhile playing some of these ideas back at President Mitterrand. We need not be too dismissive of the reference in his speech to the combined Houses of Parliament to the establishment

/of a



of a Franco-British Foundation to encourage collaboration between universities and industry. This is not far away from the Government's aim of making the universities more commercial minded.

European Community Department (Internal)

FRANCE, BRITAIN AND THE EUROPEAN COMMUNITY: PUBLIC COMMENTS
BY PRESIDENT MITTERRAND DURING HIS STATE VISIT TO BRITAIN,
23-27 OCTOBER 1984.

The Development of the Community and European Union

1. "The European Community uses a system of majority voting and France would like to see that system applied more often. So it is not a question of France taking an abrupt decision, from one day to the next to give up its sovereignty. But it is a path we shall have to take if we are to move towards a stronger union in which we would nevertheless continue to be fully sovereign on certain precise concrete points."
(The Times 24 October 1984.)

2. "Such terms as the United States of Europe are loaded with overtones due to arguments which have been going on for the past 35 years.One has to be careful when speaking about moving towards a Europe where a certain number of important political decisions are taken in common. [On Spinelli draft Treaty.] "We accept it as a basis for further work." (The Times 24 October 1984.)

3. "It is no longer enough to add together a number of individual measures. The moment has come, I already said this in The Hague in fact, to make Europe become a genuine political reality, capable of asserting itself on the international scene. What is European Union? Let us not construct a theory. It already has a concrete existence. We clearly stated its major features last year in the formal declaration of the European Council in Stuttgart. I think it would be good now in the context of respect for the identify of each of the Member States pragmatically to confirm its international existence, improve its decision-making capability, increase the responsibilities of its institutions, to open new fields of cooperation so that this Economic Community can, at last, in the world's eyes become what it already is: A Community of civilised nations." (Speech to Parliament.)

/Britain

Britain and the European Community

4. "It is true that we do not have the same conceptions of Europe."

5. "There are some countries who want to strengthen the political union of Europe and some who do not. I do not know exactly what Britain will choose. France has chosen to strengthen the union."
(Times interview)

Two-speed Europe: the Paris-Bonn Axis

6. "It would not be desirable." (To build a strong Europe without Britain.)

7. "France and West Germany founded the Community together. In this area there is a natural tendency for us to work closely together. But we do not want to set up a Paris-Bonn axis. We do not wish to exclude anyone else." (The Times 24 October 1984.)

European Industry, R&D etc.

8. "I don't believe in (European) decline. I think that together we can succeed not only in overcoming the present crisis but also in affirming our presence in the sectors of the future. But to do that we must overcome our petty squabbles." (Guildhall Speech, 24 October 1984.)

9. "We can be proud of certain of our industries. Ariane, Airbus, JET the Esprit programme. All this shows that what is called Euro-pessimism on the other side of the Atlantic is not justified. We can go further and broaden the field of our cooperation in Europe and elsewhere wherever high technology is found. For example aeronautics, telecommunications, robotics, space, energy and naturally the Channel tunnel. You generally applaud when the Channel tunnel is mentioned but it stops there. Well, our industries must learn to work together; to give priority to their alliances; to unite in their research effort; to share their markets. In another speech I recalled that funds devoted to scientific research in four European countries including Britain and France are much larger than the credits for scientific research in the United States or Japan. But the result is

far behind that of these two great countries. Why? Because we are divided. We have however just as many scientists, perhaps more; just as many technicians perhaps more; just as many engineers and qualified workers. I repeat the question then why is Europe behind? Because everyone works for himself and singly each one is weaker than those who are getting ready to dominate the world. Our two governments are conscious of the need (to work together). They can create the conditions favourable to success. But it is for the companies themselves, their managers and their workers to do it, to make this Europe." (Guildhall Speech.)

10. "Let us reflect on the fact that Europe, which is investing more than its major American and Japanese rivals in research, is losing its high technology markets. The reasons for this paradox stems from something that is quite obvious: insufficient cooperation between our firms. This cooperation is already proving itself in the field of aviation. I am happy that in another sector which is vital for our future, telecommunications, a first step has recently been taken by the Ten Community Members when they recommended the adoption of common standards.

11. As regards collaboration between universities and industries, could it not take the form of a Franco-British foundation, which would compare experience in the two countries, promote joint projects and mobilise firms, laboratories, public and private research centres, universities, major scientific institutions?" (Speech to Parliament.)

Economic and Financial

12. Ladies and Gentlemen, you represent industry, commerce and finance in one of the great powers of the world. You understand the importance of the task. You know that industry cannot develop without harmonisation of financial markets and exchange rate stability. The European Community countries hold one third of the world's currency reserves and almost half of its gold reserves. European savings are

/ greater

greater than those of the United States. The banks and financial institutions have no reason to envy those of other important powers. Why should Europe suffer the effects of the fluctuations of the dollar and the monetary disorder which results from this?

13. You, ladies and gentlemen, or your predecessors, down the centuries have invented and still invent new financial instruments every day. You have the prime role to play in the promotion of the use of the ECU so that, alongside the dollar, SDRs and soon the Yen, it will constitute a new pole in the world monetary system.''
(Guildhall Speech.)

European Community Department (Internal)
30 October 1984

CONFIDENTIAL



Prime Minister

FROM: Malcolm Rifkind

DATE: 30 November 1984

Prime Minister ②
Background for
the European Council
COP 1/12.

DOOGE COMMITTEE

/ 1. I attach a telegram reporting on the outcome of the Dooge Committee. Like the curate's egg the interim report is good in parts: we have excellent conclusions on the internal market (including services such as insurance) and on reducing the size of the Commission, as well as satisfactory proposals on political co-operation and a number of other matters. The institutional recommendations are less palatable, though they should be manageable.

2. When the Committee first met there was general support for my contention that we should aim to produce a report that had a fair prospect of being acceptable to the Heads of Government and of being implemented. It did not quite turn out that way. Some were determined to present to the Dublin Council an Interim Report that had all the characteristics of a final one, and an unrealistic final one, at that. The French and German members let it be known that, in this, they were acting within instructions from Mitterrand and Kohl. This should not of course be taken at face value, since it seems probable that both Heads of State used their representatives to fly kites, with Faure, in particular, using his room for manoeuvre to the full.

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3. The determination by the majority to include proposals to extend the powers of the Parliament and to minimise the use of the veto pose some problems for us, but we will have ample opportunity in the coming months to focus on what can really be achieved without isolating ourselves in outright opposition to the majority. Yet Kohl, in particular, is committed to a 'qualitative leap' in the development of Europe. Our tactic, surely, must be to go as far as we can in recognising the political pressures to which he is responding while pressing our practical proposals for reform, and quietly drawing his attention to the simple truth that an ounce of development of the internal market is worth a ton of rhetoric, and that increased powers of the European Parliament, for example, far from helping to achieve unity in Europe, would be positively divisive.

4. The proposal on majority voting is another such instance. You may find helpful the last-minute insertion that I pressed for, namely that the Committee, having voted for increased majority voting, would now have to discuss the "practical implications" of these proposals. If the Committee continues to meet after the Dublin Summit, we can hope to steer the discussion back onto the rails by focussing hard on these practical implications.

Malcolm Rifkind

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FRAME GENERAL

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TO IMMEDIATE FCO

TELEGRAM NUMBER 3923 OF 23 NOVEMBER

INFO ROUTINE ALL EC POSTS, LISBON, MARDID, STRASBOURG

AD HOC COMMITTEE ON INSTITUTIONS (DOOGUE COMMITTEE) : 21-23 NOVEMBER

SUMMARY

1. WORK ON INTERIM REPORT TO DUBLIN EUROPEAN COUNCIL COMPLETED. MR RIFKIND OBTAINED SATISFACTORY METHOD OF REGISTERING VIEWS OF THOSE WHO ON ANY SPECIFIC POINT COULD NOT ACCEPT MAJORITY TEXT, THOUGH MANY MEMBERS APPEARED DETERMINED TO IGNORE THE DISTINCTION BETWEEN AN INTERIM AND A FINAL REPORT.

2. TEXT CONTAINS MANY WELCOME FEATURES, THE MOST IMPORTANT BEING GOOD PASSAGES ON INTERNAL MARKET, EXTERNAL RELATIONS INCLUDING POLITICAL COOPERATION, REDUCTION IN NUMBER OF COMMISSIONERS, AND REDUCTION IN FREQUENCY OF EUROPEAN COUNCIL MEETINGS.

3. HOWEVER IN SPITE OF MR RIFKIND'S READINESS TO BE FLEXIBLE ON MANY ISSUES THERE WAS LITTLE OR NO RECIPROCAL MOVEMENT BY THE MAJORITY (USUALLY THE SIX, IRELAND AND THE COMMISSION) ON THE IMPORTANT ISSUES, ESPECIALLY MAJORITY VOTING AND POWERS OF THE EUROPEAN PARLIAMENT. MR RIFKIND HAD THEREFORE TO RECORD HIS DISSENT ON THOSE TWO SUBJECTS, AS WELL AS ON PART OF THE EMS TEXT, AND ON THE SELECTION OF MEMBERS OF THE COMMISSION BY THE PRESIDENT-DESIGNATE. ON MAJORITY VOTING HOWEVER THERE IS AN IMPORTANT UNANIMOUS STIPULATION THAT THE PRACTICAL IMPLICATIONS OF THE PROPOSALS HAVE TO BE EXAMINED.

4. A CLEAR MAJORITY FAVOURED AN OVERALL CONCLUSION TO THE EFFECT THAT THE COMMITTEE'S WORK DEMONSTRATED THE NEED FOR AN INTERGOVERNMENTAL CONFERENCE TO NEGOTIATE A TREATY ON EUROPEAN UNION. MR RIFKIND, MOLLER (DENMARK) AND PAPANTONIOU (GREECE) DEMONSTRATED THE ILLOGICALITY OF SUCH A RECOMMENDATION ON THE BASIS OF AN INTERIM REPORT, BUT THIS FELL ON DEAF EARS (AND CLOSED MINDS) AND ALL THREE THEREFORE RECORDED THEIR DISSENT ON THIS.

DETAIL

A. FORM OF REPORT

5. THE COMMITTEE WORKED FOR A TOTAL OF SOME 24 HOURS ON THE AMENDMENTS PROPOSED TO FAURE'S DRAFT OF THE INTERIM REPORT. WORK ON THE TEXT WAS PUNCTUATED BY FREQUENTLY ACrimonious DISCUSSION OF THE FORM OF THE INTERIM REPORT, ESPECIALLY THE MANNER IN WHICH THE VIEWS OF THOSE WHO COULD NOT ACCEPT A MAJORITY TEXT SHOULD BE RECORDED. AFTER SEVERAL HEATED ARGUMENTS, MAINLY WITH FERRI (ITALY) AND FAURE HIMSELF, MR RIFKIND WAS ABLE TO OBTAIN AGREEMENT TO A FORMULA UNDER WHICH

CONFIDENTIAL

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(A) IN A FEW CASES WHERE THE COMMITTEE JUDGED IT APPROPRIATE THE TEXT WOULD RECORD THE FACT THAT DISCUSSION WAS TO CONTINUE BEFORE THE PRESENTATION OF THE FINAL REPORT.

(B) WHERE IT WAS CLEAR THAT FURTHER DISCUSSION WOULD NOT SUBSTANTIALLY ALTER THE VIEWS OF EITHER MAJORITY OR THE OTHERS, THE LATTERS' VIEWS WOULD BE RECORDED EITHER

- I) BRIEFLY IN A FOOTNOTE, OR
- II) AT GREATER LENGTH IN AN ANNEX.

B. INTERNAL MARKET

6. MR RIFKIND'S REQUIREMENTS WERE FULLY MET (EG ON TRANSPORT, INSURANCE AND FREEDOM OF CAPITAL MOVEMENTS) AND THE REFERENCE TO HARMONISATION OF TAX AND TRADE LEGISLATION WAS REMOVED. IT WAS ACCEPTED THAT MUTAL RECOGNITION OF EXISTING STANDARDS WAS NECESSARY PENDING THE INTRODUCTION OF EUROPEAN STANDARDS.

C. EMS

7. ON THIS THERE WAS SOME SYMPATHY FOR MR RIFKIND'S VIEWS: HIS OBJECTION TO "COMPULSORY" COORDINATION OF POLICIES WAS SUSTAINED, AND IT WAS AGREED THAT THE OBJECTIONABLE REFERENCES TO AN INDEPENDENT EUROPEAN CENTRAL BANK SYSTEM AND A COMMON CURRENCY SHOULD BE SUBJECT OF FURTHER DISCUSSION. IT WAS HOWEVER NECESSARY TO CONCEDE WORDS TO THE EFFECT THAT A WEAK ECONOMY JOINING THE ERM SHOULD BE HELPED (AS WERE ITALY AND IRELAND). IT IS SATISFACTORY THAT THERE IS NO CALL FOR UK PARTICIPATION IN THE ERM.

D. BUDGET

8. THE REFERENCE TO RESOURCES IS ADEQUATELY QUALIFIED BY THE NEED FOR BUDGETARY DISCIPLINE, SAVINGS TO MATCH EXTRA EXPENDITURE AND THE POINT THAT NEW POLICIES DO NOT NECESSARILY INCUR NEW EXPENDITURE.

E. EXTERNAL RELATIONS

9. ON POLITICAL COOPERATION MR RIFKIND OBTAINED A REFERENCE TO FORMALISING THE COMMITMENT TO PRIOR CONSULTATION. THE SUGGESTIONS FOR CODIFICATION OF CURRENT PRACTICE AS WELL AS FOR A SECRETARIAT REMAIN, BUT WITHOUT A SECRETARY-GENERAL. THE TEXT ON DEFENCE NO LONGER CONTAINS CLASHES (ON STANDARDS AND COMMUNITY PREFERENCE) WITH NATO REQUIREMENTS.

%F. INSTITUTIONAL QUESTIONS.

(I) COMMISSION.

10. MR RIFKIND'S SUGGESTION TO REDUCE THE NUMBER OF COMMISSIONERS WAS UNANIMOUSLY AGREED : THE FINAL TEXT REFERS TO QUOTE NO MORE THAN ONE FROM EACH MEMBER STATE UNQUOTE. THE DISCUSSION ON THE APPOINTMENT OF MEMBERS OF THE COMMISSION WAS LESS SATISFACTORY, THE MAJORITY FAVOURING SELECTION BY THE PRESIDENT-DESIGNATE SUBJECT TO APPROVAL BY THE COUNCIL (COMMENT : THIS WOULD PRESUMABLY MEAN BY MAJORITY VOTE). THE MINORITY'S (INCLUDING MR RIFKIND'S) PREFERENCE FOR THE PRESENT PROCEDURE IS RECORDED.

(II) EUROPEAN COUNCIL.

11. MR RIFKIND'S SUGGESTION TO LIMIT THE NUMBER OF EUROPEAN COUNCIL MEETINGS TO TWO A YEAR WAS UNANIMOUSLY ACCEPTED.

(III) DIFFERENTIATION (IE. VARIABLE GEOMETRY)

12. THE TEXT LIMITS DIFFERENTIATION TO EXCEPTIONAL CASES.

(IV) MAJORITY VOTING

13. FAURE DESCRIBED THE DETAILED AMENDMENT TABLED BY MR RIFKIND AS 'CONCRETE STEPS IN THE RIGHT DIRECTION' AND VAN EEKELEN (NETHERLANDS) SAID THAT THEY WERE 'VERY SUBSTANTIAL'. HOWEVER IT WAS QUICKLY CLEAR THAT THE MAJORITY WERE DETERMINED TO FORCE THROUGH FAR MORE RADICAL PROPOSALS.

14. THE TEXT FINALLY APPROVED BY THE MAJORITY-

(A) LIMITS UNANIMITY TO NEW AREAS OF ACTION OR NEW ACCESSIONS

(B) CODIFIES THE RIGHT TO PLEAD A VITAL (SIC) INTEREST FOR A TRANSITIONAL PERIOD, SO LONG AS IT CAN BE OBJECTIVELY JUSTIFIED TO THE COUNCIL AND THE VITAL INTERESTS OF THE COMMUNITY AS A WHOLE ARE RESPECTED.

BUT THERE WAS A DIFFERENCE OF VIEW BETWEEN ANDRIESSEN (COMMISSION), HERMAN AND RUHFUS (FRG) WHO WANTED TO LIMIT THE 'VETO' TO NEW AREAS OF MAJORITY VOTING AND FAURE AND DOOGE WHO COULD ACCEPT NO SUCH LIMITATION. THIS DIFFERENCE IS ALSO ATTENDED TO IN A FOOTNOTE. MR RIFKIND AND VAN EEKELEN OBTAINED (TO FAURE'S GREAT INDIGNATION) THE ADDITION TO THE TEXT ON MAJORITY VOTING A STIPULATION THAT FURTHER DISCUSSION WOULD BE NEEDED ON THE PRACTICAL IMPLICATIONS OF WHAT HAD BEEN PROPOSED AND OF OTHER PROPOSALS WHICH WOULD IMPROVE DECISION-MAKING, EG THOSE OF MR RIFKIND'S OWN SUGGESTIONS REJECTED AS TOO DETAILED FOR AN INTERIM REPORT. (COMMENT: THIS IMPORTANT PASSAGE WOULD ENABLE THE PRIME MINISTER, IF SHE WISHED, TO ARGUE AT THE EUROPEAN COUNCIL THAT THIS ISSUE HAS NOT BEEN FINALLY RESOLVED: THE MAJORITY HAVE SAID WHAT THEY WANT, THE MINORITY HAVE DISAGREED, BUT ALL AGREED THAT THE PRACTICAL IMPLICATIONS HAD STILL TO BE EXAMINED).

(V) POWERS OF PARLIAMENT

15. THE MAJORITY WERE NOT PREPARED TO ACCEPT A REFERENCE IN THE REPORT TO IMPROVING THE CONCILIATION PROCEDURE, SINCE THEY REGARDED THAT AS OVERTAKEN BY THE MAJORITY VIEW THAT THE EP SHOULD

(A) HAVE INCREASED PARTICIPATION IN LEGISLATION IN THE FORM OF JOINT DECISION-MAKING WITH THE COUNCIL

(B) EXERCISE MORE SUPERVISION OVER COMMUNITY POLICIES

(C) HAVE RESPONSIBILITY IN DECISIONS ON REVENUE.

MR RIFKIND'S DISSENTING VIEW IS RECORDED.

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G. TEXT.

16. THE FINAL VERSION OF THE TEXT WAS NOT ADOPTED UNTIL THE END OF A RESUMED SESSION AT NOON TODAY, WHICH CONTINUED, MAINLY AT ASSISTANT LEVEL UNTIL 1700. PROVISIONAL TEXT BY MUFAX TO FAIRWEATHER (ECD(1)) AND BY BAG TO FCO AND REPETITION ADDRESSEES. FINAL TEXT WILL NOT BE AVAILABLE UNTIL 27 NOVEMBER. IT WILL REMAIN 'CONFIDENTIAL' UNTIL PRESENTED TO THE EUROPEAN COUNCIL, WHICH WILL BE INVITED, IN A COVERING LETTER FROM DOOGUE CLEARED BY THE COMMITTEE, TO TRANSMIT IT ALSO TO THE EUROPEAN PARLIAMENT, WHICH IS TO DEBATE IT IN JANUARY.

H. PRESS

17. ALTHOUGH RUHFUS HAS ALREADY BRIEFED GERMAN AND SOME OTHER CORRESPONDENTS HERE (AND OTHERS MAY ALSO DO SO), MR RIFKIND'S VIEW IS THAT WE SHOULD REST ON THE CONFIDENTIAL NATURE OF THE REPORT AND THE NEED TO RESPECT THE AGREEMENT WITHIN THE COMMITTEE NOT TO SPEAK TO THE PRESS.

I. NEXT MEETING.

18. IT WAS AGREED THAT THE NEXT MEETING SHOULD BE SHORT, BEGINNING AT 1100AM ON THURSDAY 13 DECEMBER. DOOGUE WILL CONSULT MEMBERS OF THE COMMITTEE BY TELEPHONE AFTER THE EUROPEAN COUNCIL IF HE THINKS THAT A MEETING THEN MIGHT BE OF DOUBTFUL UTILITY.

RESIDENT CLERK PLEASE PASS TO PRIVATE SECRETARY.

FCO ADVANCE TO:

FCO - PS RENWICK FAIRWEATHER
CAB - WILLIAMSON STAPLETON LAMBERT
NO 10 - POWELL

BUTLER
FRAME GENERAL
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Prime Minister.
ESP
1/12.

Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
No.10 Downing Street
LONDON SW1

30 November 1984

Dear Charles

BUDGET COUNCIL: 29 NOVEMBER

The Economic Secretary attended the Budget Council held on 29 November to meet a delegation from the European Parliament and to discuss their proposed changes to the 1985 Draft Budget.

In addition to changes of a relatively routine sort, the Parliament put forward a number of far-reaching proposals, acceptance of which would have been most prejudicial. In particular they sought:

to put our 1,000mecu compensation for 1984 on the expenditure side, in contravention of Fontainebleau;

to increase the agricultural provision by 1,300mecu, thus taking the Budget well beyond the 1 per cent VAT ceiling;

to make alterations relating to the revenue side of the Budget.

The Parliamentary delegation gave no sign of being willing to yield on these but the Council eventually took a position which, I believe, fully safeguards our essential needs. In particular all were solid on maintaining the abatement of our contribution on the revenue side.

There was no inclination to allow the Parliament powers over the revenue side of the Budget but it was only with great difficulty that the Presidency and most delegations could be prevented from taking the Budget beyond the 1 per cent ceiling. They argued that there was a need for some significant gesture to the Parliament if rejection of the Budget was to be avoided and that no harm would be done by

inserting figures in the Budget for the potential agricultural over-run with qualifying words which would prevent the utilisation of the allocations before a revenue basis was provided.

That was obviously unacceptable. In the face of mounting pressure to concede to the Parliament the Economic Secretary persuaded France, Germany and the Netherlands to resist any increase in the Budget above the 1 per cent ceiling. This objective was achieved by two Memorandum entries (one on the revenue side and one on the expenditure side) together with commentaries making clear the position. The commentary on the revenue side will incorporate the whole of the Council's October undertaking, including the reference to our abatement. Although this is less than the Parliament wishes, it goes some way to recognising their concern about 1985 expenditure and is a satisfactory outcome from our point of view. There will be further discussions with the Parliament in the week beginning 10 December and the Economic Secretary shall seek to hold other Members firm on this position.

On other matters, there was useful progress on the question of the reimbursement of the IGA money. The Commission has offered a general assurance of reimbursement and we now have a position acceptable to all sides except Germany. The Economic Secretary would hope that, on reflection, the Germans could accept that it meets their concerns.

Finally, a compromise was reached on aid expenditure and on IMPS. On aid, when it became apparent that we could not find support for any lower figure than the Presidency compromise, the Economic Secretary judged it necessary to support what was already a qualified majority in order to avoid being isolated on such a sensitive issue. On IMPS, in order to preserve our position for the European Council, we managed to remove the reference to a separate line which had been included in the Presidency's original proposal; the 1985 expenditure has been placed in the reserve chapter 100 and limited to 50mecu, which was the lowest negotiable figure.

I am copying this letter to the Private Secretaries of Members of OD(E) and to Mr Williamson (Cabinet Office).

Yours aw,
A M Ellis

A M ELLIS

Private Secretary

30 MAY 1964

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CONDENSATOR

and Malcolm Kellogg

B. H.

7.22

→ Charles - This letter neatly confirms the material we were given for questions yesterday.

AT 30/11



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

29 November 1984

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

~~B~~ // ~~CDP 1/12~~
~~[Pl. being forward on 6/12]~~

Dear Andrew,

COMMUNITY BUDGET: PRIVATE NOTICE QUESTIONS FROM MR ROBIN COOK AND MR TEDDY TAYLOR ON THE INTER-GOVERNMENTAL AGREEMENT

Although the PNQs have been disallowed by the Speaker, the issue may be raised in Questions to the Prime Minister.

... I am accordingly attaching to this letter a suggested answer plus notes for supplementaries.

There are two points on the draft answer to which the Prime Minister's attention should be drawn. First, the suggested answer states that the Government has now been served with the papers relating to Mr Smedley's application. At the time of writing this is not yet the case, though we understand that the papers are still likely to be served this morning. We will let you know before Questions what the latest position is.

Second, the draft Answer does not state that the issue is "sub judice". The advice from our lawyers is that to say this could prejudice the Government's position if, after study of Mr Smedley's case, Ministers still decided that they wish to proceed with the draft Order in Council.

Copies of this letter go to the Private Secretaries to the Foreign Secretary, the Lord Privy Seal and the Chief Whip.

Yours sincerely,

Philip Wynne Owen.

D L C PERETZ
Principal Private Secretary

PP

PRIVATE NOTICE QUESTIONS FROM
MR ROBIN COOK AND MR TEDDY TAYLOR

Mr Robin Cook (Livingston): If Mr Chancellor of the Exchequer will make a statement on Her Majesty's Government's intention, with regard to the order granting supplementary finance to the EC in the light of the decision of the court of the Queen's bench in the case of *ex parte* Smedley?

Mr Teddy Taylor (Southend East): To ask Mr Chancellor of the Exchequer, what steps he intends to take on supplementary payments to the EEC in the light of the decision taken in court yesterday by Mr Justice Hodgeson on the application by Mr William Smedley.

SUGGESTED ANSWER

The Government is still studying the papers relating to Mr Smedley's *ex parte* application, which were only received this morning and has no statement to make at this stage. There is no question of rushing the Section 1(3) Order through the House. The Government has made it clear throughout that it will not ask the House to approve the Inter-Governmental Agreement until the European Community Council of Ministers has finally adopted the text on budgetary discipline. That has not yet been done; the question of budgetary discipline will be on the agenda of the European Council next week. The House will have a full opportunity to debate the Inter-Governmental Agreement and to vote before any money is paid to the Community.

NOTES FOR SUPPLEMENTARIES

1. Surely Government should now withdraw the Order or freeze the proceedings on it

As have already said, the papers relating to Mr Smedley's procedure have only just been received and are under study. But I see no reason to do so.

2. Will Joint Committee on Statutory Instruments continue to examine the draft Section 1(3) Order?

That is for the Joint Committee to decide.

3. Why has Council of Ministers not adopted the budget discipline text? Government's negotiating triumph has vanished into thin air?

Not so. No disagreement on the substance of the budgetary discipline measures or on the agricultural expenditure guideline which will apply to next year's price-fixing. The only outstanding question is how the European Parliament should be associated with budgetary discipline procedures. Confident that this outstanding question will be rapidly resolved.

BACKGROUND

The Government agreed with other EC Member States on 2 October to an inter-governmental agreement to provide supplementary finance totalling 1003 mecu to finance additional Community spending in 1984 in excess of the 1% ceiling by means of "reimbursable advances".

2. The text of the IGA (annexed) noted that HMG would not be in a position to complete its natural procedures implementing the agreement until our 1983 rebate had been paid (90% has been) and until agreement was reached on measures to implement budgetary discipline (not yet achieved).

3. In order to obtain Parliament's approval of the IGA the Government has laid a draft Order in Council in both Houses under Section 1(3) of the European Communities Act. The purpose of the draft Order is to specify the IGA as a Community Treaty. Once the Agreement has been so specified, the payments can be made from the Consolidated Fund without further approval by Parliament. The test as to whether the Section 1(3) procedure is appropriate is whether the IGA can be regarded as "ancillary" to any of the EC Treaties. The Law Officers were consulted on this point and ruled that the IGA was capable of being treated as ancillary and that Section 1(3) could properly be used. It is presumably this point which Mr Smedley is now challenging.

4. The procedure for approval of the Section 1(3) Order is that it is subject to examination both by the Joint Committee on Statutory Instruments (which reports on it if necessary) and the Scrutiny Committees of both Houses. It then has to be the subject of debate and affirmative resolution in both Houses. Final approval then has to be given by the Privy Council. The Joint Committee on Statutory Instruments is still examining the draft Order

and is to take oral evidence on Tuesday. We understand that it too may be concerned as to whether the Section 1(3) Order is proper.

5. The Government has consistently made it clear that it will not ask the House to approve the IGA until measures on budgetary discipline have been finally agreed. The Foreign Affairs Council failed to achieve this again yesterday and the subject will now go to the European Council. The only outstanding issue is whether and, if so, how to associate the European Parliament with the budgetary discipline procedures, albeit in a purely consultative role.

30 NOV 1984

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TO IMMEDIATE FCC
TELEGRAM NUMBER 4027 OF 29 NOVEMBER
AND TO IMMEDIATE PARIS
INFO PRIORITY BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, BONN,
LUXEMBOURG, ATHENS

PREPARATION OF THE EUROPEAN COUNCIL

1. AT COREPER LUNCH THE PRESIDENCY APOLOGISED FOR THE LATE ARRIVAL OF FITZGERALD'S PRE-COUNCIL LETTER TO HIS COLLEAGUES. WHAT WITH THE FOREIGN AFFAIRS COUNCIL CONTINUING UNTIL LAST NIGHT AND FITZGERALD'S TRAVEL PLANS, THEY COULD NOT PROMISE IT BEFORE TOMORROW. THEY WOULD TRY TO DISTRIBUTE IT AS EARLY AS POSSIBLE.

ENLARGEMENT

2. O'ROURKE SAID THAT THE PRESIDENCY WERE INCLINED TO STAND BY BARRY'S REMARKS IN THE FOREIGN AFFAIRS COUNCIL TO THE EFFECT THAT WINE WOULD BE THE ONLY ENLARGEMENT POINT TO GO TO THE EUROPEAN COUNCIL. THEY WERE CONSIDERING WHETHER TO PRODUCE ANY NEW PIECE OF PAPER. I SAID THAT IF WINE WERE AGREED IT WOULD SURELY BE WISE TO SWEEP THROUGH FISH AND FRUIT AND VEGETABLES. THERE WAS NO FOREIGN AFFAIRS COUNCIL UNTIL 16 DECEMBER. NOTERDAEME SUGGESTED THAT THE FOREIGN MINISTERS SHOULD HOLD A BRIEF COUNCIL MEETING TO DO THE OTHER SUBJECTS AFTER WINE HAD BEEN SETTLED. CALAMIA WANTED HEADS OF GOVERNMENT TO DO BOTH. THERE WAS THEN A CONFUSED DISCUSSION ABOUT WHETHER THERE MIGHT NOT BE MORE INFLEXIBILITY IN THE COMMUNITY NEGOTIATING POSITION WITH SPAIN IF THE HEADS OF GOVERNMENT AGREED THE COMMON POSITION ON FISH. MOST REPRESENTATIVES SUPPORTED NOTERDAEME, FOR THIS AND OTHER REASONS, IN HIS PROPOSAL FOR A SEPARATE FOREIGN MINISTERS MEETING. I SAID THAT THE IMPORTANT THING WAS TO GET IT DONE. THE UK WOULD BE NEITHER MORE NOR LESS INFLEXIBLE AFTERWARDS IF IT WERE DONE AT FOREIGN MINISTERS LEVEL. CALAMIA INSISTED THAT FISH MUST GO TO HEADS OF GOVERNMENT "AS A MATTER OF PRINCIPLE" (NO-ONE BEING IN ANY DOUBT THAT HE MEANT AS A MATTER OF LINGAGE).

3. I WAS ASKED WHETHER WE WANTED THE INDUSTRIAL TARIFF AND CARS DEALT WITH IN DUBLIN. I SAID THAT IN MY PERSONAL VIEW THERE WAS NO NEED FOR ANY DISCUSSION AT DUBLIN. THE COMMUNITY HAD COMMON POSITIONS, BOTH ON GENERAL TARIFF DISMANTLEMENT AND HIGH TARIFFS (INCLUDING CARS). THE NEGOTIATIONS WOULD HAVE TO CONTINUE ON THAT BASIS UNLESS THE COUNCIL AGREE TO CHANGE THE COMMON POSITIONS. TO DO THE LATTER WOULD BE CLEARLY UNDESIRABLE AT THIS STAGE. O'ROURKE ASKED IF ANYONE ELSE WANTED THE MATTER RAISED AT DUBLIN AND NO-ONE REPLIED.

BUDGET DISCIPLINE

4. A HELPFUL DISCUSSION TOOK PLACE ABOUT HOW BUDGET DISCIPLINE MIGHT BE CARRIED FORWARD AND SETTLED AT DUBLIN. ESFER LARSEN SAID FLATLY THAT HIS MINISTERS HAD BEEN TO THE FOLKETING THIS WEEK AND WOULD NOT GO AGAIN. THEY WOULD NOT AMEND THE ORIGINAL TEXT BUT COULD AGREE TO DISCUSS THE TEXT OF THE DRAFT LETTER TO THE PARLIAMENT AND TO REGARD ITS CONTENTS AS A CONCLUSION OF THE COUNCIL. NOTERDAEME (WITH SUPPORT FROM CALAMIA) SAID THAT TINDEMANS WOULD SIMPLY NOT ACCEPT THAT A LETTER WAS ENOUGH. THERE MUST BE A DECISION TO RESPOND TO THE PARLIAMENT'S REASONABLE REQUEST. CALAMIA ADDED THAT WE SHOULD DISCUSS THAT DECISION WITH THE PARLIAMENT AND ONLY ADOPT THE CONCLUSIONS THEREAFTER. WITH GENERAL SUPPORT, I SAID THAT CALAMIA'S SUGGESTION WOULD NOT DO. IT WOULD MEAN INDEFINITE DELAY. BUT I THOUGHT THAT THE DANISH AND BELGIAN POSITIONS COULD BE RECONCILED BY HAVING A DISCUSSION ON THE SUBSTANCE OF A IMPROVED TEXT. THE BELGIANS COULD REGARD THEMSELVES AS DISCUSSING THE DRAFTING OF THE COUNCIL'S SEPARATE CONCLUSIONS ON THE RESULTS OF THEIR MEETING WITH THE PARLIAMENT AND THE DANES AS WORKING ON THE TEXT OF THE LETTER TO THE PARLIAMENT. IF WE REACHED AGREEMENT ON A DRAFT, IT COULD SERVE FOR BOTH PURPOSES AND THE PROBLEM WOULD BE SOLVED. THIS FOUND GENERAL SUPPORT, BUT NOTERDAEME SAID THAT TINDEMANS WAS EMOTIONALLY INVOLVED AND WOULD HAVE TO BE WORKED ON. THIS CONVERSATION SHOULD NOT BE MENTIONED TO HIM (PLEASE RESPECT). HE STRONGLY RECOMMENDED DEALING WITH THE MATTER AT FOREIGN MINISTERS' LEVEL AT DUBLIN. DIMADIS SAID THAT PAPANDREOU WANTED TO DEAL WITH IT HIMSELF, BUT COULD OFFER NO EXPLANATION TO O'ROURKE WHO ENQUIRED WHY. O'ROURKE SAID THAT THE IRISH WOULD THINK CAREFULLY, AND POSSIBLY IMPROVE THE DRAFT AND SHOW IT TO THE MOST INTERESTED DELEGATIONS AND CONSULT ON MONDAY ABOUT WHEN TO DISCUSS IT COLLECTIVELY. THE FOREIGN MINISTERS' DINNER MIGHT BE THE BEST TIME.

IMPS

5. DIMADIS SAID THAT THE EUROPEAN COUNCIL MUST DECIDE HOW MUCH ADDITIONAL MONEY WOULD BE PROVIDED FOR IMPS. I SAID THAT THE DISCUSSION IN THE COUNCIL YESTERDAY HAD DEMONSTRATED THAT IT WOULD BE A MISTAKE TO TALK ABOUT "ADDITIONALITY". CALAMIA SAID THAT THE COUNCIL MUST DECIDE HOW MUCH MONEY THERE WOULD BE FOR IMPS. I SAID I DOUBTED WHETHER EVERYBODY WOULD SHARE THAT VIEW. RATHER TO MY SURPRISE RUTTEN GAVE ME STRONG SUPPORT AND O'ROURKE SAID THAT IT WOULD NOT BE POSSIBLE TO FIX A SUM. NO-ONE PRESED THE MATTER FURTHER.

DOGE COMMITTEE

6. O'ROURKE SAID THAT FOREIGN MINISTERS SEEMED TO HAVE AGREED THAT THE EUROPEAN COUNCIL SHOULD GIVE THE COMMITTEE FURTHER GUIDELINES ABOUT ITS WORK. HE HAD NO IDEA WHAT THESE MIGHT BE. SOME PEOPLE MIGHT WANT TO DECIDE NOW TO HOLD AN INTER-GOVERNMENTAL CONFERENCE BUT OTHERS MIGHT NOT. PRESUMABLY THE NUMBER OF COMMISSIONERS IN THE NEW COMMISSION WOULD BE RAISED BY SOMEONE. RUTTEN AND I SAID THAT THE LATTER POINT HAD TO BE DECIDED AT DUBLIN IF IT WERE GOING TO BE DECIDED AT ALL. O'ROURKE SAID THAT UNLESS SOMEONE RAISED IT THERE WOULD BE A NON-DECISION IE A DECISION NOT TO CHANGE. NO-ONE SHOWED ANY DISPOSITION TO DISCUSS FURTHER WHAT THE "GUIDELINES" TO THE DOGE COMMITTEE MIGHT BE.

7. FINALLY, O'ROURKE SAID THAT THE PRESIDENCY HOPED THAT HEADS OF GOVERNMENT WOULD BE READY TO STAY WELL INTO THE AFTERNOON ON TUESDAY SINCE THERE WAS A LOT TO DO.

FCO ADVANCE TO:

FCO - FAIRWEATHER ECD(1), RENWICK, CROWE ECD(E), POWELL/NO.10
PS/RIFKIND
CAB - WILLIAMSON
DTI - MISS LACKEY
TSY - FITCHEW

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TO IMMEDIATE F C O

TELEGRAM NUMBER 4014 OF 28 NOVEMBER

INFO ROUTINE COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN,

LUXEMBOURG, ATHENS

INFO SAVING BRUSSELS.

FOREIGN AFFAIRS COUNCIL, 28 NOVEMBER.

BUDGET DISCIPLINE.

SUMMARY

AFTER A FURTHER ATTEMPT TO REACH AGREEMENT IN RESTRICTED SESSION, THE PRESIDENCY WERE OBLIGED TO CONCLUDE THAT NO PROGRESS COULD BE MADE AND THAT THE ISSUE MUST BE REFERRED TO THE EUROPEAN COUNCIL.

~~DETAIL~~

1. THE PRESIDENCY TABLED THE TEXT OF A DRAFT LETTER TO THE EUROPEAN PARLIAMENT (BY MUFAX) AND PROPOSED THAT THIS AND THE UNAMENDED TEXT OF THE COUNCIL CONCLUSIONS ON BUDGET DISCIPLINE SHOULD BE ADOPTED TOGETHER. THE DANES SAID THAT THEY WERE NOW READY TO AGREE ON THE SUBSTANCE OF PRIOR CONSULTATION WITH THE EUROPEAN PARLIAMENT AND TO APPROVE THE PRESIDENCY LETTER ACCORDINGLY. BUT THEY WERE NOT PREPARED TO AMEND THE COUNCIL CONCLUSIONS.
2. ITALY, BELGIUM, LUXEMBOURG AND GREECE ALL SAID THAT THIS DID NOT GO FAR ENOUGH. THORN'S PROPOSALS WERE THE ABSOLUTE MINIMUM. THE GREEKS WANTED THE ISSUE REFERRED TO THE EUROPEAN COUNCIL. BARRY (PRESIDENCY) SAID THAT THE FOREIGN AFFAIRS COUNCIL SHOULD TAKE THE DECISION AND THAT THORN'S TWO AMENDMENTS WERE REFLECTED IN THE PRESIDENCY'S DRAFT LETTER. TUGENDHAT (COMMISSION) SAID THAT THE LETTER FELL SHORT OF THE OBJECTIVE OF AVOIDING CONFLICT WITH THE PARLIAMENT.
3. TYGESEN (DENMARK) SAID THAT THE DANES WERE NOT DEMANDEURS FOR BUDGET DISCIPLINE AND COULD LIVE WITHOUT IT. THEY HAD MADE A GESTURE BUT HAD RECEIVED NO THANKS. HE WAS WILLING TO MAKE THE LETTER A "CONCLUSION" OF THE COUNCIL SO THAT IT HAD EXACTLY THE SAME STATUS AS THE CONCLUSIONS PROPER. HE DOUBTED WHETHER THE DANISH PRIME MINISTER WOULD TRY TO GET AGREEMENT FOR THORN'S TWO AMENDMENTS TO THE COUNCIL CONCLUSIONS PROPER.
4. ELLIOTT SAID THAT THE UK WOULD NOT BE ABLE TO PROCEED WITH THE INTER-GOVERNMENTAL AGREEMENT UNTIL THE BUDGET DISCIPLINE

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TEXT WAS ADOPTED. GOING TO THE EUROPEAN COUNCIL WOULD MEAN DELAY WHICH WE WOULD REGET. WE COULD HAVE AGREED TO THORN'S AMENDMENTS BUT NOW THOUGHT IT BEST TO ACKNOWLEDGE THE EFFORT MADE BY THE DANES AND TO SETTLE ON THE BASIS OF THE LETTER. LEPRETTE (FRANCE) AND RUTTEN (NETHERLANDS) AGREED SUBJECT TO MINOR IMPROVEMENTS IN THE LETTER. POENSGEN (GERMANY) COULD ACCEPT THE LETTER BUT WOULD HAVE PREFERRED TO GO FURTHER.

5. BARRY ASKED WHETHER ITALY, LUXEMBOURG AND THE REST COULD ACCEPT THE LETTER IF IT WAS IMPROVED. ITALY SAID THAT THE RELATIONSHIP WITH THE PARLIAMENT COULD NOT BE SAFEGUARDED BY A LETTER. BARRY CONCLUDED AS IN THE SUMMARY.

FCO ADVANCE TO:

FCO - RENWICK, WALL, MARSDEN.

CAB - WILLIAMSON, LAMBERT, BURR.

MAFF - PERRINS.

TSY - UNWIN, FITCHEW, HOPKINSON, BOSTOCK.

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Ref. A084/3174

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on his agreement with the Spanish Foreign Minister in the margins of the Foreign Affairs Council on 26-28 November on the reopening of the frontier between Spain and Gibraltar by 15 February 1985. This will implement the Lisbon Declaration of 10 April 1980. It will re-establish free movement of people and goods between both countries and remove restrictions on the use of Gibraltar's air space. Negotiations will be held to overcome all the remaining differences, and it is accepted by both sides that the issues of sovereignty will be included in the discussions. The agreement records the United Kingdom Government's intention to maintain fully its commitment to honour the wishes of the people of Gibraltar.

2. The Foreign and Commonwealth Secretary will also report that the Foreign Affairs Council itself concentrated on enlargement. After bilateral discussions with the French Minister for European Affairs, agreement was reached on a mandate for negotiations with Spain on tariff transition, including high industrial tariffs and the reduced duty quota on cars (doubling the United Kingdom export figure in the first year) which fully met our requirements, in return for our acquiescence in the French request for some surveillance over Spanish fruit and vegetables. On wine, although the Italians gave ground on the reform of the internal wine regime - setting a production level above which low-priced compulsory distillation will apply - which is a necessary preliminary to the unblocking of this question in the enlargement negotiations, it proved impossible to make sufficient progress to resolve the impasse. Discussion is continuing in the Foreign Affairs Council today but it is very likely that the question will be submitted to the European Council on 3-4 December.



3. The Foreign and Commonwealth Secretary may also report on the Foreign Affairs Council's discussion on the preparation for the European Council and, in the light of the European Parliament's reaction, on budgetary discipline. On the interim report of the Dooge Committee other member states, responding in part to United Kingdom arguments, do now seem more conscious of the need to avoid taking premature decisions. On budgetary discipline the Council is unanimous in standing firm on the text on all substantive points, including the strict financial guideline for agricultural expenditure. The Danish Government would not agree to any reference to hearing the views of the European Parliament before the reference framework is set but may not pursue this point today.

4. In the absence of the Secretary of State for Trade and Industry there will be no formal report on the Industry Council on 22 November, at which the United Kingdom was represented by the Minister of State, Department of Trade and Industry (Mr Lamont). This mandated the Commission to negotiate a two-year arrangement with the United States for exports of Community steel pipes and tubes on the basis of a Community share of 7.6 per cent of the United States market. The United Kingdom secured an increase in our share to 0.45 per cent. At the Foreign Affairs Council on 26-27 November it was reported that the United States had rejected the Community's offer and intended to limit its imports immediately to 5.9 per cent of the market. In the light of this, the Community will now denounce the 1982 Community/United States agreement.

5. There was a meeting of Culture Ministers on 22 November.

6. You are meeting President Mitterrand in Paris on 29-30 November and attending the European Council in Dublin on 3-4 December. The Budget Council meets on 29 November, when it is expected to reject the European Parliament's proposal to increase the 1985 draft budget above the available revenue. The Ministers of Health meet on 29 November and the Fish Council on 3-4 December.

28 November 1984

BA

ROBERT ARMSTRONG



10 DOWNING STREET

From the Private Secretary

27 November, 1984

Message from Chancellor Kohl

I enclose a copy of a message, received this afternoon, from Chancellor Kohl to the Prime Minister. It gives some insight into the subjects which he intends to raise tomorrow.

I am copying this letter and enclosure to Richard Mottram (Ministry of Defence) and David Williamson (Cabinet Office).

CHARLES POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

Courtesy translation

SUBJECT

T e l e g r a m

from

Herr Helmut Kohl, Federal Chancellor of the
Federal Republic of Germany

to

Her Excellency Margaret Thatcher, Prime Minister
of the United Kingdom of Great Britain and
Northern Ireland

PRIME MINISTER'S
PERSONAL MESSAGE

SERIAL No. T 200/84

cc Master
ors

Dear Prime Minister,

Thank you for your message of 6 November 1984 referring to important questions that we should discuss at our forthcoming meeting of the European Council and at our consultations in Bonn on 18 January 1985.

I concur with you in the view that the question of the further development of the Community and, in this context, the work of the DOOGE Committee as well as the subject of improved co-operation within WEU should be at the forefront of our discussions.

The DOOGE Committee has been meeting since September 1984. I am pleased that the atmosphere in the Committee is constructive. Our goal should be to ensure a substantive political outcome to the Committee's work. In this connection, I welcome the report submitted by Minister of State Rifkind. His proposals on the EC's internal market are currently being examined with great interest. Even at this stage it can be stated that his report contains a generally apt description of the situation. It explains both the advantages of a completed internal market and possible ways and means of achieving this. In this context, we shall have to take account of the decisions by this year's meetings of the European Council.

The meeting of Foreign and Defence Ministers in Rome on 26/27 October 1984 imparted strong impetus to WEU as the European pillar of the North Atlantic Alliance in connection with our

...

efforts for European unification. It is now essential to look to the future and actively continue strengthening WEU.

I look forward to our forthcoming meetings and talks. I shall, moreover, venture to phone you on Wednesday, 28 November 1984 in order to inform you of my talks with President Mitterand in Paris on 19 November 1984 and of the considerations which I would like to present to President Reagan during my forthcoming visit to Washington.

Yours sincerely,
(sgd.) Helmut Kohl



DER BOTSCHAFTER
DER BUNDESREPUBLIK DEUTSCHLAND
Baron Rüdiger von Wechmar

London, 27th November 1984

Dear Prime Minister,

I have the honour to transmit to you the enclosed telegram from Herr Helmut Kohl, Chancellor of the Federal Republic of Germany.

A courtesy translation is also attached.

*I am, Dear Prime Minister,
Yours sincerely*

Her Excellency
The Rt.Hon. Margaret Thatcher, MP
Her Majesty's Prime Minister and
First Lord of the Treasury
L o n d o n



Botschaft
der Bundesrepublik Deutschland
Embassy
of the Federal Republic of Germany

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Montag-Freitag: Monday-Friday 9.30-12.30
Fernschreiber: Nr. 28191
Telegrammanschrift: Diplogerma London

Mr. Charles Powell
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

10th December 1984

NRPM
EM.13/asi

Dear Mr. Powell,

I have the honour to transmit to you the original of a letter by Herr Köhl, Chancellor of the Federal Republic of Germany to the Prime Minister, the contents of which were already forwarded with a letter by Ambassador von Wechmar dated the 27th November 1984.

A courtesy translation is also attached.

Yours sincerely,

Dr. Hubert Ziegler
Private Secretary
to the Ambassador

Encls.

KIANGHART H. POWERTURE



BUNDESREPUBLIK DEUTSCHLAND
DER BUNDESKANZLER

Bonn, den 26. November 1984

Ihrer Exzellenz
Frau Margaret Thatcher
Premierminister des Vereinigten Königreichs
Großbritannien und Nordirland

L o n d o n

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T200/84 cc Ops + Mosher.

Sehr verehrte Frau Premierminister,

ich danke Ihnen für Ihre Botschaft vom 6. November 1984, in der Sie auf wichtige Fragen hinweisen, die wir bei unseren bevorstehenden Treffen beim Europäischen Rat und unseren Konsultationen am 18. Januar 1985 in Bonn erörtern sollten.

Ich stimme mit Ihnen überein, daß die Frage der Weiterentwicklung der Gemeinschaft und in diesem Zusammenhang die Arbeit des Dooge-Ausschusses wie auch die Verbesserung der Zusammenarbeit innerhalb der WEU im Mittelpunkt unserer Diskussionen stehen sollten.

Der Dooge-Ausschuß tagt seit September 1984. Ich freue mich, daß die Atmosphäre im Ausschuß konstruktiv ist. Unser Ziel sollte sein, daß der Ausschuß ein substantielles politisches Arbeitsergebnis erbringt. In diesem Zusammenhang begrüße ich den Bericht, den Herr Staatsminister Rifkind eingebracht hat. Seine Vorschläge zum Thema EG-Binnenmarkt werden mit großem Interesse z. Zt. geprüft. Schon jetzt läßt sich sagen, daß sein Bericht eine im wesentlichen zutreffende Situations-

...

beschreibung enthält; die Vorteile eines vollendeten Binnenmarktes werden ebenso aufgezeigt wie mögliche Maßnahmen zu seiner Verwirklichung. Dabei werden wir auch die Beschlüsse der diesjährigen Europäischen Räte zu berücksichtigen haben.

Das Treffen der Außen- und Verteidigungsminister vom 26./27. Oktober 1984 in Rom hat der WEU als europäischem Pfeiler in der Nordatlantischen Allianz im Hinblick auf unsere Bemühungen um die europäische Einigung starke Impulse gegeben. Es kommt daher jetzt darauf an, unseren Blick nach vorne zu richten und die Stärkung der WEU tatkräftig fortzusetzen.

Unseren bevorstehenden Begegnungen und Gesprächen sehe ich mit Freude entgegen. Ich werde mir im übrigen erlauben, Sie am Mittwoch, dem 28. November 1984 anzurufen, um Sie über mein Gespräch mit Staatspräsident Mitterrand am 19. November 1984 in Paris wie auch über die Überlegungen zu unterrichten, die ich bei meinem bevorstehenden Besuch in Washington Präsident Reagan erläutern möchte.

Mit freundlichen Grüßen

Je
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Jun

Courtesy translation

T e l e g r a m

from

Herr Helmut Kohl, Federal Chancellor of the
Federal Republic of Germany

to

Her Excellency Margaret Thatcher, Prime Minister
of the United Kingdom of Great Britain and
Northern Ireland

Dear Prime Minister,

Thank you for your message of 6 November 1984 referring to important questions that we should discuss at our forthcoming meeting of the European Council and at our consultations in Bonn on 18 January 1985.

I concur with you in the view that the question of the further development of the Community and, in this context, the work of the DOOGE Committee as well as the subject of improved co-operation within WEU should be at the forefront of our discussions.

The DOOGE Committee has been meeting since September 1984. I am pleased that the atmosphere in the Committee is constructive. Our goal should be to ensure a substantive political outcome to the Committee's work. In this connection, I welcome the report submitted by Minister of State Rifkind. His proposals on the EC's internal market are currently being examined with great interest. Even at this stage it can be stated that his report contains a generally apt description of the situation. It explains both the advantages of a completed internal market and possible ways and means of achieving this. In this context, we shall have to take account of the decisions by this year's meetings of the European Council.

The meeting of Foreign and Defence Ministers in Rome on 26/27 October 1984 imparted strong impetus to WEU as the European pillar of the North Atlantic Alliance in connection with our

...

efforts for European unification. It is now essential to look to the future and actively continue strengthening WEU.

I look forward to our forthcoming meetings and talks. I shall, moreover, venture to phone you on Wednesday, 28 November 1984 in order to inform you of my talks with President Mitterand in Paris on 19 November 1984 and of the considerations which I would like to present to President Reagan during my forthcoming visit to Washington.

Yours sincerely,
(sgd.) Helmut Kohl

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PRIME MINISTEREuropean Community

1. At the moment of writing this, it still looks as though a good deal of the time at Dublin will be taken up with enlargement, particularly by wine and fish. We shall be discussing these separately in the light of the latest state of play at Brussels. This note is about the other subject that is likely to loom large - the development of the Community. This is bound to take as its starting-point the interim report of the Dooge Committee.

2. I had a chance to discuss this with my colleagues at the Foreign Affairs Council lunch in Brussels yesterday. I arranged to discuss it as well at separate meetings with Dumas and Ruhfus. From all this it became reasonably clear that most people are looking for no more than a preliminary discussion in Dublin, and that the main discussion will take place at the European Council in March. We shall need at Dublin to keep that later discussion in mind.

3. It is now pretty clear to me that the main thrust for the recent burst of activity is coming from Chancellor Kohl. Ruhfus explained his thinking very candidly: and it is far from fully thought out. One part - with which we can identify completely - is impatience for faster progress on the establishment of a truly common market. The other part -

/much

Prime Minister
This is based on the expectation that others will stand up to be counted. There is little by way of precedent to encourage such a belief.

CJD
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much less clear - is his wish for further evidence of political progress. This is why he is said to be determined to achieve a new "inter-governmental agreement" of an essentially declaratory kind, dealing inter alia with political cooperation. He is under political pressure at home and the French see an interest in helping him counteract tendencies which worry them in German opinion. Mitterrand appears ready to go along with a new agreement in the interests of Franco-German relations - and also of course to promote French interests in the Community. And Kohl believes, according to Ruhfus, that he needs to make headway (if at all) ahead of the French elections in 1986. Mitterrand intends to propose cooperation in fields not covered by the existing treaties, notably internal security, health, education and culture. None of this would necessarily amount to much more than statements of intent.

4. On the real substance, the French position is closer to ours: they will not agree to any effective transfer of authority. Mitterrand will not want a Treaty that represents any substantive change on e.g. the Luxembourg compromise. Nor will he accept any commitment which hinders him from acting in defence of essential French interests in political cooperation. But he probably will accept a properly qualified obligation to consult, of a kind we also could accept, given our record on consultation. Dumas made clear to me that the Germans want to go further than the French will be prepared to go. But I expect Mitterrand will wish, for the reasons I have given, to endorse the idea of a new agreement. Even so, I think it should be possible - certainly it is desirable - for us to try (not too obviously) to establish some common ground with the French. We should try to leave it to them (and some of the others) to make some of the running, so that it is not left to us to block those proposals that would also give them difficulty.



5. We should be able to respond to many of Kohl's ideas simply by raising a number of questions, which other Member States too will be hard put to answer. What precisely would the content of a new agreement be? Would a new treaty leave the existing treaties and institutions as they are? Or would it seek to change them? If so, in what respects? (Any changes would of course require unanimity.) Is it proposed to try to negotiate a new treaty among the Ten? Or among the Twelve? Will proposals to increase the role of the Parliament (for example) really increase our chances of making faster progress towards greater market unity? The fact is that there will be no general agreement to change the existing Treaties; and any agreement superimposed on them therefore can be of very limited effect. We should adopt a questioning attitude, not in such a way as to arouse a hostile reaction, but to channel the discussion in the direction we want.

6. I think it is extremely important for us to avoid falling into the essentially defensive position that some of the others expect us to adopt. Nor do I think there should be any need for this. It will serve our interests far better to play an active part, but constantly trying to bring the discussion back on to ground of our own choosing - particularly when we know that that ground is likely to appeal to Kohl or Mitterrand or both. We certainly need not leave it to others to make all the running. We should try to match the French in ingenuity in seeking to turn to our advantage Kohl's declared enthusiasm for completion of the internal market, where progress otherwise will continue to be painfully slow. We should try (we both know how often others hang back on questions of this kind) to leave it to the French or the Danes, for instance, to declare their own objections to any obligations in political cooperation which would inhibit them from playing an independent role.



7. Throughout all this we need to keep clearly in mind our wider, long-term, British objectives. Both in Europe and outside we must be seen to be playing no less central a role than France and Germany in the Community. It is a fundamental British interest that we should be centrally involved in the leadership of Europe; and it will be no less important to our influence within the trans-Atlantic partnership that we should be seen to be so. We should keep all this in the forefront of our minds at Dublin, though not on public view. Rather than just reacting to what others propose, we should emphasise that no one is keener than we are to see the strengthening and development of political cooperation; and that our record is second to none in that regard. We have put forward a series of positive proposals for the development of the Community. Our attitude to the ideas of others will be affected by the willingness of other Member States to implement the existing treaties, and in particular to commit themselves to take specific actions to bring the completion of the internal market within a given timetable. The President of the Parliament (M. Pflimlin) told members of the Council this week that in the 1950s the Community had set itself the task of removing tariff barriers in ten years and had succeeded: it must now set itself a new target of removing all non-tariff barriers by the year 2000. We should press for all such barriers to be removed within this decade.

8. The main point we need to get across to Kohl and others is that there are enough areas for action by agreement within the Community in terms of completing the Treaties and developing political cooperation to represent real reform without having to involve ourselves in all the ideas canvassed by the Dooge Committee. The way to a more united Community cannot be through a route which would divide some Member States from others and which could only undermine the commitments we all entered into in the Stuttgart Declaration. We want to see agreement on measures contributing to the real development of the Community. We are ready to work with

/all



all our partners to achieve practical results. On this basis the Dublin European Council should instruct the Committee to go away and look above all for proposals on which agreement might be possible. A movement might develop - which we should not discourage - to have that task remitted to representatives of the Member Governments. The idea of an inter-governmental conference (one of the Dooge suggestions) would only work if there was already a substantial measure of prior agreement about the subjects it would deal with and what precisely could be achieved.

9. I doubt if you need go into detail about this in your telephone conversation with Chancellor Kohl. It would suffice to emphase that we certainly want to see something positive come of this work, including the strengthening of political cooperation. It should be carried forward in a way which strengthened European unity, rather than risking a division between Member States so soon after our success in carrying Stuttgart to a conclusion. There may not be time for more than an introductory discussion at Dublin. That could be followed up at the Brussels Council in March. You will wish to discuss our and his ideas in detail at your meeting in January. The purpose should be to reach agreed decisions we can all accept.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
27 November 1984

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CONFIDENTIAL ✓PRIME MINISTERFUTURE OF EUROPE

We have arranged a small meeting tomorrow of Sir Geoffrey Howe, Mr. Rifkind, Sir Michael Butler and Mr. Williamson.

The purpose is to consider the handling at the Anglo/French Summit, the European Council and subsequently of the issues being considered by the Dooce Committee. These cover in particular suggestions that there should be a new Treaty, formalising a commitment to consult in political cooperation, permanent machinery for POCO, conditions on the use of the Luxembourg compromise, and greater use of majority voting where permitted by the Treaty (and subject to the right to invoke the Luxembourg compromise).

The latest indications from Brussels (see attached telegram) are that there will not be any attempt at the European Council to rush through decisions. Even so we need to work out a strategy which will enable us to restore a sense of proportion to those member States who are arguing for a new Treaty without at the same time driving them to go ahead without us. The main background papers are attached.

If there is time you may also wish to discuss Mr. Williamson's minute (attached) on New Own Resources and the 1985 Community Budget; and find out from Geoffrey Howe, following the Foreign Affairs Council, which Enlargement issues are likely to have to come to the European Council.

E.D.P.

27 November 1984

P.S. See now further note by GH received late tonight.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 3944 OF 26 NOVEMBER 1984

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STRASBOURG.

FOREIGN AFFAIRS COUNCIL, 26 NOVEMBER 1984

DOOGE COMMITTEE

SUMMARY

1. GENERALLY CAUTIOUS PRELIMINARY REACTIONS, WITH NO SIGN OF
ANY TENDENCY TO RUSH INTO DECISIONS AT DUBLIN EUROPEAN COUNCIL.

DETAIL

2. THIS CAME UP OVER LUNCH. TINDEMANS (BELGIUM), PROMPTED BY
YOU, SAID THAT THE DOOGE COMMITTEE HAD DONE SOME USEFUL WORK.
THIS SHOULD NOT BE RUSHED. THERE SHOULD BE AN INTERIM REPORT
TO THE DUBLIN EUROPEAN COUNCIL AND A FINAL REPORT IN MARCH.
ELLEMANN-JENSEN (DENMARK) SAID THAT IT WAS UNPRODUCTIVE TO HAVE
A DIVIDED REPORT, WITH FOOTNOTES. THORN (COMMISSION) SAID THAT
THE EUROPEAN COUNCIL SHOULD GIVE ORIENTATIONS AND LOOK AT
PROCEDURAL QUESTIONS, SUCH AS THE NEED FOR AN INTER-GOVERN-
MENTAL CONFERENCE. RUHFUS (FRG) SAID THAT THE INTERIM REPORT
IDENTIFIED THE POINTS OF SUBSTANCE AND SUGGESTED AN INTER-
GOVERNMENTAL CONFERENCE. ANDREOTTI (ITALY) SAID THAT IT SHOULD
ONLY BE REGARDED AS A REPORT ON THE CURRENT STATE OF WORK.
THERE HAD ONLY BEEN FIVE MEETINGS OF THE COMMISSION SO FAR.

ONLY BE REGARDED AS A REPORT ON THE CURRENT STATE OF WORK.
THERE HAD ONLY BEEN FIVE MEETINGS OF THE COMMISSION SO FAR.

3. YOU SOUGHT TO IMPRESS ON THE OTHERS THE NEED TO AVOID EFFORTS TOWARDS GREATER UNITY BECOMING A SOURCE OF DISUNITY BETWEEN THE MEMBER STATES. IT WAS NOT WISE OF THE COMMITTEE TO PROCEED BY WAY OF MAJORITY AND MINORITY RECOMMENDATIONS (OR BY DISCUSSION IN RESTRICTED GROUPS). IT WAS ESSENTIAL TO WORK CAREFULLY BY CONSENSUS. THE UK HAD MADE A POSITIVE INPUT AND WANTED TO ACHIEVE TANGIBLE RESULTS. DISCUSSION IN DUBLIN SHOULD FOCUS ON REALISABLE OBJECTIVES, IZ GREATER ACTION IN POLITICAL COOPERATION AND IN FULFILLING EXISTING TREATIES. THE UK'S ATTITUDE TO FURTHER MOVES WOULD DEPEND ON OTHERS FULFILLING THE EXISTING TREATIES. THERE NEEDED TO BE MUCH GREATER CLARITY AS TO WHAT WAS PROPOSED, AND THE RELATIONSHIP OF THAT TO THE EXISTING TREATIES. WE INTENDED TO CONTRIBUTE POSITIVELY TO THIS WORK.

4. VAN DEN BROEK (NETHERLANDS) SAID THAT THE EUROPEAN COUNCIL COULD EITHER TAKE NOTE AND GIVE A GENERAL STEER OR DISCUSS AND FORM OPINIONS. UNANIMITY MIGHT BE IMPOSSIBLE TO ACHIEVE. BARRY (PRESIDENCY) CONSIDERED THAT THE EUROPEAN COUNCIL SHOULD TELL THE COMMITTEE TO DO MORE ON THIS, LESS ON THAT AND COME BACK IN MARCH. RUHFUS AGREED. MARCH WAS THE DEADLINE, BUT THE COMMITTEE WOULD BE LOOKING FOR AN INTERIM REACTION. DUMAS (FRANCE) SAID THAT THE EUROPEAN COUNCIL SHOULD GIVE STEER. IT WAS WRONG TO RUSH DECISIONS TO DO WITH THE TREATIES, AND IT WAS FOR HEADS OF GOVERNMENT AND NOT FOR THE DOOGIE COMMITTEE TO TAKE THE DECISIONS. ELLEMANN-JENSEN AGREED THAT IT WAS FOR THE EUROPEAN COUNCIL TO TAKE THE DECISIONS. BUT THE FREEDOM TO DECIDE WAS AFFECTED ONCE THERE HAD BEEN LEAKS ABOUT ALL THIS MEANWHILE. TINDEMANS SAID THAT THE COMMITTEE SHOULD BE INSTRUCTED WHETHER TO CONTINUE ITS WORK AND WHETHER THERE WAS A NEED FOR A NEW AGREEMENT. HE AGREED THAT IT WAS WRONG TO CREATE DIVISIONS AND TOO EARLY TO GIVE DEFINITIVE VIEWS. ANDREOTTI (ITALY) ALSO SPOKE IN FAVOUR OF THE EUROPEAN COUNCIL GIVING GUIDANCE. MANY POINTS NEEDED TO BE EXAMINED IN GREATER DEPTH. CAUTION WAS NEEDED.

5. THORN SUGGESTED THAT THE EUROPEAN COUNCIL SHOULD TAKE NOTE, INSTRUCT THE COMMITTEE TO LOOK INTO CERTAIN SPECIFIC QUESTIONS AND ASK IT FOR A FURTHER REPORT BY MARCH. HE ASKED IF DOOGIE SHOULD BE INVITED TO THE EUROPEAN COUNCIL. VAN DEN BROEK THOUGHT IT WOULD BE USEFUL TO HEAR A REPORT FROM HIM. BARRY CONFIRMED THAT THE COMMITTEE WOULD EXPECT GUIDANCE FROM THE EUROPEAN COUNCIL. RUHFUS AGREED, MENTIONING SPECIFICALLY THE PROPOSAL FOR AN INTERGOVERNMENTAL CONFERENCE.

FCO ADVANCE TO:-

FCO - PS, PS/MR RIFKIND, FAIRWEATHER
CAB - WILLIAMSON, STAPLETON, LAMBERT
NO 10 - POWELL

FCO PASS SAVING LISBON, MADRID, STRASBOURG

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FM UKREP BRUSSELS 231715Z NOV 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 3923 OF 23 NOVEMBER
INFO ROUTINE ALL EC POSTS, LISBON, MARDID, STRASBOURG

AD HOC COMMITTEE ON INSTITUTIONS (DOOGE COMMITTEE) : 21-23 NOVEMBER

SUMMARY

1. **WORK ON INTERIM REPORT TO DUBLIN EUROPEAN COUNCIL COMPLETED.** MR RIFKIND OBTAINED SATISFACTORY METHOD OF REGISTERING VIEWS OF THOSE WHO ON ANY SPECIFIC POINT COULD NOT ACCEPT MAJORITY TEXT, THOUGH MANY MEMBERS APPEARED DETERMINED TO IGNORE THE DISTINCTION BETWEEN AN INTERIM AND A FINAL REPORT.
2. **TEXT CONTAINS MANY WELCOME FEATURES, THE MOST IMPORTANT BEING GOOD PASSAGES ON INTERNAL MARKET, EXTERNAL RELATIONS INCLUDING POLITICAL COOPERATION, REDUCTION IN NUMBER OF COMMISSIONERS, AND REDUCTION IN FREQUENCY OF EUROPEAN COUNCIL MEETINGS.**
3. **HOWEVER IN SPITE OF MR RIFKIND'S READINESS TO BE FLEXIBLE ON MANY ISSUES THERE WAS LITTLE OR NO RECIPROCAL MOVEMENT BY THE MAJORITY (USUALLY THE SIX, IRELAND AND THE COMMISSION) ON THE IMPORTANT ISSUES, ESPECIALLY MAJORITY VOTING AND POWERS OF THE EUROPEAN PARLIAMENT. MR RIFKIND HAD THEREFORE TO RECORD HIS DISSENT ON THOSE TWO SUBJECTS, AS WELL AS ON PART OF THE EMS TEXT, AND ON THE SELECTION OF MEMBERS OF THE COMMISSION BY THE PRESIDENT-DESIGNATE. ON MAJORITY VOTING HOWEVER THERE IS AN IMPORTANT UNANIMOUS STIPULATION THAT THE PRACTICAL IMPLICATIONS OF THE PROPOSALS HAVE TO BE EXAMINED.**
4. **A CLEAR MAJORITY FAVOURED AN OVERALL CONCLUSION TO THE EFFECT THAT THE COMMITTEE'S WORK DEMONSTRATED THE NEED FOR AN INTERGOVERNMENTAL CONFERENCE TO NEGOTIATE A TREATY ON EUROPEAN UNION. MR RIFKIND, MOLLER (DENMARK) AND PAPANTONIOU (GREECE) DEMONSTRATED THE ILLOGICALITY OF SUCH A RECOMMENDATION ON THE BASIS OF AN INTERIM REPORT, BUT THIS FELL ON DEAF EARS (AND CLOSED MINDS) AND ALL THREE THEREFORE RECORDED THEIR DISSENT ON THIS.**

DETAIL

A. FORM OF REPORT

5. THE COMMITTEE WORKED FOR A TOTAL OF SOME 24 HOURS ON THE AMENDMENTS PROPOSED TO FAURE'S DRAFT OF THE INTERIM REPORT. WORK ON THE TEXT WAS PUNCTUATED BY FREQUENTLY ACRIMONIOUS DISCUSSION OF THE FORM OF THE INTERIM REPORT, ESPECIALLY THE MANNER IN WHICH THE VIEWS OF THOSE WHO COULD NOT ACCEPT A MAJORITY TEXT SHOULD BE RECORDED. AFTER SEVERAL HEATED ARGUMENTS, MAINLY WITH FERRI (ITALY) AND FAURE HIMSELF, MR RIFKIND WAS ABLE TO OBTAIN AGREEMENT TO A FORMULA UNDER WHICH

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/A

(A) IN A FEW CASES WHERE THE COMMITTEE JUDGED IT APPROPRIATE THE TEXT WOULD RECORD THE FACT THAT DISCUSSION WAS TO CONTINUE BEFORE THE PRESENTATION OF THE FINAL REPORT.

(B) WHERE IT WAS CLEAR THAT FURTHER DISCUSSION WOULD NOT SUBSTANTIALLY ALTER THE VIEWS OF EITHER MAJORITY OR THE OTHERS, THE LATTERS' VIEWS WOULD BE RECORDED EITHER

- I) BRIEFLY IN A FOOTNOTE, OR
- II) AT GREATER LENGTH IN AN ANNEX.

B. INTERNAL MARKET

6. MR RIFKIND'S REQUIREMENTS WERE FULLY MET (EG ON TRANSPORT, INSURANCE AND FREEDOM OF CAPITAL MOVEMENTS) AND THE REFERENCE TO HARMONISATION OF TAX AND TRADE LEGISLATION WAS REMOVED. IT WAS ACCEPTED THAT MUTUAL RECOGNITION OF EXISTING STANDARDS WAS NECESSARY PENDING THE INTRODUCTION OF EUROPEAN STANDARDS.

C. EMS

7. ON THIS THERE WAS SOME SYMPATHY FOR MR RIFKIND'S VIEWS: HIS OBJECTION TO 'COMPULSORY' COORDINATION OF POLICIES WAS SUSTAINED, AND IT WAS AGREED THAT THE OBJECTIONABLE REFERENCES TO AN INDEPENDENT EUROPEAN CENTRAL BANK SYSTEM AND A COMMON CURRENCY SHOULD BE SUBJECT OF FURTHER DISCUSSION. IT WAS HOWEVER NECESSARY TO CONCEDE WORDS TO THE EFFECT THAT A WEAK ECONOMY JOINING THE ERM SHOULD BE HELPED (AS WERE ITALY AND IRELAND). IT IS SATISFACTORY THAT THERE IS NO CALL FOR UK PARTICIPATION IN THE ERM.

D. BUDGET

8. THE REFERENCE TO RESOURCES IS ADEQUATELY QUALIFIED BY THE NEED FOR BUDGETARY DISCIPLINE, SAVINGS TO MATCH EXTRA EXPENDITURE AND THE POINT THAT NEW POLICIES DO NOT NECESSARILY INCUR NEW EXPENDITURE.

E. EXTERNAL RELATIONS

9. ON POLITICAL COOPERATION MR RIFKIND OBTAINED A REFERENCE TO FORMALISING THE COMMITMENT TO PRIOR CONSULTATION. THE SUGGESTIONS FOR CODIFICATION OF CURRENT PRACTICE AS WELL AS FOR A SECRETARIAT REMAIN, BUT WITHOUT A SECRETARY-GENERAL. THE TEXT ON DEFENCE NO LONGER CONTAINS CLASHES (ON STANDARDS AND COMMUNITY PREFERENCE) WITH NATO REQUIREMENTS.

%F. INSTITUTIONAL QUESTIONS.

(I) COMMISSION.

10. MR RIFKIND'S SUGGESTION TO REDUCE THE NUMBER OF COMMISSIONERS WAS UNANIMOUSLY AGREED : THE FINAL TEXT REFERS TO QUOTE NO MORE THAN ONE FROM EACH MEMBER STATE UNQUOTE. THE DISCUSSION ON THE APPOINTMENT OF MEMBERS OF THE COMMISSION WAS LESS SATISFACTORY, THE MAJORITY FAVOURING SELECTION BY THE PRESIDENT-DESIGNATE SUBJECT TO APPROVAL BY THE COUNCIL (COMMENT : THIS WOULD PRESUMABLY MEAN BY MAJORITY VOTE). THE MINORITY'S (INCLUDING MR RIFKIND'S) PREFERENCE FOR THE PRESENT PROCEDURE IS RECORDED.

(II) EUROPEAN COUNCIL.

11. MR RIFKIND'S SUGGESTION TO LIMIT THE NUMBER OF EUROPEAN COUNCIL MEETINGS TO TWO A YEAR WAS UNANIMOUSLY ACCEPTED.

(III) DIFFERENTIATION (IE. VARIABLE GEOMETRY)

12. THE TEXT LIMITS DIFFERENTIATION TO EXCEPTIONAL CASES.

(IV) MAJORITY VOTING

13. FAURE DESCRIBED THE DETAILED AMENDMENT TABLED BY MR RIFKIND AS "CONCRETE STEPS IN THE RIGHT DIRECTION" AND VAN EEKELEN (NETHERLANDS) SAID THAT THEY WERE "VERY SUBSTANTIAL". HOWEVER IT WAS QUICKLY CLEAR THAT THE MAJORITY WERE DETERMINED TO FORCE THROUGH FAR MORE RADICAL PROPOSALS.

14. THE TEXT FINALLY APPROVED BY THE MAJORITY -

(A) LIMITS UNANIMITY TO NEW AREAS OF ACTION OR NEW ACCESSIONS

(B) CODIFIES THE RIGHT TO PLEAD A VITAL (SIC) INTEREST FOR A TRANSITIONAL PERIOD, SO LONG AS IT CAN BE OBJECTIVELY JUSTIFIED TO THE COUNCIL AND THE VITAL INTERESTS OF THE COMMUNITY AS A WHOLE ARE RESPECTED.

BUT THERE WAS A DIFFERENCE OF VIEW BETWEEN ANDRIESSEN (COMMISSION), HERMAN AND RUHFUS (FRG) WHO WANTED TO LIMIT THE "VETO" TO NEW AREAS OF MAJORITY VOTING AND FAURE AND DOOGE WHO COULD ACCEPT NO SUCH LIMITATION. THIS DIFFERENCE IS ALSO ATTENDED TO IN A FOOTNOTE. MR RIFKIND AND VAN EEKELEN OBTAINED (TO FAURE'S GREAT INDIGNATION) THE ADDITION TO THE TEXT ON MAJORITY VOTING A STIPULATION THAT FURTHER DISCUSSION WOULD BE NEEDED ON THE PRACTICAL IMPLICATIONS OF WHAT HAD BEEN PROPOSED AND OF OTHER PROPOSALS WHICH WOULD IMPROVE DECISION-MAKING, EG THOSE OF MR RIFKIND'S OWN SUGGESTIONS REJECTED AS TOO DETAILED FOR AN INTERIM REPORT.

(COMMENT: THIS IMPORTANT PASSAGE WOULD ENABLE THE PRIME MINISTER, IF SHE WISHED, TO ARGUE AT THE EUROPEAN COUNCIL THAT THIS ISSUE HAS NOT BEEN FINALLY RESOLVED: THE MAJORITY HAVE SAID WHAT THEY WANT, THE MINORITY HAVE DISAGREED, BUT ALL AGREED THAT THE PRACTICAL IMPLICATIONS HAD STILL TO BE EXAMINED).

(V) POWERS OF PARLIAMENT

15. THE MAJORITY WERE NOT PREPARED TO ACCEPT A REFERENCE IN THE REPORT TO IMPROVING THE CONCILIATION PROCEDURE, SINCE THEY REGARDED THAT AS OVERTAKEN BY THE MAJORITY VIEW THAT THE EP SHOULD

(A) HAVE INCREASED PARTICIPATION IN LEGISLATION IN THE FORM OF JOINT DECISION-MAKING WITH THE COUNCIL

(B) EXERCISE MORE SUPERVISION OVER COMMUNITY POLICIES

(C) HAVE RESPONSIBILITY IN DECISIONS ON REVENUE.

MR RIFKIND'S DISSENTING VIEW IS RECORDED.

19

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G. TEXT.

16. THE FINAL VERSION OF THE TEXT WAS NOT ADOPTED UNTIL THE END OF A RESUMED SESSION AT NOON TODAY, WHICH CONTINUED, MAINLY AT ASSISTANT LEVEL UNTIL 1730. PROVISIONAL TEXT BY MUFAX TO FAIRWEATHER (ECD(1)) AND BY BAG TO FCO AND REPETITION ADDRESSEES. FINAL TEXT WILL NOT BE AVAILABLE UNTIL 27 NOVEMBER. IT WILL REMAIN 'CONFIDENTIAL' UNTIL PRESENTED TO THE EUROPEAN COUNCIL, WHICH WILL BE INVITED, IN A COVERING LETTER FROM DOOGE CLEARED BY THE COMMITTEE, TO TRANSMIT IT ALSO TO THE EUROPEAN PARLIAMENT, WHICH IS TO DEBATE IT IN JANUARY.

H. PRESS

17. ALTHOUGH RUFUS HAS ALREADY BRIEFED GERMAN AND SOME OTHER CORRESPONDENTS HERE (AND OTHERS MAY ALSO DO SO), MR RIFKIND'S VIEW IS THAT WE SHOULD REST ON THE CONFIDENTIAL NATURE OF THE REPORT AND THE NEED TO RESEPECT THE AGREEMENT WITHIN THE COMMITTEE NOT TO SPEAK TO THE PRESS.

I. NEXT MEETING.

18. IT WAS AGREED THAT THE NEXT MEETING SHOULD BE SHORT, BEGINNING AT 1100AM ON THURSDAY 13 DECEMBER. DOOGE WILL CONSULT MEMBERS OF THE COMMITTEE BY TELEPHONE AFTER THE EUROPEAN COUNCIL IF HE THINKS THAT A MEETING THEN MIGHT BE OF DOUBTFUL UTILITY.

RESIDENT CLERK PLEASE PASS TO PRIVATE SECRETARY.

FCO ADVANCE TO:

FCO - PS RENWICK FAIRWEATHER
CAB - WILLIAMSON STAPLETON LAMBERT
NO 10 - POWELL

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TELNO 784

OF 231700Z NOVEMBER 1984

AND TO IMMEDIATE DTI (FOR PS MR CHANNON DESKBY 260800Z)
DEPT OF TRANSPORT (FOR PS MR RIDLEY) DESKBY 260800Z

INFO PRIORITY UKREP BRUSSELS, DUBLIN

INFO SAVING OTHER EC POSTS

THE ITALIAN PRESIDENCY

SUMMARY

1. MR RIDLEY AND MR CHANNON WILL FIND THAT THE ITALIANS HAVE GIVEN SOME, BUT NOT MUCH, THOUGHT TO PRIORITIES DURING THEIR PRESIDENCY. CRAXI WILL BE LOOKING FOR SOME FORM OF POLITICAL COUP, POSSIBLY A VISIBLE STEP TOWARDS EUROPEAN UNION BY WHICH HE AND HIS PRESIDENCY WILL BE REMEMBERED. MINISTERS WILL BE THINKING OF ELECTIONS AND OFFICIALS EXPECT TO FLY BY THE SEAT OF THEIR PANTS. BUT RUGGIERO, WITH HIS DRIVE AND DETERMINATION, MAY YET IMPOSE A PATTERN UPON THE PRESIDENCY.

DETAIL

2. WE HAVE DISCUSSED THE OUTLOOK FOR THE ITALIAN PRESIDENCY WITH OFFICIALS OF MOST KEY MINISTRIES FOLLOWING A SERIES OF INTERDEPARTMENTAL MEETINGS DESIGNED TO SET PRIORITIES. I HAVE ALSO SPOKEN TO RUGGIERO (ECONOMIC DIRECTOR). A DETAILED ASSESSMENT WILL FOLLOW BY BAG, BUT MESSRS RIDLEY AND CHANNON (AND RENWICK) MAY FIND THE FOLLOWING PRELIMINARY COMMENTS OF USE.

3. OUR INTERLOCUTORS CONFIRMED THAT IN THEORY ITALY'S PRIORITIES WERE AS OUTLINED BY CRAXI AND HIS MINISTERS AT THE ANGLO/ ITALIAN SUMMIT, VIZ. PROGRESS TOWARDS EUROPEAN UNION (DOGE AND PEOPLE'S EUROPE COMMITTEES), DEVELOPMENT OF THE INTERNAL MARKET, IMPROVED CONDITIONS FOR RESEARCH AND HIGH TECHNOLOGY COLLABORATION, A FRESH LOOK AT THE CAP AGAINST THE BACKGROUND OF BUDGETARY RESTRAINT, AND ENHANCEMENT OF THE COMMUNITY'S RELATIONS WITH THIRD COUNTRIES. BUT THEY READILY ADMIT THAT THIS PROGRAMME LACKS SUBSTANCE AS YET. THEY BELIEVE THE REMAINING PROBLEMS OVER ENLARGEMENT ARE UNLIKELY TO BE OUT OF THE WAY BY THE BEGINNING OF THEIR PRESIDENCY, AND THAT THE PARLIAMENT IS QUITE LIKELY TO REJECT THE 1985 BUDGET. THEY THUS EXPECT THE EARLY MONTHS OF THEIR PRESIDENCY TO BE DOMINATED BY THESE TWO IMMEDIATE ISSUES. THEY THEREFORE SEE LITTLE SCOPE FOR USING THEIR PRESIDENCY TO MAKE A MAJOR LEAP FORWARD IN EUROPEAN INTEGRATION, THOUGH RUGGIERO TOLD ME THAT THEY WOULD NEVERTHELESS TRY TO SECURE AGREEMENT BY THE END OF JUNE TO AN INTERNATIONAL CONFERENCE ON EUROPEAN UNION, WITH PRELIMINARY DISCUSSION AT THE MARCH EUROPEAN COUNCIL. /THEY

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THEY READILY ADMIT THAT THERE IS A CONTRADICTION BETWEEN THE OBJECTIVE OF MAKING PROGRESS ON THE INTERNAL MARKET AND THEIR ATTITUDE TO MANY SPECIFIC ISSUES SUCH AS AIR SERVICES AND INSURANCE. THEIR IDEAS ON CAP ARE AT A FORMULATIVE STAGE, BUT INCLUDE THE POSSIBILITY OF A 'WISE MAN' APPROACH TO PRODUCE NEW IDEAS, ESPECIALLY INCENTIVES TO FARMERS TO GO FOR HIGHER VALUE AND NON-SURPLUS-CREATING CROPS. IN POCO THE CHIGI, AT LEAST, EXPECT CRAXI TO TAKE A KEEN INTEREST IN THE MIDDLE EAST.

4. RUGGIERO SPOKE TO ME OF REINFORCING THE ECU AND OF PRESUADING US TO JOIN THE EXCHANGE RATE MECHANISM OF THE EMS. BUT TREASURY OFFICIALS TELL US THAT THERE ARE NO PLANS FOR ANY INITIATIVE IN THE MONETARY FIELD. ON THE SOCIAL AFFAIRS SIDE, THE ITALIANS ARE SOME WAY FROM DEFINING PRACTICAL PROPOSALS TO GIVE EFFECT TO THE HIGH PRIORITY THEY ATTACH TO A COMMUNITY RESPONSE TO INTRANSIGENTLY HIGH UNEMPLOYMENT. MIGRATION WILL TAKE SECOND PLACE TO THIS.

5. WITH ADMINSTRATIVE (IE REGIONAL, PROVINCIAL AND COMMUNEL) ELECTIONS LOOMING IN MAY, PRESIDENTIAL ELECTIONS AT THE END OF JUNE, AND THE CRAXI GOVERNMENT FUTURE IN QUESTION FROM JULY ONWARDS, IT IS UNREALISTIC TO EXPECT RADICAL PROPOSALS, ESPECIALLY ON AGRICULTURE, FROM THE ITALIANS. INDEED THE 'WISE MAN' APPROACH IS A USEFUL WAY OF KICKING THE CAP TO TOUCH. CRAXI (AND ANDREOTTI IF HE SURVIVES THE CURRENT THREATS TO HIS POLITICAL LIFE) WILL BE LOOKING TO EXTRACT POLITICAL ADVANTAGE FROM THEIR TENURE. THIS WILL IN THE END DICTATE THE WAY THEY HANDLE COMMUNITY BUSINESS, THOUGH THEY WILL ALSO BE GUIDED BY THE NATURAL ITALIAN TENDENCY TO ADOPT THE ROLE OF CONILIATOR AND ARCHITECT OF COMPROMISE.

BRIDGES

FRAME GENERAL
ECDU)

FOR THE PAYS SAYING ADDRESSSES

AMM

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Ps / Mr RIDLEY DTP

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NBPM
(covered in cabinet)

CDP
227xi

Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell
10 Downing Street
London SW1

22 November 1984

Dear Charles

BUDGETARY DISCIPLINE

The Economic Secretary attended the discussion last evening in Brussels between members of the ECOFIN Council and a delegation of the European Parliament about the text on budgetary discipline agreed (as a "common position") by Finance Ministers at ECOFIN on 12 November.

The Parliament delegation, as expected, strongly criticised the text, alleging that it encroached unacceptably on the rights of the Parliament and the Commission. At the minimum, they sought a specific commitment by the Council, preferably in the text of the agreement, to meaningful consultation on how budget discipline would be put into effect. They made it clear, both during the meeting and privately, that unless their wishes were met they would reject the draft 1985 budget which the Budget Council is to discuss further on 29 November.

The President of the Council, Mr Dukes (the Irish Finance Minister), stood admirably firm. While offering the prospect of discussions with the Parliament at some unspecified stage, he defended the ECOFIN text on the basis that it bound only the Council and did not as such trespass on the rights of the Parliament under the Treaty. Apart from the Italians, who suggested new procedures for consultation with the Parliament should be worked out with the Parliament before the text was formally adopted, he received general support from the majority of the Council. At a brief discussion with Ministers after the session with the Parliament, both the French and German representatives spoke against any further changes to the text, and the Economic Secretary, supporting them, urged its early formal adoption. The President accordingly concluded that he would report the flavour of the meeting with the Parliament to the Foreign Affairs Council next Monday, but that the text would be transmitted as it stands.

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The Economic Secretary believes that Mr Dukes will keep to this and senior Irish Finance Ministry Officials have assured us that their objective will be to get the text formally adopted at the Foreign Affairs Council next Monday in its present form. The Economic Secretary thinks, therefore, that the Foreign Secretary should find most of his colleagues of the same mind although the Italians may seek to delay matters further or to seek changes to the text. Although an undertaking to join with the Parliament in further discussions on budgetary discipline, including some form of dialogue before the Council establishes the reference framework, could if necessary be conceded, the Economic Secretary thinks that it would be better to resist any amendment to the text itself. Mr Dukes emphasized to the Parliamentary delegation that the Budgetary Discipline text was confined to matters specifically relating to the powers and conduct of the Council, and that procedural matters involving the Commission and the Parliament should be dealt with separately. The sequence now should be to establish the present text first, and then to consider how best any further consultation with the Parliament might be pursued.

As I have reported separately in my letter of 16 November, if the text in its present form is adopted we will be in a position to seek Parliament's approval for Supplementary Finance under the Inter Government Agreement.

I am copying this letter to Colin Budd and Anthony Cary at FCO, Ivor Llewelyn at MAFF and to Sir Robert Armstrong.

Kass ew,
A M Ellis

A M ELLIS

22



CONQUEROR

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FILE SAH AFC



10 DOWNING STREET

From the Private Secretary

21 November, 1984

The Dooge Committee

Thank you for your letter of 16 November reporting on the work of the Dooge Committee.

In general, the Prime Minister agrees with the views set out in your letter and the attached analyses of the Ruhfus proposals and the Faure Report. There are clearly a number of ideas which we cannot accept. These include:

- majority voting in POCO or any other commitment which hinders us from acting in defence of essential British interests;
- extension of the powers of the European Parliament;
- 'objective tests' for invoking the Luxembourg compromise;
- a new European Treaty;
- UK participation in the Exchange Rate Mechanism;
- new Community social legislation;
- Community preference in arms procurement.

There are quite a number of others which are either positively useful or at least unobjectionable. This applies for instance to points 1-4 and 7-10 of the note analysing the Ruhfus proposals. The Prime Minister has commented, however, that a permanent political cooperation secretariat simply means ever more bureaucracy.

The crux comes in the formalisation of arrangements for political cooperation and the extension of majority voting. The Prime Minister agrees that perhaps we could adopt a slightly more open position than hitherto on these proposals

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subject to the following qualifications:

- (i) on POCO, we should not agree to do more than formalise existing informal arrangements. We should not accept any new obligations which would hinder our ability to promote our interests as we think best.
- (ii) On majority voting, the key requirement is that the Luxembourg compromise should be preserved intact. The Prime Minister is against extensions of majority voting, but understands that other countries would also argue fiercely against particular cases, as they arise.

BK 11
The Foreign Secretary may like to pursue these points further at the meeting already arranged for 28 November.

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

C. D. POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office



Ref. A084/3092

PRIME MINISTER

Cabinet: Community Affairs

You may wish to inform Cabinet of the Community aspects (if any) of your talks with Dr Garret FitzGerald on 18 November and with Dr Soares on 21 November.

2. The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 20 November, when the United Kingdom was represented by the Minister of State (Mr Rifkind) and the Minister for Overseas Development. The Council reached agreement on the size and structure of the European Development Fund for ACP countries in the Third Lomé Convention on the basis which he reported to Cabinet last week, ie a fund of 7.4 billion ecu but the United Kingdom contributing no more than its current share of 7 billion ecu. This demonstrates that by maintaining our position - despite pressures to the contrary - we have achieved without rancour an acceptable financial result for the United Kingdom but some additional funds which will be welcome to the Commonwealth members of the Convention. The Council made no progress towards completing the Community's negotiating position with Spain on the outstanding issues of wine, fish and fruit and vegetables. This was exactly as we had expected: the Franco-Italian dispute on wine is likely to go to the European Council on 3-4 December; satisfactory solutions on fish and fruit and vegetables are clearly in sight but are being held up by tactical reserves (eg Italians holding up the arrangement on fish). The Council will make a more serious effort on 26 November, when it may be possible to reach agreement on fish and on fruit and vegetables.

U.K.
R.R.G.



3. The Foreign and Commonwealth Secretary may also report on the meeting on 21 November between the Council and the European Parliament, which had been arranged to give the European Parliament an opportunity to express its views on the Council text on budgetary discipline which the Chancellor of the Exchequer reported to Cabinet on 15 November. It is hoped that the Council will be able to formally adopt the text after this meeting has been held.

4. On 22 November there is a meeting of Culture Ministers and an Industry Council to consider aids to the steel and shipbuilding industries. The Foreign Affairs Council will meet on 26-28 November and the Health and Budget Councils on 29 November.

RA

ROBERT ARMSTRONG

21 November 1984

PRIME MINISTER

DOOGE COMMITTEE

I have some difficulty in interpreting your comments on the attached papers. We are already saying no to virtually all the things you dislike.

It seems to me that what we have to do is rein the Germans and others back from some of their more madcap schemes: a new Treaty: a political entity etc. There is plenty of evidence that they are heading towards this, with the intention of leaving out ^{member} weaker states who don't want to go along. Very silly of them, but also undesirable from our point of view.

The question is whether we can prevent them from this folly by moving a little way towards them.

I think it can be done if we place very clear limits on how far we can go, on two points:

(i) Majority voting. There is no question of diluting the Luxembourg compromise. But extending majority voting on a case by case basis does not do this. You can still invoke the Luxembourg compromise on issues where majority voting is the rule. So unanimity is preserved. It is thus fully consistent with the Conservative manifesto.

(ii) An agreement formalising existing commitments in POCO. All we would be saying is that we agree formally to do what we do now. What's the point? In the real world none at all. But it might help head the Germans and others off something far more ambitious.

My draft letter attached was intended to place very clear limits on how far we would go. But without something on these lines, we have no cards to play at all in this game.

Would you be willing to discuss?

CJP

20 November 1984

SLHAGB

B.P.

To issue
CR

SAHAF

As 14/11/73
amended not

DRAFT LETTER FROM C.D. POWELL TO C.R. BUDD, FCO

THE DOOGE COMMITTEE

Thank you for your letter of 16 November reporting on the work of the Dooge Committee.

In general the Prime Minister agrees with the views set out in your letter and the attached analyses of the Ruhfus proposals and the Faure report. There are clearly a number of ideas which we cannot accept. These include:

- majority voting in POCO or any other commitment which hinder us from acting in defence of essential British interests;
- extension of the powers of the European Parliament;
- 'objective tests' for invoking the Luxembourg compromise;
- a new European Treaty;
- UK participation in the Exchange Rate Mechanism;
- new Community social legislation;
- Community preference in arms procurement.

There are quite a number of others which are either positively useful or at least unobjectionable. This applies for instance to points 1-4 and 7-10 of the note analysing the Ruhfus proposals.

The crux comes in the formalisation of arrangements for political cooperation and the extension of majority voting. The Prime Minister agrees that ^{perhaps} we should adopt ^{she says} a more open position than hitherto on these proposals subject to the

following qualifications:

(i) on POCO, we should not agree to do more than formalise existing informal arrangements. We should not accept any new obligations which would hinder our ability to promote our interests as we think best.

(?) ~~Any formal arrangement must clearly be outside the scope of the existing Treaty. ?~~

(ii) On majority voting, the key requirement is that the Luxembourg compromise should be preserved intact. *The PM is quite understanding*
~~Subject to that we can look on a case by case basis at possible extensions of majority voting, preferably only on decisions implementing policies already agreed in principle.~~ *but understands that other countries would also agree fairly on particular cases, as they arise.*

The position on these two issues which I have outlined would need to be deployed in a way which would make clear that they were not the starting point for fresh bargaining but the limit to which we could go to reach agreement.

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

CHRISTOPHER TUGENDHAT

VICE PRESIDENT OF THE COMMISSION
OF THE EUROPEAN COMMUNITIES

RUE DE LA LOI, 200
1049 BRUSSELS - TEL. 235 25 14
235 26 10

④
Ria Rintler

CDP

26/11

19 November 1984

Dear Prime Minister

I thought that you might be interested to see the attached speech on economic priorities for Western Europe which I delivered to a private conference in Brussels jointly organised by the US Missions to the European Communities, NATO and Belgium. It was attended by politicians, businessmen and diplomats from both sides of the Atlantic.

Yours ever
Christopher

The Prime Minister
The Rt Hon Margaret Thatcher, MP
10 Downing Street
GB - LONDON SW1



The Challenge of Change :-
The Western Economies and the Atlantic Relationship

PAPER BY MR CHRISTOPHER TUGENDHAT, VICE-PRESIDENT OF THE COMMISSION OF THE EUROPEAN COMMUNITIES, FOR THE US MISSIONS CONFERENCE, BRUSSELS, ON 16 NOVEMBER 1984

Some thoughts on the European Economy

I. Introduction

I have been asked to address myself to the state of the European economies, and to the pre-requisites for bringing about an improvement in their performance.

This theme is, of course, central to answering a question that lies at the heart of the business of this conference: are the Europeans sufficiently robust economically to maintain their expenditures on defence and, if possible, to increase them to levels more acceptable to the United States?

We all know that economic difficulties weaken the political consensus for defence expenditure.

High unemployment, in particular, erodes the fabric of our societies, and saps the will to defend ourselves. It makes more popular the illusion that détente and East-West negotiations can, if only they were more energetically pursued, substitute for strong defences, or make them less necessary. Indeed, we see this happening today within the Socialist parties of the two greatest European contributors to NATO: the United Kingdom and the Federal Republic of Germany.

Inflation erodes the value of those resources that the public has consented to allocate to defence. In addition, it makes it extremely difficult to undertake long term planning on defence and arms procurement, which is increasingly essential at a time of rapid growth in the sophistication and cost of weapons as well as of growing lead times for their development.

If only for these reasons, the management of the European economies is crucial to the maintenance of healthy defences in the Alliance. Other speakers will, no doubt, develop this point further. I shall now turn to the first part of my own themes: how sick have the European economies really become?

II. How sick is the European Economy?

There can no longer be any doubt that the European countries of OECD are in a worse position, from a macroeconomic point of view, than the United

States and Japan. Growth of output continues to lag far behind that of North America and Japan. Most European countries have been far less successful than the two other regions in reducing inflation, though a group of low-inflation countries in Europe has emerged led by the Federal Republic of Germany, Switzerland and the Netherlands - with the United Kingdom as a prospective member. Above all, unemployment is considerably worse than it is in the US. The recent annual survey on unemployment of the OECD again confirms this finding. It points out that between 1973 and 1983 almost 18 million extra jobs were created in North America, compared with a 5 million increase in Japan and a loss of 1 1/2 million jobs in Europe.

This picture of European unemployment needs to be qualified in two ways.

First, there is much evidence to suggest that, over the last decade, new jobs in Europe have tended to consist of rather more productive activities than many of those created in the United States. This can be inferred, at the most general level, from the fact that a 23% growth in real national output in the US from 1975 to 1983 was supported by a 17% increase in total employment, whereas an 18% expansion of output in Europe was supported by a reduction of 0.8% in employment (Source: OECD Second Annual Survey on Employment).

But some of the most compelling evidence for this thesis comes from the services sector, which has provided such a large proportion of the gains in employment in the US. In the US the creation of jobs in the service sector reflects, to a far greater extent than it does in Europe, the tendency of employers to reduce their permanent staff and to cover holiday and demand peaks by contracting out to service agencies which employ part-timers. This trend is, in reality, a form of market-generated work-sharing, and therefore does not contribute as much to output and full time employment as the figures might at first suggest.

Thus, while the US was generating all those new jobs about which we hear, it was until recently actually losing its commanding lead over the rest of the world in both productivity and living standards. Since 1973, output per head in the whole US economy has grown by only 0.3% a year, against 2% in the European Community. Moreover, after a brief upward boost at the start of the economic recovery, growth in United States productivity slowed again in the last quarter to an annual rate of barely 1%. In short, what has happened since 1973 is that the US has chosen a path of high employment, at the cost of stagnant productivity and wages, while Europe has chosen greater growth in productivity and living standards (for those in work) at the expense, it would appear, of a rise in unemployment.

The second way in which the statistical trends in European unemployment need to be qualified is that there is sadly no reason to hope that unemployment will greatly decrease as economic recovery takes place. For example, the OECD report points out that some of the developments which have mitigated the problem of unemployment until now may be near maturity. Financial services, to take the sector on which so many hopes for new employment rest, may shed rather than create jobs as competition intensifies,

as may distribution, while new employment in public services is limited by the squeeze on public expenditure to which most countries are subjecting themselves.

III. The problems - and some remedies

My analysis of Europe's economic problems will focus primarily on their intra-European causes. There are two reasons for this, the first one economic and the other political:

- First, from a strictly economic point of view, I am profoundly convinced that the main causes of Europe's sluggish growth and insufficient competitiveness in some industrial sectors are domestic. The US budget deficit, and the sky-high interest rates to which it and the accompanying tight monetary stance have contributed, do, of course, seriously exacerbate Europe's economic problems; but they are not the fundamental causes of them. Why else are the South-East Asian countries and Japan going from strength to strength, even though they are as exposed as Europe is to the effects of current US policies? Above all, why has there been such a considerable increase in employment in the US and in the after-tax profits of so many American companies operating in the US itself?
- Second, the US decision-making process is extremely difficult to influence from overseas. Thus, to the extent that US monetary and fiscal policies are responsible for high interest rates and do therefore damage the European economy, we should not see diplomatic pressure on the US Administration and Congress to bring down interest rates, important though that is, as a reliable way of improving our own economic prospects. Moreover the difficulty of influencing the US budget deficit is compounded by the fact that there is a continual growth in the structural component of it - that is to say, the component that currently comprises growing entitlement expenditures, the proposed erosion of the tax base through indexation of tax brackets and allowances, and continued projected growth in military spending. All these costs to the budget are supported and perpetuated by massive vested interests - whose susceptibility to influence by Europeans or Japanese is negligible if not non-existent.

I should now like to turn to what I see as the principal domestic causes of Europe's economic problems. I must emphasize that there are no easy answers, no single slogan such as wage flexibility, public investment or shorter working hours, depending on one's political standpoint, that encapsulates the magic formula for bringing about growth and employment. A broad mix of policies and policy instruments is required. These fall, I believe, into five broad categories.

(a) Inflexibilities of the labour market.

As you see, I place these at the top of my list. They encompass a number of crucial issues:

- Insufficient geographical mobility of labour.

This has long been seen in, for example, the United Kingdom, where loyalty to the local community has historically been very great and where whole communities were for decades or even centuries formed around particular industries, such as coal in Wales and textiles in Lancashire. Even in Germany, where the physical and psychological destruction of communities by the Second World War ensured that mobility was peculiarly great, it is now substantially declining.

Government has a major role to play in providing inducements to industrial mobility. There are at least four priorities here: the first is to encourage a more fluid housing market with a large rented sector, in order to reduce the transaction cost of moving. The second is to make company pension schemes more easily transferable if a worker moves from one employer to another, an area where the Federal Republic, for example, has made much progress. The third is to provide grants to unemployed individuals to go to interviews for jobs in other parts of the country and to move to those parts should they secure jobs - an area where the Germans and the British, amongst others, have taken important initiatives. The fourth is to ensure that those who move from one region to another are in a position to obtain proper education for their children by making the curricula of schools compatible, the availability of places reasonably assured and their final examinations recognised as equal tests of ability.

Although for the time being these are objectives which must be sought within the Member States of the Community, I hope that they will, in time, also be attained between Member States so that free movement of persons within the Community as a whole could at last become a reality.

- Excessively high wages

This is, I believe, a problem common to almost all countries of the European Community. There has been a steady growth in real wages - in contrast to the US where wages have maintained a far more realistic relationship to output and productivity. High technology will not make the question of wages in the economy as a whole less relevant, as so many commentators suggest. For we must not overlook the fact that many if not most of the jobs of the future will be in labour-intensive service industries which deploy

little or no sophisticated technology. In such industries, wages will continue to account for a large proportion of input costs.

The current fixation of many trades unions in Europe on the reduction of working time is, therefore, totally self-defeating, unless reductions in working time are accompanied by corresponding cuts in pay or increases in productivity. Although this obvious truth has not been fully acknowledged by most unions, some of them have implicitly recognised it by accepting shorter working hours as a partial substitute for wage increases. I believe that if cuts in working hours are accompanied by improvements in efficiency, they could help in the short term to curb the increase in unemployment, until it once again becomes possible to relax the tight monetary and fiscal policies which are currently needed to contain inflation.

- The power of corporatism in modern society

Corporatism is of course part and parcel of modern industrial societies. It helps to make possible the crucial economies of scale required to generate employment and to remain competitive. It contributes to the orderly articulation and reconciliation of innumerable conflicting interests. And it is an inevitable concomitant of the organization of labour into trade unions. Yet, for someone like me who believes profoundly that the key to economic growth lies in the maximum freedom of enterprise from restraints, a major obstacle to growth must be the capacity of such organizations to pursue their special interests to the detriment of society as a whole - and, I would contend, ultimately of their own members as well. Mancur Olson, in his important book 'The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities', has brilliantly analysed the way in which this happens. He suggests, I believe rightly, that these interest groups flourish in societies in proportion to the length of uninterrupted stability in the latter - one reason for the deep-seatedness of the so-called 'British disease'. They frequently hamper efficient production and technological innovation, largely by slowing down decision-making and by impairing the nation's capacity for adaptation and change; they distort distribution and increase the complexity of regulation; and they tend to evade political control.

I conclude from this analysis that a condition for conquering the present 'stagflation' - a word as ugly as the phenomenon it describes - is to place restrictions on the irresponsible use of power by special interest groups. With respect to industrial corporations, many such rules already exist in the form of controls on mergers, cartels and the abuse of dominant market positions. Strict rules of competition exist both at the level of nation states, such as the Federal German Cartel office, and at the level

of the European Community - which has very considerable powers in this area. Moreover the trend towards deregulation which is catching on in Europe, and particularly in Britain and the Federal Republic, will contribute in a major way to the promotion of competition and thereby to limiting the power of individual corporations or interest groups. This is an utterly healthy trend, which I wholeheartedly welcome.

Action must also be taken, by employers and employees together, to ensure that workers do not automatically price themselves out of jobs. I have two particular points in mind here.

The first is that we should re-examine what was, in some countries, once thought to be the god-given right of workers to automatic increases in wages. This is already happening in several Community Member States, notably Italy, Belgium, France and Denmark, in all of which a de-indexation of wages has been agreed. I hope it will last.

The second point is a peculiarly British one. It is the need to curb in the United Kingdom the ability of Union leaders to use their formidable powers in irresponsible ways. I welcome the measures which the Thatcher government has so far taken in this respect. Under the Trade Union Act of 1984, workers will have to be given a secret vote on whether or not to strike if their Unions are to retain their legal immunity. And since 1 November of this year any closed shop that fails to gain the support of the overwhelming majority of its members in a secret ballot will cease to have any legal standing. These measures will defend the rights and jobs of individual workers. They will limit only the opportunity for their union leaders to pursue courses of action, such as Arthur Scargill has followed with such tenacity during the current Miners' strike, which will ultimately put at risk thousands of jobs as well as the incomes of those lucky enough to remain employed.

- Better training and re-training of Labour

No industrial economy can keep its head above the waters of international competition unless it has effective means for training and re-training workers - and managers. The need for training is going to be more important than ever as a result of the information revolution which we are now experiencing. In the computer industry, for example, fundamental job changes requiring re-training probably occur every 18-36 months. Moreover, jobs in information services - which account for over 70% of the 19 million new jobs created in the US since 1970 - are often highly specialised. We can be sure that they will not absorb factory

workers as smoothly as factory jobs absorbed agricultural workers 100 years ago.

Training is an area in which the state has a legitimate and necessary role to play: individual companies - particularly when profit margins are narrow, as they are at the present time of low growth and increasingly severe international competition - are often reluctant to invest the necessary resources in training workers, particularly young ones looking for their first jobs. Since skill needs are difficult to forecast with precision, it makes sense to aim for modes of training that are broadly-based and flexible. These are just the modes that government schemes should be in a good position to promote. Indeed, I believe that a greater proportion of state assistance to the unemployed should be provided in the form of entitlement to re-training and adjustment schemes, rather than being provided so largely in the form of straight cash transfers. In general, governmental policies should not only seek to relieve the hardships of the unemployed by way of income support, but also be designed to facilitate their return to employment as soon as jobs are available by means of retraining, job placement, geographic mobility aids, viable job creation schemes and the like.

Improved facilities for the training of workers must, however, go hand-in-hand with the development of early warning systems at the level of companies and plants, which can provide a flow of information about the planned introduction of new technologies.

(b) Taxation systems insufficiently oriented towards encouraging profits

Here we may have something to learn from the experience of the US, and particularly from the tax reform begun in 1981 which seems to have contributed in a major way to the remarkable increase in the profitability of investment in the US over the past two years or so. Progress has been made in Europe too. For example, the German Government has announced DM 20 billion in cuts of income tax to be made over three years from 1986. The French Government in its 1985 budget is to cut taxes by an amount of 1% of GDP. The Dutch budget for 1985 makes tax cuts amounting to 1/3 to 1% of GDP. And the British Government unveiled major tax reforms last April in which the emphasis has been switched from indiscriminate subsidies to lower tax rates for businesses of all kinds, thereby providing more scope for flexible investment decisions. It is perhaps in part a reflection of this that both fixed investment, particularly in manufacturing, and exports have grown rapidly in the United Kingdom over the past year.

(c) Sharing by workers in corporate profits and decision-making

There is hardly a human being whose motivation and sense of responsibility are not increased by feeling a master of his own destiny.

There are several different ways of achieving this. Germany and the Netherlands have done it by worker participation. One of the best of the other methods is to find ways of allowing employees to become co-owners, together with outside investors, of the new technologies acquired by their firms and to share directly in the benefits from them. This does not mean that enterprises need to be cooperatives or union-owned. Instead, pay-cheques might include a portion in cash and a portion in the common stock issued to purchase labour-saving devices. Such schemes would provide incentives to each and every worker which cannot be achieved to anything like the same degree by the legislation appearing all over Western Europe to increase employee representation on boards of directors. The reasons are straightforward: first, the overwhelming majority of workers cannot, by definition, be representatives on the board, and therefore cannot feel directly involved in the process of decision-making. Second, that process is often so complicated in the modern industrial firm that it is usually very difficult for the worker to gauge what precise role he, or his representative, has had in it. We Europeans should not, therefore, see the participation of workers in decision-making as anything more than a modest contribution to the task of seeking greater motivation in the labour force.

Fortunately the problem of motivation will be helped by the likely trend towards the creation of small firms in the future, particularly in the sector of information services. In this sector, workers will increasingly have the opportunity to become entrepreneurial partners, rather than resentful employees.

(d) The European Common Market

The assault on unemployment requires not merely a more flexible labour market and a more motivated work-force, but better functioning of markets for goods and capital.

Let me give an example:

Frontier formalities represent a disgraceful anachronism. They are very expensive and swallow up between 5 and 10% of the pre-tax value of the goods concerned. The time lost merely in waiting and hold-ups amounts to about £500 million per year. In their internal markets which provide the basis on which their export trade is built, American and Japanese companies suffer no comparable disadvantage.

What we need in Europe is to create a situation in which managements can consider the Community as a single market in which they can take decisions on the basis of economic efficiency rather than having constantly to try to maximise the benefits and minimise the disadvantages arising from the continued existence of separate national markets. If Europe really became a single market in which manufacturers and those who provide services could sell their wares freely from Scotland to Sicily and from Brest to Bavaria, the consumer through the market place could determine which would prosper and which would not.

The Community's Institutions have a two-fold task in order to bring this situation about. On the one hand they must work to ensure that the legal and taxation systems of the Member States are sufficiently transparent, non-discriminatory and compatible with each other to ensure that the competition is fair and the adaptation possible. On the other, they must work to eliminate the bias in favour of national suppliers that still exists in the field of public procurement and to introduce common standards throughout the Community.

Persuading governments of the need to make the myriad specific changes that will be required and even more, persuading them to carry those changes into effect will be a massive task. It will also be politically difficult, not to say thankless, since in every country any domestic special interest that feels threatened will try to rouse government and public opinion against what is being attempted. Progress will not be made in the sort of dramatic leaps and bounds that attract favourable publicity but through the undramatic pursuit of what will often appear to be boring and rather minor issues. In my view, timetables with deadlines and specific objectives backed by the authority of the European Council have an essential role to play in bringing about such progress.

To plead for the creation of a genuine common market does not require one automatically to attach great importance to the encouragement of cooperative ventures between European companies of different nationality.

If companies wish to engage in such cooperation they should certainly be able to do so. Artificial barriers and political constraints should be removed. On occasion, if the objectives are sufficiently clearly defined and limited to sufficiently specific operations and if the management structures are appropriately constructed, they have a useful role to play. But in my view, if a real European common market can be constructed, the future will lie with companies with clearly defined command centres and domestic markets in one Community country extending their activities into others, either by means of direct sales across frontiers or through the take-over or creation of subsidiaries, and generally by a mixture of all these methods.

There will of course always be those who argue that the pursuit of similar lines of research and development within several different firms is wasteful. They will say the same about the production of basically similar and competing products within a single politico-economic unit such as the Community. But I am sure they are wrong. In general the more competitive a domestic market - and in this sense we should regard the Community as a single market - the more competitive on international markets the companies concerned are likely to be. Per contra, when large units are created by government action and given preferential positions in their home markets, they are unlikely to be competitive internationally. Thus, a dirigiste Community industrial policy would, I fear, be more likely to reflect the political bargaining process between the Member States, with work being allocated on political grounds or grounds of so-called fairness between nations, than hard industrial reality. One has only to look at the history of the Common Agricultural Policy over the years to appreciate some of the dangers.

(e) Coordination of macro-economic policies

I have deliberately left the need for more closely coordinated macro-economic policies to last. As you might expect of a Vice-President of the European Commission, I attach great importance to this. I believe that the more coordination can be achieved the better.

But I am also a realist. I share the view of one of my distinguished predecessors as Vice-President of the European Commission, Raymond Barre, that "the fundamental necessity is for the national will in every country to maintain conditions required for balanced growth and international competitiveness". He is right in saying that the convergence of economic policies among industrialized economies "ultimately depends on the political will of each government, and on the pressure of events, more than on international mechanisms for the coordination of policies" (Source: 'Unemployment and Growth in the Western Economies', Andrew J Pierre, Editor, Council on Foreign Relations, New York, 1984).

I believe M Barre is right for two reasons: one is economic, namely that the real obstacles to increased growth and employment lie in the rigidities to which I have referred. The second is political, namely that at the present stage of development of the Community we are simply not in a position to enforce coordination of economic policies. Coordination still depends primarily on the political will of each government and on the pressure of the money markets on it, far more than on negotiated mechanisms or on meetings of the Council of Ministers.

Nonetheless, the so-called 'divergence indicator' of the

European Monetary System has made a significant contribution to bringing about a closer coordination of economic policies in Europe. I recognise that this is difficult to demonstrate; but on the basis of my own observation, I believe that the adoption of agreed target zones for exchange rates has not only done much to stabilise parities within Europe, but has also been an instrument for the convergence of economic policies and performances, without which the European economy would be in still worse shape and protectionism would have made greater advances in all our Member States.

There are, I believe, two modest ways in which the European Monetary System now needs to be strengthened.

The first is to confer upon the European Currency Unit the status of a fully convertible foreign currency in each Member State of the Community. The ECU has now emerged as a significant currency for private investors. It is no longer merely an accounting unit for the big banks, or funny money in which governments can denominate their accounts. The volume of ECU deposits and credits has increased six-fold in two years. Moreover, so far this year the ECU has been the third major currency to be issued in the Eurobond markets, after the US Dollar and the Deutsche Mark. And just a few weeks ago an ECU denominated bond for the EEC institutions was floated on the New York Financial Market. In most Member States, including the UK, the private individual can open an account in ECUs at his local bank. All this is giving rise to an independent interest rate structure for the ECU.

Yet the reaction of some Community governments to the ECU, particularly the German Government, has sadly been very much less positive than the attitude taken by most private banks and investors. The German Government continues to refuse even to grant the ECU the status of a foreign currency or to permit it to be used by German residents. I do not accept the argument that the ECU is in effect an indexation clause and I urge the German authorities to find ways of overcoming their objections.

Unless and until they do, the ECU will inevitably labour under a serious handicap because the German financial system will not be playing its full part. This, in turn, will considerably impede the development of the EMS as a whole.

My second point on strengthening the EMS concerns the United Kingdom.

One cannot mention the benefits of the EMS and its great potential as a pillar of the International Monetary System, without urging Britain to become a full member by joining the exchange rate mechanism. As I have often said before, the absence of Sterling from the exchange rate arrangements denies British industry the chance of

a more stable Pound in the Community, to which it now sends 43% of its exports, and weakens Britain's influence in the overall management of the System.

It is also unsettling for other European currencies that the Pound is in the ECU - whose stability it upsets as a result of its wide fluctuations - while Britain fails to participate in the intervention mechanisms which are designed both to avoid these fluctuations and to enable Europe to deal on a more equal basis with the United States and Japan.

Finally, it is very difficult to see how the EMS can be fully developed in the absence of what is after all one of Europe's major currencies.

IV. Conclusions

What are the prospects for Europe of successfully applying the policies I have advocated? Difficult and dangerous though it is to predict the behaviour of states, I am optimistic, and for two basic reasons.

First, the Europeans are scared. No visitor to our shores can fail to notice the state of near panic about Europe's lag in high technology and her poor performance on unemployment compared with the US and Japan. Nor can anyone fail to notice the great sensitivity to inflation which has developed in recent years. It is as if we have all suddenly been saddled with the historical experience of inflation that has for long made Germans so prudent in their monetary and fiscal policies.

Second, the power of foreign exchange markets - which I believe can no longer be effectively resisted by exchange controls - will ensure that we remain scared. This is bound to exert a strong and continuing influence on governments. As France has already discovered, it makes it virtually impossible for any European economy to go for growth regardless of the policies of its neighbours.

Third, Europe is increasingly conscious of being on its own in the world. This is where attitudes in the spheres of security and economics interact. At the same time as Europe has come to recognise its economic lag in relation to Japan and the United States, it has also become acutely aware (indeed, to an exaggerated degree) of its lack of influence in the sphere of East-West relations and in relation to both Superpowers. The cancellation of Mr Honecker's visit to the Federal Republic of Germany only underlines this stark reality.

The crucial question is, of course : will this powerful sense of impotence galvanize Europe into making the sacrifices and efforts needed for it to gain greater command over its destiny. In the sphere of security, this question remains open. In the realm of economics, I am increasingly convinced that it will.

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bcpC



10 DOWNING STREET

From the Private Secretary

18 November 1984

Dear Adrian,

INTER-GOVERNMENTAL AGREEMENT

Thank you for your letter of 16 November recording the Economic Secretary's intention to publish a draft Order under Section 1(3) of the European Communities Act in order to secure Parliament's approval for implementation of the Inter-Governmental Agreement on Supplementary Finance for 1984.

The Prime Minister has noted this, including of course the rider that we shall not be committed to make payment under the IGA if for any reason the Budget discipline text is not finally adopted in a satisfactory form.

I am sending copies of this letter to the Private Secretaries to members of OD(E) and to Richard Hatfield (Cabinet Office).

yes directly
Charles Powell

Charles Powell

Adrian Ellis, Esq.,
Office of the Economic Secretary,
H.M. Treasury.

JP



Foreign and Commonwealth Office

London SW1A 2AH

16 November, 1984

Dear Charles,

PA.
CM. 25/11The Dooge Committee

1. Thank you for your letter of 30 October, in which you ask for a report on the work of the Dooge Committee. The Committee met again on 7/8 November and I enclose the reporting telegrams.
 2. Inevitably in a committee of this kind, where some of the members represent their Governments and some do not, the papers which have been tabled express widely differing views on the future of the Community, some of which are quite unrealistic. It is impossible at this stage, when there has been little real discussion of some issues, to forecast with any certainty how matters will develop. For us, the immediate questions arise from consideration of three papers before the Committee: Mr Rifkind's paper on the Internal Market; Ruhfus' paper on Political Cooperation and the Faure draft interim report to the Dublin European Council.
- Mr Rifkind's paper on the Internal Market
3. Mr Rifkind's paper has been well received. It concentrates on the achievement of practical goals. No member of the Committee has disputed that the Community has an outstanding obligation under the Treaty of Rome which must be fulfilled. Some have argued that completion of the internal market would be facilitated by the use of majority voting; and there has been a disposition in the Committee to try to develop a highly theoretical debate on this subject.
 4. In an enlarged Community there will be a need for somewhat more frequent recourse to majority voting if we are to prevent filibusters by the smaller Member States. Provided there is no interference with the Luxembourg Compromise - ie where a Member State considers that very important national interests are at stake discussion should continue until agreement is reached - we would have nothing to lose by agreeing to look practically, on a case by case basis, at where majority voting, subject to unanimity on any vital issue, might best help us to achieve our objectives on the internal market. This is in line with the approach we are already taking in Mr Channon's standards initiative (his letter of 2 August to Sir Geoffrey Howe). This would turn what at present threatens to become a theological debate, in which we shall get little effective support, in a more practical and useful direction. It would be fully in



A / keeping with the Conservative manifesto for the European elections. ("However we recognise that if the Council is to be an effective decision-taking body, a Member State's right to block a decision should be used only as a last resort" - the relevant passage is attached). Such an examination is likely to expose the fact that some of the Member States now advocating an extension of majority voting will themselves find it hard to agree to any changes. We shall be considering this further with the DTI and other interested Departments. Meanwhile, I attach a note on provisions of the Treaty relating to the internal market. This makes clear that there is scope for somewhat greater use of majority voting, within the existing Treaty arrangements, in one or two areas where it could be of advantage to us. We should not go along with any change in this area unless it was in our practical interest to do so.

The paper by Herr Ruhfus on Political Cooperation

B / 5. I enclose a summary and analysis of Ruhfus' paper. There is much in it that we can accept and its general thrust follows the lead which we gave in "Europe - the Future", where we said that the Ten must show more political will to act together and that they should work towards the progressive attainment of a common external policy. Our record on political cooperation is second to none and, if we are able to support the bulk of Ruhfus' ideas we should go a long way to satisfying Chancellor Kohl's wish to see positive results from the work of the Dooge Committee. We can accept a small secretariat to service Political Cooperation provided it is very modest (not more than 4 or 5 people). By contrast, Ruhfus' idea of qualified majority voting in certain areas of political cooperation, eg human rights, is not appropriate. Nor are others likely to agree (it is directed primarily against the Greeks). Ruhfus' suggestion that the obligation to consult should be formalised is one to which Kohl is greatly attached (see Bonn telegram no 1045). In Sir Geoffrey Howe's view, we could only consider formalising the existing informal arrangements for political cooperation if this did not in practice impose any additional requirements on us, other than those which already exist and which we have been punctilious in observing. There could be no question of any commitment so rigid as to be an impediment to action in defence of an essential national interest. The French will be no less adamant on that point. They are prepared, however, to consider formalising the political cooperation arrangements provided this is by means of an inter-governmental agreement outside the scope of the existing Treaty (and in no way subject to the jurisdiction of the European Court). We should keep in mind that some instrument of a rather general character on political cooperation (as Ruhfus has proposed) could help to deflect



the German desire to have a new Treaty on European Union into channels which are less difficult for us.

Faure Report

C
6. The Faure report is described as an interim report to the European Council. It is a compendium of ideas including ours on the internal market. A summary and commentary is enclosed. Faure has been discussing his ideas with Mitterrand. But some of them, eg in relation to extension of the powers of the European Parliament and the suggestion that Commissioners should be chosen by the President of the Commission rather than by national Governments, are in advance of French Government thinking and are unlikely to be accepted by some other Member States.

NO
NO
7. On Faure's first point there is pressure within the committee - including from the Germans - to increase the legislative powers of the European Parliament. There have even been suggestions - unlikely to be supported - of giving it some role in relation to revenue. Mr Rifkind has made clear that we shall not be prepared to see the Parliament granted co-legislative or revenue powers. We are only prepared to consider improved use of the conciliation procedure.

8. In an attempt to make acceptable greater use of majority voting, Faure has suggested that the Luxembourg Compromise might be formalised, without time limit, with its invocation subject to some unspecified "objective" test of whether a country is justified in pleading that a very important national interest is at stake. That is a will of the wisp and Mr Rifkind has said so in terms. It must be for the country concerned to judge whether its very important national interests are at stake. The French, however, are concerned about the possible increase, in the enlarged Community, of the invocation of the Luxembourg Compromise by smaller Member States when there is no justification for its use (eg the Danes on all fisheries issues and the Greeks more generally). While pressing the essential requirement that it must remain for the Member State to determine when its very important interests are at stake, the French want to ensure that invocation of the Luxembourg Compromise is properly justified. We shall be discussing with them what precise form this might take. Mr Rifkind has indicated a readiness to consider the introduction of more formal procedures (as suggested in "Europe - the Future") to prevent capricious use of the veto.

9. In discussion of progress towards monetary integration, some Committee members inevitably have argued that full participation of all Member States in the exchange rate mechanism of the EMS is an essential first step. We have



made our position absolutely clear. There has been little discussion of other aspects of this topic.

10. One helpful feature of the report worth noting is that Faure has taken up our idea that there should be only one Commissioner per Member State after enlargement. This has attracted considerable support. We should follow it up at the Dublin European Council.

Strategy for future handling of the Committee

11. In the Dooge Committee on 7/8 November, Mr Rifkind strongly resisted the idea of an interim report recording differences of view, especially when some papers before the Committee had not been discussed. Senator Dooge concluded that there would be a written report recording areas of agreement and of disagreement (setting out the alternatives) and possibly an oral introduction by Dr Fitzgerald at the European Council which might indicate where the majority stood on key issues. We have recommended, in the briefing for the Anglo/Irish Summit, that the Prime Minister should urge on Dr Fitzgerald the undesirability of a substantive report at this stage, especially a divided one.

12. Neither Kohl nor Mitterrand will be willing to agree to a new Treaty of the kind drafted by the European Parliament, but they have made clear that they want something to emerge. The question is what? Particularly on the German side, it is doubtful if they know yet. Kohl continues to hanker after a new Treaty of some kind. The Germans at times appear to be thinking of an umbrella Treaty covering the existing Treaties and Political Cooperation, and stating that the goal of European Union had in some way been attained. President Mitterrand probably is prepared to go a bit further than previous French policy because he thinks further enlargement will require some adjustments. The French appear to be thinking of an agreement on political cooperation outside the Treaty. Mitterrand talks also of increased cooperation within the Community on internal security, health and culture. The French position on majority voting is described in paragraph 8 above.

13. A declaratory Treaty on European Union would have no appeal for us. We must continue to seek to direct the work of the Committee into more practical directions. Mr Rifkind has insisted that we should first decide what more the Member States want to do together; then decide whether we cannot achieve our purposes within the framework of the existing Treaties; and only thereafter consider whether any new instrument might be required. We shall continue to argue that virtually everything that the Community wants to achieve can be achieved within the framework of the Treaty of Rome, in particular the preamble, and Articles 2, 3 and,



for that matter, Article 235 (which of course requires unanimity - I enclose copies) and that what is required is to make those Articles a reality. In this, we can present ourselves as principal proponents of the Treaty which has proved itself a flexible instrument to cover most areas in which Member States wish to cooperate.

14. The French and Germans accept some of these arguments, but will still want something more to come out of the exercise than just some further impetus towards completion of the internal market. If we seek to influence these discussions on the line set out above it could turn out to be not very much more. By considering some of the ideas on political cooperation in Ruhfus' paper and showing willing to look at majority voting under the Treaty in a strictly practical way on a case by case basis - subject always to maintenance of the Luxembourg Compromise - we should be in a position to work with others to steer the Committee's work in a direction we can accept.

15. Dumas in particular has views on some of these matters - especially the Luxembourg compromise and the powers of the Parliament - which, his officials suggest, may be quite close to ours. Sir Geoffrey Howe will be discussing the work of the Committee with him, to see how much common ground we can establish.

16. It may be that others will still want to go further than we shall be prepared to do, though for the most part such "progress" would be likely to be largely rhetorical. We shall not be able to make a judgement until next year. To influence the outcome in the sense we desire Sir Geoffrey Howe believes that Mr Rifkind will need to defend our position and seek to advance our proposals in the Committee on the lines set out above.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street



ANALYSIS OF THE RUHFUS PROPOSALS ON EUROPEAN POLITICAL COOPERATION

1. Appoint Political Cooperation Secretary General of some Stature

*Done
bureaucracy*

Idea merits study. Secretary General could be valuable repository of experience and factor for continuity. But level must not be such as to affect primary responsibility of Presidency for Political Cooperation, and relationship with Secretary General of Council will need to be considered.

2. Establish Permanent PoCo Secretariat in Brussels

*Why
even more
bureaucracy*

Such a secretariat could usefully reinforce PoCo, particularly during weak Presidencies. To be fully effective, would need to work hand in glove with Presidency and other Foreign Ministries. Should be staffed with officials seconded from those ministries and stay in close contact through travel and telephone. Should be small (perhaps 5 people). No unnecessary bureaucracy. !!!

3. Hold all Official Level PoCo Meetings in Brussels

We support this idea, in principle, particularly for Working Groups. Minor administrative disadvantages for Presidency should be offset by gains from giving PoCo one central site. EC/PoCo coordination would be improved.

4. Ten should define their Common Foreign and Security Policy Interests

*Is this
parallel
joint N.S.P.O.*

Useful in clarifying areas where joint action by Ten would be appropriate.

5. Qualified Majority Voting in Certain Areas (eg Human Rights)

*I have seen
this a while
many times
and watched
those who were
opposed - just
fade away when
the argument got
tough - leaving us
alone to fight
them down
pub.*

Greeks, Danes, etc, certain to shoot this down. Major concern for us would be sovereignty implications (what would be nature of commitment to respect result of vote? Could any member contemplate this without a "Luxembourg compromise" to protect important national interests?). The German proposal, however, is designed to deal with the major impediment to Political Cooperation: systematic Greek obstruction.



6. Formalise Obligation to Consult

Existing obligation to consult (eg in London Report) already clear and stringent. And UK amongst most punctilious in observing it. More formal agreement therefore would cost us nothing (provided, as at present, that commitment to consult carries no implication that acquiescence of others is needed before we act) and may increase pressure on less punctilious partners (France) to consult more.

7. Strengthen Commitment to act together in UN

We support, in principle. Ten most effective in UN when united. But precise text would require close study in order to protect our independence of action in Security Council and on important national interests.

8. Establish Political Cooperation Secretariat Office at UN

Who would pay? Would there be work for it to do? Should consult our missions to the UN. We could support only if answers to these questions are satisfactory.

9. Establish Joint Overseas Representations in small or remote Third Countries where Ten not represented individually

In principle, may be possible. But administrative/cost implications clearly require study.

10. More Contact on PoCo Matters between Presidency and European Parliament

This is primarily for each Presidency to say whether it can carry increased burden. If so, we can support.

11. Political Cooperation Treaty

What would this add to existing arrangement? (In practice such a treaty, or lesser legal instrument, would make little difference to the working of PoCo but may be of symbolic importance to certain partners (eg FRG). We would certainly want to avoid any text which could result in PoCo matters ending up in the European Court, but so will French and others. Greeks, Danes and Irish can be relied on to oppose whole idea.)



ANALYSIS OF THE FAURE DRAFT REPORT TO THE DUBLIN
EUROPEAN COUNCIL ON THE WORK OF THE DOOGE COMMITTEE

1. Introduction. A rather pessimistic analysis of the state of the European Community. The remedy should be the setting up of a "political entity" which must be provided with the means to attain its priority objectives. !!!

That would not provide

Comment.

Much too pessimistic. In last year or two Community has shown that it can take major decisions on issues such as fisheries and the budget which have been hanging over the Community for years. The Fontainebleau agreements demonstrate the Community's will to establish the conditions which would permit the Community to concentrate on its future development.

a remedy - merely a new and expensive problem

- No such thing.

2.1: A true political entity. What is required is to present the various proposals for the development of the Community in a global manner by the formation of a true political entity of European states.

Comment.

Agree on the need, as "Europe: The Future" put it, to "create the sense of common purpose and momentum needed to hold together a Community of Twelve". But the first priority ought to be to aim for practical results from the Dooge Committee. We need to decide first what we want to do together. Can then decide whether this cannot be done within the existing Treaty framework. Only then need to consider possible need for any new instrument. Relevance of a "political entity" of a purely declamatory kind not clear.



3.II: Priority objectives.

A. A homogeneous internal market area.

(a) Through the completion of the Treaty. The aim is to bring about a vast internal market. A number of elements are listed including: mutual recognition of standards; introduction of a single customs document; gradual introduction of a common transport policy; long-term creation of a genuine common market for insurance; liberalisation of public procurement; adaptation of company law; harmonisation of tax and trade legislation; strengthening of European financial integration.

Comment.

Strongly agree with the aim. The creation of a fully integrated internal market, as envisaged by the Treaty of Rome, would allow Europe to benefit from the dynamic effects of a single market with immense purchasing power. The impact in terms of greater prosperity, faster growth and more jobs would be very great. Completion of the internal market would also make the Community a reality for its citizens. We can agree with all the detailed proposals though in some cases they should be strengthened by agreement to a clear time table for implementation.

4.(b) Through the completion of the EMS. The EMS is one of the major achievements of the last decade. But the time has come to fill out the gaps and forge ahead towards monetary integration. A number of detailed proposals are made, including promoting the use of the ECU, the creation of a European Monetary Fund and 'the opening up of the EMS'.

Comment.

We agree on the significance of the EMS. But the detailed proposals need proper consideration in the Monetary Committee.

/We



We would prefer to develop the role of the European Monetary Cooperation Fund than to create a European Monetary Fund. There are no difficulties so far as the United Kingdom is concerned in promoting the use of the ECU. The report does not commit the UK to join the Exchange Rate Mechanism.

No 5.(c) Through mobilisation of the necessary resources. The need for additional Community expenditure subject, however, to budgetary discipline.

Comment.

It is satisfactory that the importance of budgetary discipline is reaffirmed, as is the need for corresponding savings in Member States for additional expenditure on a Community basis. We will point out however that not all new Community activity requires additional expenditure - the best example being the completion of the internal market.

6.B. Promotion of the common values of civilisation. The logic of integration has led Member States to cooperate in fields other than the economy. This trend will continue. A number of proposals are set out including: action against environmental pollution; the gradual achievement of a European social area; the creation of a European legal area; joint measures to combat crime and terrorism; protection of human rights; promotion of the action of the European Foundation.

/Comment.

Comment.

These proposals are broadly in line with those we have already subscribed to in the Genscher/Colombo Solemn Declaration preamble and objectives (copy attached). However we oppose new Community social legislation where this would have the effect of reducing the competitiveness of industry in the Community.

7.C. The search for an external identity. This can be achieved only gradually within the framework of political cooperation. So far as defence is concerned, 'the aim of European Union is indeed the cohesiveness and solidarity of the countries of Europe within the larger framework of the Atlantic Alliance'. But this will only be achieved by stages and by paying special attention to the different situations of the Member States.

Comment.

An unexceptionable statement of the situation.

8.a) External policy. This section contains a number of proposals for strengthening political cooperation, e.g., the setting up of a Secretariat under a Secretary-General; through the codification of political cooperation in the form of a Treaty; by strengthening political cooperation in third countries. It is also suggested that, whenever possible, Member States should have a common representation in international institutions of an economic and commercial nature.

Comment.

These proposals are drawn from those in the Ruhfus paper. We are prepared to consider the establishment of a Secretariat provided bureaucracy does not proliferate. The idea of a PoCo agreement is premature (until we see the outcome

not on .

/of



of the present exercise.] We have managed very well so far without a Treaty. Any more formal arrangements would need to be sufficiently flexible to enable us to achieve our aims. We are also ready to consider common representation at international institutions, though separate national representations will remain necessary in all major organisations such as the UN, the IMF and the IBRD.

9.b) Defence. To be given special treatment in view of the framework which already exists in NATO and WEU and the different means and responsibilities of Member States. The objective is to encourage greater awareness of the common interests of the future European Union in security matters. Among the specific proposals is a commitment to respect the principle of Community preference in arms procurement and more generally in high technology.

Comment.

While we share the objectives, we could not accept that procurement should be on a basis narrower than NATO-wide preference. We need also not to undermine the activity of such organisation as the IEPG which includes non-EC countries, and which has an operational equipment standards role to which we attach importance.

III. The means.

A. Efficient Institutions.

(a) Easier decision making. Defined as meaning primarily changes in practice and certain adjustments to existing rules.

/Comment.



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Comment.

We are ready to consider more frequent use of majority voting where the Treaty so provides, subject to the continuance of the Luxembourg Compromise in its present form. We contest the belief, which seems to lie behind Faure's proposals, that it is the Luxembourg Compromise which is preventing the Community moving ahead. We are also prepared to consider procedural changes stopping short of the Treaty amendment which would permit detailed implementation of selected policies by majority voting once agreement had been reached unanimously on the principles, and the potential for the greater use of Coreper so that decisions are taken (though without formal voting) at a lower level than than of the Council. Any idea of amending Treaty provisions would have to be considered on a case by case basis: should recognise the difficulties in agreeing changes to existing Treaty rules.

*Impossible?
to work
why? we
have to
answer to
Parliament*

11.(b) A strengthened Commission. Faure proposes that the Commission's powers should be increased and that it should be made completely independent in the performance of its duties. The main proposal is that the President of the Commission, himself appointed unanimously by the European Council, should choose the Commission Members who would number 10 in the existing Community and 12 in the enlarged Community.

Comment.

We are glad to see that our idea for a smaller, more effective Commission is endorsed by Faure. Cannot accept however that the President of the Commission should be free to choose the Commissioners. (Nor, we believe, would the French government accept this.) For the health of the Community, Member States must be confident that their Commissioner represents their interests. This means a more effective Commission not a less independent one.



It is NOT a Parliament

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12.(c) The European Parliament as a guarantor of democracy in the European system. An effective European Parliament cannot continue to be restricted to a consultative role. Its role should be enhanced by increased participation in legislative power, increased control over the various policies of the Union, and by giving it responsibilities in decisions on revenue. It is also proposed that a Uniform Electoral Procedure should be agreed for European Parliament elections.

Comment.

We agree that we have to find ways of bringing the European Parliament closer to the other Community institutions. Too often its views show little understanding of the real world. But the way to do this is by increased contact and improved conciliation procedures. We cannot agree to an increase in the formal powers of the European Parliament. Co-decision taking along the lines proposed by the Parliament itself would be unworkable.

13. IV. The method. An inter-governmental conference should be convened to negotiate a draft European Treaty based on the Faure report and the Genscher/Colombo Solemn Declaration and guided by the spirit and the method underlying the draft Treaty adopted by the European Parliament.

Comment.

The Community's first task is to make a reality of the existing Treaties. The key objectives are set out in the preamble and Articles 2 and 3 of the Treaty of Rome. These have not yet been attained. Let us first attain them; then consider whether any new Treaty arrangements are required. Note that this is for consideration in any case in 1988 as part of the procedure agreed under the Genscher/Colombo Solemn Declaration.

HIS MAJESTY THE KING OF THE BELGIANS, THE PRESIDENT OF THE FEDERAL REPUBLIC OF GERMANY, THE PRESIDENT OF THE FRENCH REPUBLIC, THE PRESIDENT OF THE ITALIAN REPUBLIC, HER ROYAL HIGHNESS THE GRAND DUCHESS OF LUXEMBOURG, HER MAJESTY THE QUEEN OF THE NETHERLANDS,

DETERMINED to lay the foundations of an ever closer union among the peoples of Europe,

RESOLVED to ensure the economic and social progress of their countries by common action to eliminate the barriers which divide Europe.

AFFIRMING as the essential objective of their efforts the constant improvement of the living and working conditions of their peoples,

RECOGNISING that the removal of existing obstacles calls for concerted action in order to guarantee steady expansion, balanced trade and fair competition.

ANXIOUS to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions,

DESIRING to contribute, by means of a common commercial policy, to the progressive abolition of restrictions on international trade,

INTENDING to confirm the solidarity which binds Europe and the overseas countries and desiring to ensure the development of their prosperity, in accordance with the principles of the Charter of the United Nations,

RESOLVED by thus pooling their resources to preserve and strengthen peace and liberty, and calling upon the other peoples of Europe who share their ideal to join in their efforts,

HAVE DECIDED to create a European Economic Community and to this end have designated as their Plenipotentiaries:

HIS MAJESTY THE KING OF THE BELGIANS:

Mr. Paul-Henri SPAAK, Minister for Foreign Affairs,
Baron J. Ch. SNOY et d'OPPUERS, Secretary-General of the Ministry of Economic Affairs, Head of the Belgian Delegation to the Intergovernmental Conference;

THE PRESIDENT OF THE FEDERAL REPUBLIC OF GERMANY:

Dr. Konrad ADENAUER, Federal Chancellor,
Professor Dr. Walter HALLSTEIN, State Secretary of the Federal Foreign Office;

THE PRESIDENT OF THE FRENCH REPUBLIC:

Mr. Christian PINEAU, Minister for Foreign Affairs,
Mr. Maurice FAURE, Under-Secretary of State for Foreign Affairs;

THE PRESIDENT OF THE ITALIAN REPUBLIC:

Mr. Antonio SEGNI, President of the Council of Ministers,
Professor Gaetano MARTINO, Minister for Foreign Affairs;

HER ROYAL HIGHNESS THE GRAND DUCHESS OF LUXEMBOURG:

Mr. Joseph BECH, President of the Government, Minister for Foreign Affairs,
Mr. Lambert SCHAUS, Ambassador, Head of the Luxembourg Delegation to the Intergovernmental Conference;

HER MAJESTY THE QUEEN OF THE NETHERLANDS:

Mr. Joseph LUNS, Minister for Foreign Affairs,
Mr. J. LINTHORST HOMAN, Head of the Netherlands Delegation to the Intergovernmental Conference;

WHO, having exchanged their Full Powers, found in good and due form,

HAVE AGREED as follows:

ARTICLE 2

The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it.

ARTICLE 3

For the purposes set out in Article 2, the activities of the Community shall include, as provided in this Treaty and in accordance with the timetable set out therein:

- (a) the elimination, as between Member States, of customs duties and of quantitative restrictions on the import and export of goods, and of all other measures having equivalent effect;
- (b) the establishment of a common customs tariff and of a common commercial policy towards third countries;
- (c) the abolition, as between Member States, of obstacles to freedom of movement for persons, services and capital;
- (d) the adoption of a common policy in the sphere of agriculture;
- (e) the adoption of a common policy in the sphere of transport;
- (f) the institution of a system ensuring that competition in the common market is not distorted;
- (g) the application of procedures by which the economic policies of Member States can be co-ordinated and disequilibria in their balances of payments remedied;
- (h) the approximation of the laws of Member States to the extent required for the proper functioning of the common market;
- (i) the creation of a European Social Fund in order to improve employment opportunities for workers and to contribute to the raising of their standard of living;
- (j) the establishment of a European Investment Bank to facilitate the economic expansion of the Community by opening up fresh resources;
- (k) the association of the overseas countries and territories in order to increase trade and to promote jointly economic and social development.

ARTICLE 235

If action by the Community should prove necessary to attain, in the course of the operation of the common market, one of the objectives of the Community and this Treaty has not provided the necessary powers, the Council shall, acting unanimously on a proposal from the Commission and after consulting the Assembly, take the appropriate measures.

MAJORITY VOTING AND THE INTERNAL MARKET

1. Majority voting is well established practice in agricultural and budget matters. In the internal market unanimity is the normal practice, even though some of the key Treaty provisions concerned provide for majority voting:

- 54 (2) - right of establishment
- 57 (1) - mutual recognition of diplomas
- 57 (2) - right of establishment for some self-employed
- 63 (2) - liberalisation of services
- 69 - capital movements
- 75 (1) - inland transport
- 87 (1) - competition rules
- 94 - state aids
- 101 - eliminating market distortions.

2. There are points under several of these articles on which some Whitehall departments would not wish to see the UK outvoted (eg architects, commercial agents and lorry weights) though the Luxembourg Compromise would always be available. But there must be a strong UK interest in looking seriously at more majority voting under 63(2), 75(1) and possibly 94.

3. Other important Treaty provisions on the internal market require unanimity:

- 57 (2) - right of establishment for self-employed in medicine, banking etc
- 84 (2) - liberalisation of sea and air transport
- 99 - harmonisation of indirect taxes
- 100 - harmonisation generally, including standards
- 235 - new fields outside existing Treaty provisions.

4. The unanimity requirement in Article 100 has produced such inertia that Member States are already looking at ways of introducing limited majority voting (albeit in CEN and CENELEC, not the Council) to speed up standards-making. It would be worth while to look at both Article 100 and Article 84(2) to see if there could be any scope for introducing majority voting, whether by formal Treaty amendment or (as in the Community standards initiative) by other means.



Mr Wall

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SEE

DEPARTMENT OF TRADE AND INDUSTRY

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cc PS
PS/Mr Riskind

Mr Renuick

From the Minister for Trade

Minute to P.M. copied to Mr. Budd

At 31/8

2/8

1/ cc Mr C. Titchell
M. Fairweather dir
M. P. Thomas

2/ Mr. Sanders

The Rt Hon Sir Geoffrey Howe MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign & Commonwealth Office
Whitehall
London
SW1H

see later pps

RECEIVED IN REGISTRY
9 AUG 1984
REGISTRY
9/8

2 August 1984

Dear Geoffrey

This is a positive development. M
issues -
Wall
3/8

EUROPEAN COMMUNITY: STANDARDS

OD(E) 3rd meeting considered an interim report by officials on the scope for a UK initiative in the Community on standards which the Prime Minister had asked to be set in hand in the aftermath of Fontainebleau.

2. In opening up the internal market by simplifying standardisation requirements we must avoid inadvertently exposing consumers, workers and others to imports of dangerous products. Equally, however, I am convinced that, if we are seriously to tackle technical barriers in the internal market, we have both to improve and speed up the harmonisation of product standards and get a framework in which Member States' accept others' standards in their markets, provided always that these do not undermine their health and safety legislation. I propose a UK proposal to the Community (set out in more detail in Annex's A and B) to:

i. Develop lists of national standards that are presumed to conform to the Community health and safety objectives set out in the Directive;

ii. Oblige Member States to give free access to their markets for products complying with such national standards unless and until they are shown not to meet the health and safety objectives;



iii. Oblige Member States wishing to withdraw free access on the grounds that the health and safety objectives are not being met, to seek the support of a qualified minority of votes. This would mean in the case of the UK, pre-Enlargement, persuading one other large Member State or two/three smaller ones that the safety doubts about the standards were justified. I believe such a voting system to be necessary to prevent Member States from invoking the safeguard clause frequently and for protectionist reasons.

3. This proposal seems to me to be an improvement on the present situation. It also will avoid the criticism from industry that in order to get free access to the internal market they have to agree to a Single Technical Standard imposed after Community discussion and compromise and which can stifle innovation and impose unnecessary extra costs.

4. My officials have already set in hand a wide ranging consultation with industry to determine the product areas which would be of most benefit in opening up the internal market. The CBI's recent letter to you is also a useful general list of non-tariff barriers which officials are following up. I hope that you and other OD(E) colleagues will take the opportunity in your contacts with industry to help push home the need for a positive and considered reaction from them if the UK is to take full advantage of the opportunity that now exists.

5. As you know the French and Germans have for some time now held discussions designed to open up their markets to each others' exporters by giving full legal equivalence to each others' standards across a wide range of products. These now appear to be beginning to bear fruit. This means that time is not on our side. We must try to head-off a Franco-German agreement covering the market and obliging us to adopt their standards.

6. I understand that my proposal has met with broad agreement at official level. I am satisfied that it contains adequate safeguards for health and safety to serve as a suitable basis for more detailed discussion in the Community. I hope that you and other OD(E) colleagues will agree to my making this proposal in the Internal Market Council on 9 October seeking to get an agreed framework for standardisation directives to enable the Dublin European Council to set a timetable for the first list of new-style directives to be presented to the Internal Market Council during the first part of 1985.



7. Copies of this letter go to the Prime Minister, Members of OD(E), Peter Walker and to Sir Robert Armstrong.

Yours,

RAUL CHANNON

Raul



UK CONTRIBUTION TO THE COMMISSION WORKING GROUP ON GENERAL REFERENCE
TO STANDARDS

The United Kingdom attaches great importance to the completion of the Community internal market which implies the creation of an homogeneous regulatory environment throughout the Community so as to facilitate free competition between suppliers of industrial products, to the benefit of the consumer and wider international competitiveness. To this end the United Kingdom has consistently maintained its commitment to harmonising standards within the Community in support of the programme for the elimination of technical barriers to trade under Article 100 of the Treaty of Rome. Recognising, however, that existing procedures for harmonising legislation with a view to eliminating disparities in regulations and standards have not produced results sufficiently quickly, the United Kingdom welcomed the comprehensive initiative set out in Document 10888/83 of 28 November aimed at accelerating and strengthening standardisation in the Community.

2 In endorsing the principles contained in Document 10888/83 the United Kingdom clarified its understanding of the fourth indent viz that in future Article 100 Directives would establish the necessary conditions of health and safety and protection of consumers to which technical standards adopted in respect of products covered by those Directives would have to conform. This reflects the United Kingdom Government's firm view that it is for the national authorities to establish and maintain levels of health and safety and that this responsibility cannot be delegated to private standards bodies. More precisely, it reflects the fact that national governments are responsible to their own citizens for the maintenance of health and safety levels. This being the case, any new Article 100 procedures must not entail a lowering of existing levels of health and safety in Member States. Harmonisation must therefore take place at the higher end of the spectrum of safety levels existing within the Community - levelling up as opposed to levelling down.



3 It is noted also that at its first meeting on 18 May the Working Group decided to interpret its terms of reference (which mention only the technique of general reference to standards) broadly and that its task should in fact be to examine how standards might be used in Article 100 Directives and to recommend a model Directive.

The UK Approach

4 The present approach to harmonisation of Member States' technical laws is fragmented, in terms both of product coverage and of the structure of individual Directives. Commitment to an homogeneous internal market suggests the need for an overall framework which deals with the widest possible range of products; which provides a menu of uniform mechanisms capable of coping with the wide variety of product types and the uneven degree of consensus among Member States on the appropriate technical requirements to protect health and safety and the environment; and which facilitates and provides an impetus towards early harmonisation of these requirements.

Overall Framework

5 The UK suggests that a Model Directive should include articles covering product scope, general safety objectives, essential mandatory safety requirements, references to harmonised standards, provisions for dealing with the situation where harmonised standards do not yet exist, arrangements for demonstrating conformity with the safety objectives and a safeguard clause embodying procedures for resolving difficulties. Such a model Directive when agreed can be applied sector by sector according to priorities.

Scope

6 Each sector Directive will need to identify clearly the product range concerned and the hazards which were being addressed. In some circumstances a narrow product range might be covered in relation to a wide range of hazards whilst in others it might be more appropriate to cover a wider product sector but for a narrower range of dangers.



In addition each sector Directive would need to recognise that additional precautions might be required by the competent national authorities to be provided at the workplace in order to provide adequate protection of workers using or exposed to the products covered by the Directive. Such additional precautions - eg extra guarding - would have to be in respect of matters not already covered by the Directive or the standards which it called up (for example the special requirements of a particularly harsh working environment). Although these extra aspects would not impinge upon any right to free circulation conferred by the sector Directive vis a vis matters covered therein, the existence of the Sector Directive would not prevent competent national authorities within Member States from taking steps to prevent the articles use in unimproved form.

General Safety Objectives

7 The pattern of Article 2 of the Low Voltage Directive provides a suitable model. In the light of paragraph 3 above, however, it is considered that the phrase "good engineering practice in safety matter in force in the Community" would need modification or rather definition so as to make clear that what was meant was practice which produced levels of safety sufficient to satisfy the requirements of all Member States. Practice acceptable to one Member State which produced levels of safety considered inadequate by other Member States would not come within the definition.

Essential Safety Requirements

8 It would be permissible but not obligatory within a sector Directive to specify essential safety requirements either in the Directive itself or in a technical annex. Such requirements would require unanimous agreement for their adoption or modification. The extent to which such requirements should be identified would need to be decided on an ad hoc basis.



Harmonised Standards

9 Clearly the general safety objectives and essential safety requirements need to be complemented by harmonised standards. Such standards may on some areas already exist but where they do not it will be necessary for the appropriate Directive working group to give guidance (in the form of a mandate) to the European Standards Bodies on the safety characteristics relating to the products concerned, to be covered. Member States would then decide whether or not each such harmonised standard or its subsequent revision should be listed under the Directive as meeting the safety objectives and embodying the essential safety requirements. Reference to such standards would therefore be to dated editions in all cases. Given national government direct responsibility to their citizens for levels of health and safety their position in this respect must be safeguarded. It is not suggested however that this requires the procedure for harmonising standards mandated under a sector Directive to be based on unanimity. An adoption procedure based on qualified majority voting should be sufficient provided that there was an effective safeguard procedure (see later section on the safeguard clause). The qualified majority voting procedure would reduce the chances that one Member State might prevent harmonisation in order to protect its narrow trading interests

10 Where harmonised standards are not available from the outset for the whole of a selected sector the first priority will be to commission these. Probably however it will be desirable to adopt Directives in advance of the availability of comprehensive coverage by harmonised standards. In these cases the sector Directive would need to provide that where standards have not been harmonised the general safety requirement would be interpreted by reference to safety levels in force in the Member States, subject always to the constraints of Article 36. However each sector Directive would also confirm the right to free circulation of products providing an equivalent level of safety by another technical means including where the importing Member State had existing mandatory technical requirements.



Demonstration of Conformity

11 A model Directive would list various possible methods of demonstrating product conformity. Each sector Directive would, by unanimous agreement, define which of these were applicable in the particular case and the legal significance to be attached to them. Any bodies designated for the purpose of demonstrating conformity with the safety objectives should comply with appropriate published international guides such as ISO Guide 40 (Conditions for the acceptance of Certification Bodies).

Safeguard Clause

12 Each sector Directive would contain a safeguard procedure allowing a Member State to challenge a harmonised standard which had been or might be adopted. The basis for challenge would be either that the standard did not conform to the general safety objectives and essential safety requirements or that it did not afford an equivalent level of safety to that currently existing in the Member States own territory. Disagreement on either issue would be referred to a committee comprising representatives of the competent authorities of Member States.

13 The safeguard procedure would be available at any time. Thus a Member State could challenge a harmonised standard that had been established for some time on the basis that it no longer reflected good engineering practice.

14 Each sector Directive would contain further safeguard provision which would permit Member States to suspend admission to their internal market and the marketing of a product known not to conform with an adopted standard or with the general or specific safety objectives if, for example, it had been accorded a certificate of conformity, test mark etc as provided. Similarly disagreement on any of these issues would also be referred to the committee of representatives of competent authorities referred to above.

Department of Trade and Industry



UK CONTRIBUTION TO WORKING GROUP ON GENERAL REFERENCE TO STANDARDS
AREAS NOT COVERED BY HARMONISED REQUIREMENTS

1 Each sector Directive would establish that where requirements had not been harmonised the general health and safety objectives would be interpreted by reference to the health and safety levels in force in the importing Member State, subject always to the constraints of Article 36. However the sector Directive would also establish the right of free circulation of products providing an equivalent level of health and safety by other technical means (including where the importing Member State had introduced mandatory technical requirements).

2 Establishing the right of access for products affording equivalent safety would inevitably lead each Member State to an assessment of the standards applied by other Member States. This in turn would open up the possibility of moving towards giving some status to suitable national standards. Any system to put this into effect should not however call for the immediate assessment of all those national standards applicable to a particular sector Directive since this could impose unmanageable resource problems on Member State authorities.

3 The UK therefore suggests a system whereby, for a defined product range and specified hazards within scope of the sector Directive, each Member State might list the standards and other technical requirements which it applied. There would be no immediate requirement for Member States to approve or vote on standards so listed, but the safeguard procedure would be available to Member States at any time. Standards would remain on the list unless or until challenged by a Member State. The basis for challenge, as for harmonised standards, would be either that the particular national standard did not conform to the general safety requirements (if appropriate, as interpreted by means of essential safety requirements specified in the sector Directive) or that it did not afford an equivalent level of health and safety to that



currently existing in the Member State's own territory. A challenge to a standard would be referred to the Committee comprising representatives of the competent authorities of Member States and would trigger a voting procedure whereby the standard would be removed from the list if a "qualified minority" objected to it.

4 Subject to any outstanding challenge made by a Member State under the safeguard procedure any product conforming to a listed standard would be afforded free circulation by the sector Directive. The Directive would specify the period after the listing of a standard within which Member States should take the necessary measures to remove any legal or administrative obstacles to the free circulation of such products. If however the enforcement authorities doubted the safety of a product it would be impracticable and unreasonable to require the product to be tested against all the applicable standards which might have been listed. UK suggests the following procedures depending on whether a manufacturer claimed conformity with a listed standard or the product was marketed without any claim to conformity. In the first case the authorities should test the product to the standard it purported to conform with and if it were found not to conform the authorities might require its removal from the market or take other steps to safeguard the health and safety of their citizens for example to require modifications to the product. If it were found to conform but the authorities still believed, by reference to their national levels of health and safety in force, that it failed to meet the health and safety objectives in the Directive, it would be open to them to take urgent safeguard action and they would then have to challenge the listed standard within a specified time. If there was no claim of conformity with a listed standard the authorities need only show that the product fell below their national levels of health and safety in force before they acted against the product.

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July 1984

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TELEGRAM NUMBER 3645 OF 8 NOVEMBER,

INFO BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS

BONN LUXEMBOURG ATHENS,

INFO SAVING LISBON MADRID STRASBOURG.

AD HOC COMMITTEE ON INSTITUTIONS (DOOGE COMMITTEE),
7/8 NOVEMBER 1984.

NATURE OF REPORT TO EUROPEAN COUNCIL.

SUMMARY

1. DISCUSSION OF NATURE OF REPORT TO DUBLIN EUROPEAN COUNCIL DOMINATED A SCRAPPY MEETING, MARKED BY SOME FRANK TALKING (NOT LEAST BY MR RIFKIND) AND POOR CHAIRMANSHIP. MR RIFKIND SUCCEEDED IN FENDING OFF ATTEMPTS TO PUT FORWARD A REPORT ALREADY IDENTIFYING MAJORITY AND MINORITY VIEWS. BUT LARGE MAJORITY REMAIN DETERMINED TO RESPOND TO FITZGERALD'S EXPECTATION THAT THE COMMITTEE WILL DELIVER A REPORT CONTAINING SOME SUBSTANCE. FINAL MEETING BEFORE DUBLIN WILL THEREFORE CONSIDER AMENDMENTS NOW TO BE TABLED TO FAURE DRAFT: WHERE NO AGREEMENT IS POSSIBLE REPORT WILL SIMPLY SET OUT POSSIBLE ALTERNATIVES.

DETAIL

2. DOOGE INTRODUCED THE FIRST ROUND BY EXPRESSING HIS VIEW THAT THERE SHOULD BE AN INTERIM REPORT WITH SUBSTANCE. FERRI (ITALY) THOUGHT THE QUESTION PREMATURE, SINCE NOT ALL THE TECHNICAL PAPERS HAD BEEN DISCUSSED. MR RIFKIND ENDORSED THAT VIEW VIGOROUSLY. IN THE ENSUING DISCUSSION TRUMPF (FRG, IN RUHFUS' ABSENCE ON LEAVE) SAID THAT KOHL WOULD BE VERY UNHAPPY IF DUBLIN HEARD A REPORT WHICH CONTAINED NO SUGGESTION OF POLITICAL VISION. DISCUSSION THEN PASSED TO THE PAPANTONIOU PAPER ON CONVERGENCE AND MOLLER'S PAPER ON ADVANCED TECHNOLOGY (SEE M I F T).

3. DURING DINNER FAURE REJECTED AS INADEQUATE A REPORT COVERING PARTS I AND II OF HIS DRAFT, WITH ONLY ANODYNE PASSAGES ON THE KEY INSTITUTIONAL QUESTIONS. DIFFERENCES OF VIEW SHOULD BE IDENTIFIED, AND LABELLED AS MAJORITY AND MINORITY VIEWS. HE WAS SUPPORTED BY MOST OTHER SPEAKERS. MR RIFKIND, WITH SOME SUPPORT FROM VAN EEKELEN, MOLLER AND TO A LESSER EXTENT PAPANTONIOU, ARGUED FORCEFULLY AGAINST IDENTIFYING PUBLICLY MAJORITIES AND MINORITIES ON SUBJECTS WHICH HAD BARELY BEEN DISCUSSED. TO DO SO WOULD ENTRENCH POSITIONS AND RENDER FURTHER DISCUSSION AFTER DUBLIN DIFFICULT, IF NOT FRUITLESS. NO CONCLUSION WAS DRAWN.

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4. AT THE BEGINNING OF THE MORNING SESSION DOOGUE CLAIMED THAT AGREEMENT HAD BEEN REACHED AT DINNER THAT UNANIMITY WOULD NOT BE REQUIRED FOR THE INTERIM REPORT. MR RIFKIND DISPUTED THIS CONCLUSION. THE EUROPEAN COUNCIL HAD NOT ASKED FOR AN INTERIM REPORT. SUCH A DOCUMENT WOULD BE USEFUL ONLY IF IT CONTRIBUTED TO REACHING FINAL AGREEMENT. IT MIGHT PROVE UNAVOIDABLE TO RECORD DIFFERENCES OF VIEW IN THE FINAL REPORT, BUT IT WAS NOT APPROPRIATE TO TRY TO PUSH THROUGH AN INTERIM DOCUMENT ON THAT BASIS, ESPECIALLY WHEN THE ATTEMPT PRECLUDED EVEN A FIRST DISCUSSION OF SOME PAPERS. THAT WAS NO ADVERTISEMENT FOR THE ASSURANCE THAT MINORITY INTERESTS WOULD BE PROTECTED IF THERE WERE, AS MANY WANTED, WIDER USE OF MAJORITY VOTING. IF A REPORT WERE PRESENTED IN TERMS OF MINORITIES AND MAJORITIES HE FAILED TO SEE THE VALUE OF FURTHER DETAILED DISCUSSION. BUT HE HAD INDICATED THAT HE WAS PREPARED TO CONSIDER PUTTING FORWARD A REPORT IN WHICH PARTS I AND II UNANIMOUSLY AGREED, WHILE SETTING OUT OPTIONS FOR THE REST.

5. FERRI POINTED OUT THAT FITZGERALD HAD TOLD THE E.P THAT HE HAD ASKED THE COMMITTEE TO PRODUCE AN INTERIM REPORT. HERMAN (BELGIUM) COMPLAINED THAT MR RIFKIND WAS MERELY REPEATING THE SAME OLD STORY AS HAD BEEN HEARD FROM THE U.K SINCE MESSINA (BUT LATER APOLOGISED FOR BEING OFFENSIVE). MOLLER (DENMARK) WAS PREPARED TO WORK ON THE BASIS OF PARTS I AND II BUT STRESSED THAT HE DID NOT ACCEPT THE OVERALL APPROACH OF THE FAURE DRAFT AND CERTAINLY NOT PARTS III AND IV. HE TABLED AN ALTERNATIVE APPROACH, WITHOUT EXPLANATION OF ITS CONTENT. PAPANTONIOU (GREECE) WAS PREPARED TO WORK ON THE FAURE DRAFT PROVIDED IT WAS TAKEN AS A WHOLE: HE COULD NOT GO FORWARD ON ONE PART BUT NOT ANOTHER. FAURE REPEATED HIS REFUSAL TO PROCEED ONLY WITH THE FIRST HALF: THAT WOULD PRODUCE ANOTHER FLACCID EUROPEAN COUNCIL CONCLUSION. DONDELINGER (LUXEMBOURG) DID NOT SEE THAT 3 MORE MONTHS DISCUSSION WOULD CHANGE POSITIONS. THE IDEAS IN QUESTION HAD BEEN AROUND AT LEAST SINCE THE 1972 SUMMIT.

6. MR RIFKIND IN REBUTTAL POINTED OUT THAT THE COMMITTEE ITSELF HAD NOT DISCUSSED THE IDEAS IN QUESTION, HOWEVER LONG THEY MAY HAVE BEEN CURRENT. THE COMMITTEE RISKED APPEARING AS A SHAM IF MEMBERS INTENDED NOT TO MINIMISE DIFFERENCES BUT SIMPLY TO REGISTER MAJORITY SUPPORT FOR PRECONCEIVED IDEAS. IF THAT WERE SO FURTHER DISCUSSION WOULD SERVE NO PURPOSE. FAURE'S PAPER HAD SOUGHT TO BRIDGE SOME DIFFERENCES, BUT OTHER COMMITTEE MEMBERS DID NOT SEEM TO WANT TO TRY TO DO THAT.

7. VAN EEKELN (NETHERLANDS) SUGGESTED WORKING ON THE FAURE DRAFT TO SEE HOW MUCH AGREEMENT COULD IN FACT BE REACHED, AND THIS SUGGESTION WAS ACCEPTED, THOUGH IT WAS NOT SERIOUSLY PUT INTO EFFECT DURING THE REST OF THE DAY. AFTER A DISORGANIZED DISCUSSION (SEPARATELY REPORTED) OF THE VAN EEKELN, RIFKIND, FERRI AND HERMAN PAPERS ON INSTITUTIONS, WHICH STRAYED INTO PART III OF THE FAURE DRAFT, A FURTHER ROUND ON THE NATURE

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OF THE REPORT TOOK PLACE OVER LUNCH. AFTER BILATERAL CONTACT WITH MR RIFKIND A SOMEWHAT CHASTENED HERMAN BUSIED HIMSELF TO PERCUADE OTHERS NOT TO INSIST ON IDENTIFYING MAJORITY AND MINORITY VIEWS. THE CONCLUSIONS REACHED AT LUNCH AND REPORTED BACK WAS THAT THERE WOULD BE A WRITTEN REPORT RECORDING AREAS OF AGREEMENT, AREAS OF DISAGREEMENT SETTING OUT THE ALTERNATIVES, AND POSSIBLY AN ORAL INTRODUCTION BY FITZGERALD TO THE EUROPEAN COUNCIL ON HIS OWN RESPONSIBILITY WHICH MIGHT INDICATE WHERE THE MAJORITY STOOD ON KEY ISSUES: THAT LAST ELEMENT COULD ONLY BE DECIDED ONCE THE WORK WAS COMPLETE.

FUTURE PROCEDURE.

8. AFTER MUCH NEEDLESS WRANGLING ABOUT THE ROLE OF THE SECRETARIAT IN DRAFTING IT WAS AGREED THAT AMENDMENTS TO THE FAURE PAPER SHOULD BE SUBMITTED BY 13 NOVEMBER. THE SECRETARIAT WOULD DISTRIBUTE CONSOLIDATED AMENDMENTS ON 16 NOVEMBER, WHICH ASSISTANTS WOULD MEET (IN BRUSSELS) UNDER THE SECRETARY'S CHAIRMANSHIP ON THE AFTERNOON OF 19 NOVEMBER TO REVIEW, IN PREPARATION FOR THE NEXT MEETING OF THE COMMITTEE WHICH WILL BEGIN AT 1400 ON 21 NOVEMBER BUT, CONTRARY TO EARLIER EXPECTATION, ONLY EXTEND INTO 23 NOVEMBER IF ABSOLUTELY NECESSARY. PFLIMLIN (PRESIDENT OF E.P) WILL ATTEND AT 0900 ON 22 NOVEMBER.

9. AFTER THE DUBLIN EUROPEAN COUNCIL THE COMMITTEE WILL MEET ON 12/13 DECEMBER, 16/17 AND 30/31 JANUARY, 13/14 AND 27/28 FEBRUARY.

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CAB - WILLIAMSON, STAPLETON, LAMBERT.
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TO IMMEDIATE FCO

TELEGRAM NUMBER 3646 OF 08 NOVEMBER 1984

INFO BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS,
BONN, LUXEMBOURG, ATHENS, INFO SAVING LISBON, MADRID, STRASBOURG.

AD HOC COMMITTEE ON INSTITUTIONS (DOOGE COMMITTEE) 7/8 NOVEMBER 1984
PAPERS ON CONVERGENCE AND ADVANCED TECHNOLOGY

SUMMARY

1. UNREMARKABLE DISCUSSIONS OF GREEK AND DANISH PAPERS. SOME TRACE OF EACH SHOULD APPEAR IN INTERIM REPORT.

DETAIL

A. CONVERGENCE

2. PAPANTONIOU (GREECE) INTRODUCE HIS PAPER ARGUING FOR A 'VAST INCREASE' IN EC STRUCTURAL SPENDING THROUGH A LARGE INCREASE IN OWN RESOURCES: BETTER TARGETTING OF STRUCTURAL POLICIES TO LESS DEVELOPED REGIONS: INTRODUCTION OF ELEMENTS OF CONVERGENCE INTO OTHER EC POLICIES SUCH AS INDUSTRIAL POLICY: AND SUBSIDISED COMMUNITY LOANS TO PROMOTE CONVERGENCE.

3. ONLY FERRI (ITALY) GAVE THE REPORT UNQUALIFIED SUPPORT. MOST OTHERS AGREED THAT THERE WAS A PROBLEM BUT QUESTIONED THE ANALYSIS OF THE PROPOSED REMEDY. MR RIFKIND OBSERVED THAT ~~THE~~ PROBLEMS IDENTIFIED PARTICULARLY AFFECTED PERIPHERAL AREAS OF THE COMMUNITY. BUT THERE COULD BE NO CERTAINTY THAT THROWING HUGE RESOURCES AT THE PROBLEM WOULD SOLVE IT. IN ANY CASE THE GREEK CALL FOR A VAST INCREASE IN OWN RESOURCES FOR THIS PURPOSE WAS WHOLLY UNREALISTIC. THE COUNCIL HAD LABORIOUSLY AGREED AN INCREASE OF THE VAT RATE TO 1.4 PERCENT AND A SYSTEM OF BUDGETARY DISCIPLINE. THERE COULD BE NO QUESTION OF EXEMPTING NEW POLICIES FROM THE CONSTRAINTS OF THE MAXIMUM RATE. IN ANY CASE THE PROBLEM WAS THE IMBALANCE BETWEEN SPENDING ON THE CAP AND ON REGIONAL POLICIES, NOT THE ABSOLUTE SIZE OF THE BUDGET. IF THE COMMUNITY REALLY WANTED CONVERGENCE RATHER THAN A SYSTEM OF PERMANENT SUBSIDY FOR LESS DEVELOPED AREAS IT SHOULD CONCENTRATE ON CREATING A GENUINELY OPEN INTERNAL MARKET.

4. SUMMING UP THE DISCUSSION DOOGE NOTED THREE STRANDS OF DEBATE: (A) THE GREEK PAPER REFERRED TO CONVERGENCE OF LIVING STANDARDS. THIS HAD TO PROCEED IN PARALLEL WITH CONVERGENCE OF POLICIES. IT WAS IMPORTANT BOTH TO DISTINGUISH THE TWO AND TO SEE THE RELATIONSHIP BETWEEN THEM.

(B) THE PAPER CONCENTRATED ON THE PRESSURE CREATED FOR LESS DEVELOPED REGIONS BY THE COMMON MARKET WHILE IGNORING ITS POTENTIAL FOR BRINGING ABOUT CONVERGENCE.

(C) THE GREEK PAPER WAS OVER OPTIMISTIC ABOUT THE FEASIBILITY OF

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MOBILISING SUCH LARGE EC RESOURCES FOR CONVERGENCE.
HE DREW NO PROCEDURAL CONCLUSION.

B. ADVANCED TECHNOLOGY

5. AFTER MOLLER HAD INTRODUCED HIS PAPER FERRI AND HERMAN ARGUED THAT IT CONTAINED A FUNDAMENTAL INCONSISTENCY. IT TOOK AS ITS PREMISE THAT THERE SHOULD BE NO CHANGE IN THE EXISTING TREATIES, YET ALL THE ARGUMENTS POINTED TO THE NEED FOR SUCH A CHANGE.

6. ANDRIESEN (COMMISSION) QUESTIONED THE TREATMENT OF ADVANCED TECHNOLOGY AS A SPECIAL CASE. HE WAS ALSO CONCERNED ABOUT THE IMPLICATIONS OF THIS FOCUS FOR THE COMMUNITY'S COMPETITION/STATE AIDS RULES. THE EMPHASIS SHOULD BE ON PRE-COMPETITIVE RESEARCH AND DEVELOPMENT. VAN EEKELEN (NETHERLANDS) AGREED AND POINTED TO THE DIFFICULTY OF 'PICKING WINNERS'.

7. SUMMING UP, DOOGE SAID THE PAPER SHOULD BE AMENDED TO GIVE MORE INFORMATION ON THE NATURE OF THE PROBLEM AND OF PROGRAMMES ALREADY UNDER WAY TO MEET THE CHALLENGE (EG ESPRIT, EURONET). THE REVISED PAPER SHOULD ALSO CONSIDER WHETHER NEW DECISION-MAKING PROCEDURES MIGHT BE NEEDED TO ACCELERATE COMMUNITY PROGRAMMES IN RESEARCH AND DEVELOPMENT, JOINT MARKETING AND EVEN JOINT PRODUCTION.

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TELEGRAM NUMBER 1045 OF 07 NOVEMBER

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INFO PRIORITY UKDEL NATO ATHENS BRUSSELS COPENHAGEN DUBLIN

LUXEMBOURG PARIS ROME THE HAGUE

YOUR TELNO 606: ANGLO-GERMAN RELATIONS

SUMMARY

1. AS KOHL WAS ENGAGED TODAY I GAVE THE PRIME MINISTER'S MESSAGE TO TELTSCHIK FOR DELIVERY. I PRESSED HIM ON GERMAN IDEAS ON EUROPEAN INTEGRATION. HE WOULD NOT BE MORE SPECIFIC THAN TO REPEAT THOSE IN RUHFUS' DOOGUE COMMITTEE PAPER ON POLITICAL AND SECURITY COOPERATION. I EMPHASISED THE IMPORTANCE WHICH THE PRIME MINISTER ATTACHED TO CLOSE COORDINATION WITH THE GERMAN GOVERNMENT ON ALL EUROPEAN QUESTIONS.

DETAIL

2. CHANCELLOR KOHL HAD HIS WEEKLY CABINET MEETING THIS MORNING AND IS APPEARING BEFORE THE BUNDESTAG COMMISSION OF ENQUIRY INTO THE FLICK AFFAIR THIS AFTERNOON. I THEREFORE GAVE THE PRIME MINISTER'S MESSAGE TO TELTSCHIK (KOHL'S DIPLOMATIC ADVISER) FOR DELIVERY. HE HAD TO COME OUT OF THE CABINET MEETING TO SEE ME.

3. IN GOING THROUGH THE POINTS IN THE MESSAGE WITH TELTSCHIK I EMPHASISED THAT THIS YEAR HAD SEEN THE SYSTEMATIC DEVELOPMENT AND PRESENTATION OF THE BRITISH CONCEPT OF EUROPE. MILESTONES HAD BEEN THE PRIME MINISTER'S PAPER ON THE FUTURE OF EUROPE, MR RIFKIND'S CONTRIBUTIONS TO THE DOOGUE COMMITTEE, YOUR OWN SPEECH IN BONN ON 17 OCTOBER, AND THE PRIME MINISTER'S INTERVIEW IN DIE WELT OF 2 NOVEMBER. I WAS NOT AWARE THAT ANY OTHER MEMBER STATE HAD MADE A BETTER CONTRIBUTION TO THE EUROPEAN DEBATE. OUR IDEAS WERE MORE REALISTIC THAN SPINELLI, AND MORE CONCRETE THAN, FOR INSTANCE, MITTERRAND'S STRASBOURG SPEECH. I COULD SEE NOTHING IN THEM WHICH CONTRADICTED THE SUGGESTIONS WHICH RUHFUS HAD PUT FORWARD IN THE DOOGUE COMMITTEE. IT WOULD HOWEVER HELP ME - AND ALSO, I THOUGHT, THE PRIME MINISTER - IF WE COULD KNOW THE ANSWER TO TWO QUESTIONS. FIRST, WAS THERE ANYTHING IN OUR APPROACH WHICH THE GERMANS FOUND UNACCEPTABLE OR INADEQUATE? AND SECOND, WHAT EXACTLY DID THE

/CHANCELLOR

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CHANCELLOR KOHL HAVE IN MIND WHEN HE SPOKE OF TREADING THE PATH TO EUROPEAN UNION?

4. TELTSCHIK DID NOT ANSWER EITHER QUESTION DIRECTLY. HE SAID THAT THE GERMANS FOUND "EUROPE - THE FUTURE" A VERY PRAGMATIC PAPER WHICH OFFERED A GOOD STARTING POINT. THEY WERE IN COMPLETE AGREEMENT WITH US ON THE NEED TO FULFIL THE TREATY AND COMPLETE THE INTERNAL MARKET. BUT THEY ALSO BELIEVED THAT THE TIME HAD COME FOR A QUALITATIVE STEP FORWARD IN POLITICAL UNION. THAT WAS THE SENSE OF RUFUS' PAPER ON POLITICAL AND SECURITY COOPERATION. THE TREATY OF ROME OFFERED NO FORMAL BASIS FOR THESE ACTIVITIES. HENCE THE GERMAN PROPOSAL FOR A NEW TREATY, COVERING ONLY POCO AND SECURITY. PROGRESS ON THIS IDEA IN THE DOOGIE COMMITTEE WOULD SHOW HOW FAR AGREEMENT WAS POSSIBLE. THE FRENCH GOVERNMENT HAD SAID THEY WERE PREPARED TO CONSIDER IT (WAS AUGE FASSEN). THE GERMANS HAD THE IMPRESSION THAT WE WERE MORE RESERVED.

5. I REPLIED THAT MY EXPERIENCE OF THE GENSCHER/COLOMBO PROPOSALS SUGGESTED THAT IT WOULD BE THE DANES, DUTCH AND IRISH WHO WOULD HAVE THE MOST DIFFICULTY WITH RUFUS' PAPER. TELTSCHIK SAID THAT THE GERMANS ENVISAGED THE NEW TREATY BEING SIGNED ONLY BY THOSE MEMBER STATES WILLING TO PARTICIPATE.

6. I REPEATED THAT WE SHOULD BE INTERESTED TO KNOW WHETHER A NEW TREATY ON POCO AND SECURITY WAS ALL THAT THE GERMAN GOVERNMENT HAD IN MIND BY "EUROPEAN UNION", OR WHETHER THEY MEANT SOMETHING MORE. TELTSCHIK SAID THAT IT WOULD BE TOO AMBITIOUS TO PUT FORWARD MORE WIDE-REACHING PROPOSALS AT PRESENT. THERE WERE IDEAS BEING DEBATED INTERNALLY WITHIN THE GERMAN GOVERNMENT, AND THEY WOULD WILLINGLY DISCUSS THESE BILATERALLY WITH US IN PARALLEL WITH THE WORK IN THE DOOGIE COMMITTEE. I SAID THAT WE WOULD LIKE TO DO THIS, AND INDEED THIS WAS THE SENSE OF THE PRIME MINISTER'S MESSAGE. I HOPED TO TALK TO THE CHANCELLOR AND/OR TO TELTSCHIK AT MORE LEISURE IN THE NEAR FUTURE, AND WAS READY TO ACT AS A CHANNEL FOR THE REPLY WHICH THE PRIME MINISTER'S MESSAGE WOULD NO DOUBT RECEIVE.

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7. I TOLD TELTSCHIK THAT THERE HAD BEEN MANY POINTS OF AGREEMENT WITH DELORS WHEN HE HAD PAID HIS INTRODUCTORY VISIT TO LONDON LAST MONTH, THOUGH LESS SO ON BUDGETARY DISCIPLINE AND THE CAP THAN ON OTHER ITEMS. TELTSCHIK SAID THAT DELORS HAD CAUSED SOME CONSTERNATION IN BONN BY PROPOSING A RADICAL REARRANGEMENT OF COMMISSION PORTFOLIOS AND OF THEIR ALLOCATION BETWEEN MEMBER STATES. THIS HAD INCLUDED A PROPOSAL TO GIVE NARJES THE NON-JOB OF OVERSEEING THE COMMISSION'S RELATIONS WITH OTHER COMMUNITY INSTITUTIONS. THESE IDEAS WERE UNACCEPTABLE TO THE FRG. AT THE FRANCO-GERMAN CONSULTATIONS IT HAD BEEN CLEAR THAT THEY WERE NO MORE ACCEPTABLE TO MITTERRAND, NOT LEAST BECAUSE THE FRENCH WOULD LOSE THE DEVELOPMENT AID PORTFOLIO CURRENTLY HELD BY PISANI. I SAID I KNEW WE WERE ANXIOUS TO KEEP THE BUDGET PORTFOLIO OUT OF THE WRONG HANDS.

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Extract from Conservative Manifesto for European
Elections - 14 June 1984.

THE EUROPEAN PARLIAMENT

in how Community funds are spent has increased, but it has little direct responsibility for how the money is raised. It has shown itself unwilling to make cuts in some areas of Community expenditure so that within the limits of available resources other areas might benefit. Conservatives will work to ensure that the Parliament shows itself capable of making political choices of this kind.

On a growing range of issues, the Parliament is regarded as 'the voice of Europe'. It has an important part to play on human rights questions, for example. Conservative MEPs will help to ensure that the European Parliament makes a responsible contribution to the maintenance and expression of the democratic ideals upon which the Community is founded.

These three criteria - effectiveness, consistency and responsibility - allied to a concern to keep the Parliament closely in touch with the electorate, are fundamental to the Conservative approach. This approach has helped us to work very closely on key issues with members from many other like-minded parties across the Community. With these parties the Conservatives have held the initiative on all important issues since 1979, from the Falklands crisis and cruise missiles to policies for economic recovery.

Conservatives have insisted that member states should retain the right to protect their vital national interests in the Council of Ministers by being able to invoke, where necessary, the principle of unanimity. However, we recognise that if the Council is to be an effective decision-making body, a member state's right to block a decision should be used only as a last resort. It is not in our interest that other member states should, without proper justification, veto agreement on measures which would benefit the United Kingdom.

We welcome practical reforms in the workings of the Community institutions. But we do not support attempts to force the pace of institutional reform, especially in ways which might jeopardise the defence of genuinely vital national interests or which would not command the necessary degree of common agreement and public support.



Foreign and Commonwealth Office

London SW1A 2AH

16 November 1984

F E R Butler Esq
Private Secretary
Cabinet Office

Dear Private Secretary,

TOPICAL POINTS ON EUROPEAN COMMUNITY MATTERS

I attach the latest set of non-confidential 'Topical Points'.

The purpose of 'Topical Points' is to help keep Ministers, some backbenchers and MEPs briefed periodically on points of current interest.

Yours ever,

Brian Donaldson

Brian Donaldson
Assistant Private Secretary
to Malcolm Rifkind

TOPICAL POINTS ON THE EUROPEAN COMMUNITY
NOVEMBER 1984

Contents

1. General	(p 2)
2. Community Budget:	(pp 3-9)
(a) Budget Imbalances	(p 3)
(b) Budget Discipline	(pp 3-4)
(c) New Own Resources	(pp 4-5)
(d) 1984 Supplementary Budget	(pp 5-7)
(e) 1985 Draft Budget	(p 8)
(f) 1983 Refunds	(pp 7-9)
3. Enlargement	(p 10)
4. Agriculture	(pp 11-13)
5. Internal Market	(pp 14-15)
6. Environment	(pp 16-17)
7. Future of the Community	(pp 18-19)
8. EC Spending in Britain	(p 20)
9. Transport	(p 21)
10. UK/EC Trade	(p 22)
11. External Trade	(p 23)

TOPICAL POINTS

1. General

The Fontainebleau agreement, reached by Heads of Government in June put the Community's finances on a sound, equitable basis. In future the United Kingdom will contribute only its fair share of the Community budget- roughly half what we would have had to pay without an agreement.

Work is now in hand to implement the Fontainebleau agreement. Britain has received 90% of her 1983 refund (£528 m gross out of a total of £587 m gross - £440 m net). The Council has agreed a common position on the measures necessary to guarantee the effective application of budget discipline. Significant progress was made in October towards unblocking a number of related budget issues.

The agreement reached at Fontainebleau creates a real opportunity to embark on a programme of action for the future development of the Community. The UK's ideas were put forward in our paper Europe - the Future in June. The completion of the internal market is vital for industry and job creation in the Community (see section 5). But there is more to it than that. A summary of our ideas is at Annex A.

2. Community Budget

(a) Budget Imbalances

At Fontainebleau the UK secured agreement to:

- an abatement of 1000 mecu (£590 million) in respect of 1984;
- for 1985 and subsequent years an abatement equivalent to 66% of its budgetary burden, measured on the basis of the gap between our VAT and our expenditure share of the Community's allocated budget.

Both the abatement for 1984 and the abatements for subsequent years will be made by reduction of the UK's VAT payments. This system will replace the refunds, taking the form of additional Community expenditure that have hitherto applied.

The agreement represents a lasting solution to the UK's budget problem. The budget mechanism will form part of, and last as long as, the revised own resources decision, also agreed at Fontainebleau, and can therefore only be changed with the agreement of the UK Government and Parliament.

(b) Budget Discipline

The Council has fulfilled the mandate given to it by Heads of Government at Fontainebleau. On 12 November Finance Ministers agreed a common position on the measures necessary to guarantee the effective application of budget discipline. This text is the culmination of our efforts over a number of years. For the first time in the Community the Council will

- (i) fix each year the maximum level of expenditure for all Community policies;

(ii) so proceed that net expenditure relating to agricultural markets will increase less than the rate of growth of the own resources base.

These measures, which will be incorporated in the Community's budget procedures, powerfully reinforce the efforts we are making, and will make in the agricultural price fixing, to curb the growth of agricultural expenditure and to provide a sound financial basis for Community policies.

The text agreed by Finance Ministers and endorsed by the Foreign Affairs Council on 12 November will be discussed at a dialogue meeting with the European Parliament on 21 November. It is hoped that it will be formally adopted by the Council as soon as possible thereafter. This will constitute fulfilment of the conditions we attached to our willingness to contribute to the inter-governmental agreement in respect of 1984 and we would then put that agreement to the House.

(c) New Own Resources

It was agreed at Fontainebleau that the ceiling on own resources should be increased to 1.4% of VAT at the latest by 1 January 1986, provided that national Parliaments agreed. As a result of the budget agreement, while the VAT ceiling will be increased to 1.4% for the Community as a whole, the United Kingdom will be contributing substantially less than it is at present liable to contribute under the 1% limit. The Government will only be prepared to recommend the increase to Parliament when satisfactory arrangements for the control of Community expenditure are in place. There can be no further increase in the ceiling without the consent of all Member States and of national Parliaments.

Discussions are continuing in the Council on the incorporation of the budget mechanism agreed at Fontainebleau and the decision to increase the VAT ceiling to 1.4% in a revised own resources

decision. Most of the points in the text have now been agreed. The only major problem which remains to be resolved is how soon new own resources will be made available. At the Foreign Affairs Council on 2/3 October, nine Member States could agree to a transitional arrangement for 1985 with an interim VAT rate of 1.24% in order to finance the Community's inescapable financial obligations in 1985, including the UK's abatement of £590 million in respect of 1984. This solution would ensure that additional financing was kept within the own resources framework. The Germans blocked agreement. They want the increase in the VAT ceiling to take effect on 1 January 1986 to coincide with the date of enlargement. Despite the absence of agreement on additional financing for 1985 all Member States reaffirmed their commitment to pay the UK abatement of £590 million on the revenue side in 1985, as agreed at Fontainebleau.

"An increase (in the Community's own resources) is needed to finance sensible new policies that will be of potential benefit to Britain. An increase is needed as well to support a prudent expansion of the regional and social funds, of which we are among the largest beneficiaries. An increase is needed to bring Spain and Portugal into the Community. That is of major importance to the Alliance. It is also needed to allow other Member States to pay Britain's refund."

Sir G Howe, 10 July 1984
House of Commons

(d) 1984 Supplementary Budget

It was agreed at Fontainebleau that steps would be taken to deal with the problem of the forecast 1984 budget overrun caused by market developments which meant that the Community's commitments to farmers outstripped the finance provided in the 1984 budget. The UK insisted that the first priority was to look for ways of reducing expenditure and that only when all possible savings had been found could the Community consider how to cope with the problem. Largely as a result of our efforts the size of the

overrun was reduced from the Commission's original estimate of 2.3 billion ecu (£1.3 billion) to less than half - 1 billion ecu (£590 million). At the Foreign Affairs Council on 2 October the Government agreed to contribute to the financing of this residual sum (thus enabling the draft 1984 supplementary budget to be established) provided that our 1983 refunds were released by the European Parliament and provided that a satisfactory agreement was reached on budget discipline, guaranteeing the effective application of the principles agreed at Fontainebleau. The first of these conditions has already been satisfied. The second condition is budgetary discipline and we hope that agreement will be reached on this in the Council soon. The UK's net contribution to the 1984 supplementary budget will be about 100 mecu (approx £60 million).

"The representatives of the Governments of the Member States note that the British Government will be in a position to complete its national procedures only when the United Kingdom has received its refunds for 1983 and the Council has reached agreement on the measures necessary to guarantee the principles of budget discipline approved by the European Council."

Text of undertaking made by the representatives of the Governments of Member States, meeting within the Council on 2/3 October in Luxembourg.

"We have broken the log-jam in a way that fully protects the position of the United Kingdom. We have created the conditions in which (the European) Parliament can release our 1983 refunds. It has been reaffirmed in a very clear fashion that we are entitled to receive our 1000 mecu abatement on the revenue side in 1985 and we have adopted the 1984 budget with very substantial economies in that budget."

Sir G Howe, 2 October
Luxembourg

Sir G Howe, 2 October

Luxembourg

"We made it clear throughout that we were prepared to consider financing the inescapable obligations of the Community once all possible savings had been found and provided that all other issues were resolved."

Sir G Howe, 24 October following

Foreign Affairs Council

".... an increase in own resources was not proposed for two years, and that means that the Community will already be in difficulty over this year's expenditure and possible next year's. It is suggested that there should be a voluntary loan. That would also have to be unanimous. We made clear that we could not agree until other things are settled."

Prime Minister

House of Commons, 26 April 1984

(e) 1985 Draft Budget

The Foreign Affairs Council on 2/3 October established the 1985 draft budget within the 1% ceiling and sent it forward to the European Parliament accompanied by a Council declaration stating that funds will be provided to meet the Community's inescapable financial obligations and the UK's 1984 abatement. We believe that any form of additional financing in 1985 should be made available through own resources and for that reason it is important to consider advancing the implementation date into 1985.

(f) 1983 Refunds

On 10 October, the European Parliament voted to release the UK's refunds for 1983 which had been agreed at Stuttgart amounting to £440 million net or £587 million gross. (The net refund is

grossed up to take account of the UK's contribution to its own refund.) Ninety per cent of the gross refund - £528 million - has now been paid to the UK. The remaining 10% will be paid by the end of the year, in accordance with normal practice.

This is the last of the special expenditure-side refunds (paid through the expenditure side of the budget) and negotiated by the Government in respect of the Community budgets 1980-83 and brings the total refunds received to some £2,500 million net. With effect from 1985 the UK VAT contribution will be abated in respect of any excess contribution in any one year.

The regulations implementing the 1983 refunds provide for Community contributions to UK public sector projects or schemes in the fields of employment, transport infrastructure and energy strategy. The money will be spent as follows:

Employment - £163 million for the Job Release Scheme to be operated by the Department of Employment and the Department of Economic Development for Northern Ireland;

Transport - £273 million for road and rail schemes designed to relieve bottlenecks on major roads in England. Scotland and Wales;

Energy - £151 million for projects in England, Scotland and Wales designed to reduce dependence on imported oil, to improve coal technology, to promote more rational use of energy and to increase power generation capacity.

"The British Government sees this as a debt of honour which has now been satisfied. The European Parliament was not justified in blocking the refund but now that the problem has been satisfactorily resolved, the Government looks forward to close relations with the European Parliament. One of the most important consequences of the vote is that it nails firmly the allegation that the Fontainebleau Agreement is falling apart."

Mr Rifkind, 10 October 1984
Strasbourg

3. Enlargement

The enlargement of the Community to include Spain and Portugal is an important factor in strengthening their democracy and their commitment to the NATO alliance. The Community and the applicants are working hard to ensure that the 1 January 1986 target date for accession reaffirmed by the European Council at Fontainebleau on 25/26 June is met.

A number of difficult issues with both countries are still outstanding. These include agriculture, fisheries, social affairs, own resources and transitional arrangements for the reduction of Spanish industrial tariffs. On the last point, the Community has told Spain that it is prepared to accept an industrial tariff transition of 6 years with large cuts in the first year, accelerated dismantling for the very high tariffs and an additional mechanism in the form of a much improved reduced duty quota for cars.

".... It is important that we should conclude these negotiations. It is a matter of concern to the United Kingdom that the stability of democratic systems of government in the Iberian peninsula is helped and not diminished. It is also important to the British people that access to the highly protected industrial markets of Spain should become available to our industrial manufacturers."

The Foreign and Commonwealth
Secretary, The House of Commons
24 October 1984

4. Agriculture

General

The UK is not against the CAP, but we are against abuses of it, above all the expensive and wasteful surpluses and the huge gaps that have been allowed to develop between Community and world food prices. Progress has been made in introducing reforms. Important first steps were taken at the Agriculture Council in March:

- prices of many agricultural products were cut;
- quotas were introduced to curb the dairy surplus;
- guaranteed thresholds were agreed for products in surplus or approaching surplus.

Guarantee threshold schemes already exist for milk, cereals and a number of other products. Agreement has now been reached to cover olive oil as well and discussion is continuing as regards wine.

"As we all know, (the CAP) has encouraged the creation of surpluses of wine, milk, beef and cereals which have no market and are appallingly expensive to dispose of. Ordinary people are increasingly offended by the comparisons drawn on our television screens between surplus at home, and scarcity and starvation abroad. They wonder too whether the all-out pursuit of higher yields, through intensified farming methods, takes account of the needs of our natural environment. If we want to preserve the CAP, we must make it work better. We must narrow the gap between Community and world prices. We must achieve a better balance between production and demand."

Sir Geoffrey Howe
Speaking in Bonn on
16 October 1984

(b) Milk

In March Agriculture Ministers agreed on a "super-levy", payable on milk production above the agreed Community quota level (1981 production plus 1%). In most countries quotas have now been allocated or soon will be. The French Government do not expect production to exceed their quota. Britain has cut production as required by the scheme (down nearly 9% so far this year). All Member States must apply the scheme promptly, uniformly and in full. In the long-term, however, a rigorous price policy will be the most effective way to control surplus production.

In the UK, the Government has announced a £50 million outgoers scheme to provide aid specifically for those farmers who now wish or need to move out of dairying. Several revisions have also been made to the rules implementing the scheme to help those most affected by the surper-levy.

(c) Butter Disposal Measures

The UK strongly opposed (but was outvoted) the latest Management Committee decision on low-price sales to third countries. The Soviet Union is likely to be the main or only purchaser. Such sales do nothing to solve the underlying problem of butter surpluses and exacerbate tensions with other producer countries.

It is far from clear that the discount-price Christmas butter scheme, voted through at the same time, will bring any overall increase in consumption. While attractive to consumers in the short term, it must add to costs which the taxpayer ultimately bears.

(d) Wine

The Community produces one-third more wine than it needs - equivalent to 16,000 Olympic size swimming pools. Demand is falling particularly for lower quality table wine, while production continues to increase. The Commission, France and the

UK are pressing for effective guarantee thresholds, with financial disincentives for surplus production.

"It just does not make sense to spent £600 million a year encouraging wine production when one third, soon perhaps to be one half, of the total output has to be destroyed by distillation."

Mr Jopling,
Conservative Party Conference
11 October, 1984

(e) Cereals

Cereals production is expected to be up this year by 14% to 140 million tonnes. If the dollar remains high, it will be possible to export surpluses at low cost given poor harvests elsewhere. But if the dollar falls, discrepancies between Community and world cereals prices will reappear, with extremely costly results. Guarantee thresholds must be used to discourage production beyond the needs of the Community plus a realistic expectation of export demand.

"The CAP like all other policies, must be considered in the light of the financial constraints. With a Community agricultural budget amounting to over two-thirds of total Community expenditure or £10 billion per annum, this is £30 million per day, we simply cannot go on piling on surpluses of food which can be neither eaten nor sold."

Minister of Agriculture
Michael Jopling
Farmers Club, 3 October 1984

5. Internal Market

A properly functioning internal market is a vital condition for growth and job creation in Europe. There are too many non-tariff barriers to trade, and new ones are springing up all the time.

Some progress has been made on problems caused by differing national standards for goods. Agreement on common technical and safety standards means that UK exports conforming to them will have the right of automatic access throughout the Community. Fifteen measures laying down agreed Community standards for industrial products were adopted in October 1984. In order to accelerate the process the UK has put forward an initiative designed to oblige Member States to accept in their domestic markets, goods which meet the required safety and technical standards of other Member States. Provisions have been built into the recommendation to ensure that there is no reduction in health and safety standards. The UK have also strongly backed the Community's efforts to reach common standards for linking up computers and telecommunications networks. The set of standards, known as Open System Interconnection, is now close to being adopted.

Other areas where we see a need for early progress include:

- (a) simplification of frontier controls for goods traffic: the single administrative document is an important priority here;
- (b) liberalisation of road haulage: here the first priority is to put an end to road haulage quotas;
- (c) a more liberal regime for air services in Europe: we and the Netherlands gave our partners a lead earlier this year when we signed a bilateral agreement which has resulted in cheaper excursion fares and a wider choice of routes for the traveller. For example, it is now possible to fly from London to Amsterdam and back from £49, £38 less than the lowest previous return fare;

(d) establishing a genuine common market in services. It is absurd that businesses in most other Member States cannot shop around in Europe for their insurance cover (British businesses can). The lack of competition which results from protected national markets simply means higher costs for European businesses as a whole - possibly as much as 1 billion ecu annually;

(e) creating a more competitive climate for European industry and business - a necessity if we are to compete on equal terms with the Americans and Japanese. Among the priorities here are greater vigilance in preventing protectionist use of state aids, and making sure that the requirements of Community law does not impose unreasonable burdens on smaller enterprises.

6. Environment

"We are saying "yes" to further substantial SO₂ reductions in a reasonable timescale; "yes" to parallel NO_x reductions; "yes" to a European-wide onslaught on pollutants from motor car exhausts; "yes" to further strengthening of scientific work and monitoring within the ECE Convention and in other contexts."

Statement by Mr William Waldegrave MP,
Under Secretary of State
Department of the Environment
at the closing session of the
Munich Conference, 27 June 1984

The UK is currently engaged in studying two draft Directives aimed at reducing those emissions believed to contribute to the problem of acid deposition:

(a) The Combustion Plants Directive would require 60% and 40% reductions in sulphur dioxide and nitrogen oxide emissions respectively from power stations by 1995. At a recent meeting of the UN/ECE Convention on Long Range Transboundary Air Pollution the UK announced that it would aim for reductions of 30% in both sulphur dioxide and nitrogen oxide emissions by the year 2000. We seriously question whether it is sensible to enter commitments for the much larger reductions required by the Directive. We believe that the Directive is technically deficient and does not take account of the most recent research on acid deposition. We are actively supporting further research effort into the problem. In the meantime we are proud of our record in fighting air pollution (UK sulphur dioxide emissions have fallen by over 30% since 1970 and 15% since 1980).

(b) The Vehicle Emissions Directive which seeks to impose reductions on emissions from cars of nitrogen oxide and hydrocarbons in line with current US standards by 1995. These standards would require cars to be fitted with costly and potentially inefficient catalytic converters, a technique incompatible with the much more cost effective lean burn engine, currently under development. We are resisting pressures to agree standards and a timetable which would effectively block development of "lean burn", and we are also considering the problem of unilateral German action to introduce such standards, which would have a serious impact on the Community's internal market in cars. We hope that it will be possible to reach a compromise acceptable both to the FRG and the rest of the Community.

Britain took the lead in advocating the introduction of unleaded petrol by 1989 at the latest. This was agreed in principle at the Environment Council on 28 June.

7. Future of the Community

The June European Council at Fontainebleau set up two ad hoc committees: one to look into the institutions of the Community and the other (known as the "People's Europe" Committee) to make proposals which could benefit the citizens of Europe.

Ad Hoc Committee on Institutions

The Ad Hoc Committee on Institutions comprises personal representatives of Heads of Government. Its function is "to make suggestions for the improvement of the operation of European cooperation in both the Community field and that of political or any other cooperation". Mrs Thatcher's representative is Malcolm Rifkind, Minister of State at the Foreign and Commonwealth Office.

The Committee will deal with a whole range of suggestions for making the Community work better. It is too early to predict what conclusions it will come to. It is due to report back to the European Council in June 1985. Mr Rifkind is urging the Committee to produce a report containing proposals of practical value which can be implemented fairly rapidly. He has put forward ideas based on the ideas contained in the British paper circulated to Heads of Government at the European Council in June, "Europe - the Future"; in particular the acceleration of moves to create a genuine common market in goods and services; eg harmonisation of trade in services including banking, insurance and transport (particularly air transport); and improvement in the mutual recognition of professional qualifications.

On institutional issues we are advocating greater cooperation between incoming and outgoing Presidencies with a view to smoother management of Community business; a reversal of the European Council tendency to becoming involved in the day to day work of the Community; ie the European Council should give strategic guidance on future developments in the Community; an improvement in the consultation procedures between the Council, Commission and Parliament.

On political cooperation our objective is the progressive attainment of a common approach to external policy. Cooperation should not just be a matter of making declarations but of having the political will to act together; concentration of effort should be where the leverage is greatest.

Committee on a "People's Europe"

The "People's Europe" Committee, also composed of representatives of Heads of State/Government, has the task of suggesting measures for the strengthening of Europe's identity. It will look mainly at areas which will have real meaning for ordinary people in Europe. This Committee is getting off to a slower start than the institutions committee. It met for the first time on 7 November 1984. The sort of proposal which we shall be asking this committee to consider is:

- a single document for the movement of goods across Community frontiers;
- methods of easing the passage of people and goods within the Community;
- a system for ensuring the equivalence of university diplomas.

within the terms of reference of this committee are also such matters as a European Voluntary Service scheme for young people, the formulation of European sports teams and other more symbolic ideas. We shall wish to ensure that the symbolic measures do not overshadow work on measures which have a practical value for ordinary people.

8. EC Spending in Britain

European Coal and Steel Community ECSC

Over the last decade Britain has received ECSC loans of over £1400 million and grants of over £200 million. Readaptation grants worth £6.4 million have recently been announced for workers who have lost their jobs in the British steel industry.

European Investment Bank (EIB)

since 1973, just over £3.2 billion has been channelled by the EIB into the UK by way of loans for industrial and infrastructure investment. Recent loans include £10 million for the development of North Sea gasfields.

European Regional Development Fund (ERDF)

the second allocation for 1984 of £77.97 million, brings to £1413 million the total of ERDF grants to the UK since the fund was established in 1975. The latest grants are for infrastructure projects, telecommunications and tourist developments, and direct investment in industry and the service sector.

European Social Fund (ESF)

Britain is due to receive £355 million for 1984 from the ESF compared with £320 million for 1983. This is a third of the total fund and means that we will receive almost as much as the combined allocation for Italy and France. About 75% of Britain's allocation will go to support Manpower Services Commission (MSC) projects to create employment opportunities for the unemployed young.

Aid from the Agricultural Guidance and Guarantee Fund (FEOGA)

Aid totalling over £5 million has recently been awarded to 44 projects in Britain for improving marketing and processing facilities for agricultural and fisheries projects.

9. Transport

Noise Reduction

Under a recent Community regulation, motor manufacturers have been ordered to reduce by almost half the noise levels of the cars and lorries they produce in the EC. The regulation will come into effect from 1 January 1985 and coincides with a Commission proposal to cut motor-cycle noise levels by the same average level from October 1986.

Proposed Block Exemption for Motor Vehicle Distribution Agreements

the Government supports the main features of the Commission's proposals which allow the manufacturers' system of selling through franchised dealers only to continue, subject to safeguards against anti-competitive practices and the partitioning of the Common Market. Consumers, no less than manufacturers, have the right to benefit from the Common Market. Car prices in the UK are higher than in other Member States. Car manufacturers argue that this difference does not result from the operation of their distribution agreements but from other factors beyond their control. If so they have nothing to fear from the draft Regulation.

10. UK/EC Trade

Latest figures are attached at Annex B with some historical comparisons.

Trade with the EC is much more important to the UK today than it was before accession. The Nine now take 44% of our total visible exports, compared to only 30% in 1970. The Nine also take 60% of our oil exports. Our exports to the Community grew from £2.9 billion in 1972 to £26.5 billion in 1983. Over the same period, our exports to the rest of the world grew more slowly - from £6.6 billion in 1972 to £34.0 billion in 1983.

The trend in UK exports of manufactures is similar, though less marked. The Community now takes 38% of our manufactured exports, compared to only 29% in 1972. Over this period the value of these exports rose from £2.4 billion to £15.1 billion, while our exports to the rest of the world grew from £5.7 billion to £24.8 billion.

Our deficit in manufactured trade with the Community (£8 billion in 1983) is a symptom of the more general problem from which all our overseas trade suffers - the poor competitiveness of UK manufacturing industry, which the Government is determined to see improved.

11. External Trade

The adoption of the new Common Commercial Policy Regulation has effectively ended two years of deadlocked discussions, strengthened the EC's trade policy in a way consistent with its international obligations and commitment to the open trading system. and given the Community a new Regulation to deal with illicit trade practices.

PROGRAMME OF ACTION FOR DEVELOPMENT OF THE COMMUNITYExternal Affairs

The Community must aim towards a common approach in external affairs:

- by making the fullest use of the available instruments on the Community side, including preferential agreements with certain third countries and groups of third countries (some involving association or having cooperation elements), and the Common Commercial Policy;
- by combining the use of Community instruments with greater political will to act together through political cooperation, concentrating efforts in such areas as the Middle East and Africa where our leverage is greatest, and ensuring better links between the Political Cooperation framework and the Council.

On aid and trade we should:

- liberalise our own trading practices;
- encourage our major trading partners to take their share of responsibility for the world economy and act jointly with them to promote the further liberalisation of international trade;
- work for the better coordination of Community aid with national development efforts and with those of other donors, to ensure maximum effectiveness.

Industry

The Community should give priority to the development of a vigorous, efficient and cost-effective industrial sector Urgent

consideration should be given to:

- whether more can be achieved or can be achieved more efficiently by action on a Community basis. The Commission's proposals for telecommunications and biotechnology programmes are relevant here;
- better cooperation on Research and Development;
- giving higher priority to inter-governmental cooperation along the lines of Airbus. In the enlarged Community it may sometimes be right for such ventures to go ahead without the participation of all Member States, though it should be open to others to come in later if they wish to do so;
- removing the impediments to risk-sharing and investment.

Environment

Decisions should be taken urgently:

- on a programme of research aimed at finding solutions to the problems caused by acid rain;
- to bring about the elimination of lead in petrol.

Culture

The Community should:

- examine whether governments can do more to encourage the learning of other Community languages;
- see whether the European Foundation could play a useful role in this and in developing professional exchanges;
- encourage access to each other's satellite broadcasting

systems.

We must make the Community more relevant to the lives of our people. This means a sustained effort:

- to simplify and speed up customs and other formalities;
- to allow European citizens to travel as freely and cheaply as the inhabitants of the United States, notably by increasing competition and liberalising air services.

Search for new areas of action

Member States should review their own policies and programmes in sectors covered by the Treaty to see whether greater progress could be made by a cooperative approach at the Community level.

TABLE: 1 UK TRADE WITH EUROPEAN COMMUNITY COUNTRIES

AUGUST, 1984

MILLION POUNDS
NOT SEASONALLY
ADJUSTED

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	
		THIS	LAST	THREE	LAST	YEAR	YEAR	INDEX	
		MONTH	THREE	MONTHS	TWELVE	1983	1972	(4)/(6)	
			MONTHS	YEAR	MONTHS			%	
				AGO					
EXPORTS	WORLD	5746	17106	14691	66774	60534	9602	695	
=====									
- TOTAL	EC	2377	7478	6153	29583	26516	2934	1008	
	EC SHARE %	41.4	43.7	41.9	44.3	43.8	30.6	145	
- MFRS	WORLD	3704	11277	9901	43925	39919	8069	544	
	EC	1287	4218	3588	16760	15137	2353	712	
	EC SHARE %	34.8	37.4	36.2	38.2	37.9	29.2	131	
- OIL	WORLD	1303	3771	2965	14179	12525	219	6467	
	EC	783	2375	1783	8933	7752	113	7913	
	EC SHARE %	60.1	63.0	60.1	63.0	61.9	51.5	122	
IMPORTS	WORLD	6610	19365	16279	73395	65993	11073	663	
=====									
- TOTAL	EC	2842	8690	7463	33388	30098	3525	947	
	EC SHARE %	43.0	44.9	45.8	45.5	45.6	31.8	143	
- MFRS	WORLD	4298	13069	11054	50042	44905	5965	839	
	EC	2058	6504	5664	25384	23047	2331	1089	
	EC SHARE %	47.9	49.8	51.2	50.7	51.3	39.1	130	
EXPORT/IMPORT RATIO									
=====									
- TOTAL	WORLD	%	87	88	90	91	92	87	105
	EC	%	84	86	82	89	88	83	106
- MFRS	WORLD	%	86	86	90	88	89	135	65
	EC	%	63	65	63	66	66	101	65

SOURCE: UK OVERSEAS TRADE STATISTICS
 EXPORTS FOB; IMPORTS CIF
 MFRS = MANUFACTURES; SITC 5 TO 8

COMPILED 02/10/84

TABLE 2 UK TRADE WITH MAJOR GEOGRAPHICAL AREAS

AUGUST, 1984

MILLION POUNDS
NOT SEASONALLY
ADJUSTED

		(1)	(2)	(3)	(4)	(5)	(6)	(7)
		THIS	LAST	THREE	LAST	YEAR	YEAR	INDEX
		MONTH	THREE	MONTHS	TWELVE	1983	1972	(4)/(6)
			MONTHS	AGO	MONTHS			%
EXPORTS	NON-EC DECID	1960	5531	4711	21327	18847	3804	561
=====	- SHARE %	34.1	32.3	32.1	31.9	31.1	39.6	81
- TOTAL	USA	936	2487	2235	9441	8337	1209	781
	- SHARE %	16.3	14.5	15.2	14.1	13.8	12.6	112
	JAPAN	97	251	232	897	798	173	520
	- SHARE %	1.7	1.5	1.6	1.3	1.3	1.8	75
- MFPS	NON-EC DECID	1249	3645	3059	14015	12122	3216	436
	- SHARE %	33.7	32.3	30.9	31.9	30.4	39.9	80
	USA	539	1580	1270	5833	4879	1012	576
	- SHARE %	14.6	14.0	12.8	13.3	12.2	12.5	106
	JAPAN	84	210	178	703	597	143	491
	- SHARE %	2.3	1.9	1.8	1.6	1.5	1.8	90
IMPORTS	NON-EC DECID	2436	7070	5768	27002	23817	4450	607
=====	- SHARE %	36.9	36.5	35.4	36.8	36.1	40.2	92
- TOTAL	USA	742	2245	1797	8264	7443	1188	695
	- SHARE %	11.2	11.6	11.0	11.3	11.3	10.7	105
	JAPAN	371	972	922	3637	3355	315	1154
	- SHARE %	5.6	5.0	5.7	5.0	5.1	2.8	174
- MFPS	NON-EC DECID	1705	5072	4104	19004	16748	2753	690
	- SHARE %	39.7	38.8	37.1	38.0	37.3	46.1	82
	USA	609	1876	1454	6806	5980	829	821
	- SHARE %	14.2	14.4	13.2	13.6	13.3	13.9	98
	JAPAN	361	946	894	3522	3250	284	1241
	- SHARE %	8.4	7.2	8.1	7.0	7.2	4.8	148
EXPORT/IMPORT RATIO								
=====								
- TOTAL	NON-EC DECID %	80	78	82	79	79	85	92
	USA %	126	111	124	114	112	102	112
	JAPAN %	26	26	25	25	24	55	45
- MFPS	NON-EC DECID %	73	72	75	74	72	117	63
	USA %	89	84	87	86	82	122	70
	JAPAN %	23	22	20	20	18	50	40

SOURCE: UK OVERSEAS TRADE STATISTICS
EXPORTS FOB; IMPORTS CIF
MFPS = MANUFACTURES, SITS 5 TO 8

COMPILED 02/10/84

Prime Minister

CDP

16 ki



Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
No 10 Downing Street
Whitehall

16 November 1984

Dear Charles

INTER-GOVERNMENTAL AGREEMENT

As the penultimate paragraph of my letter to you of 13 November indicated, the Economic Secretary considers that, when the text on budgetary discipline agreed at ECOFIN on 12 November has been formally adopted, following a satisfactory discussion with the European Parliament next Wednesday (21 November), the Government should seek Parliament's approval to implementation of the Inter-Governmental Agreement on supplementary finance for 1984.

In the meantime, in order to set the formal procedures in motion as soon as possible, the Economic Secretary believes that we should now publish a Draft Order under Section 1(3) of the European Communities Act and the Command Paper on the Inter-Governmental Agreement. We will of course, make it clear that these actions do not commit us to payment under the IGA if, for any reason, the Budget Discipline text is not finally adopted in a satisfactory form.

Subject to the views of the business managers the above procedure should make it possible to have a Resolution on the Section 1(3) Order in the week beginning 26 November, which would be debated on the same date as certain other Community documents from the Scrutiny Committee. The Economic Secretary therefore proposes (with the Chancellor's agreement) to proceed on this basis.

I am copying this letter to the private secretaries of members of OD(E) and to Sir R Armstrong.

Yours ever,
A M Ellis
A M ELLIS

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Deputy Chief Whip
12 Downing Street
LONDON SW1

16 November 1984

Dear Mr Gope
EUROPEAN COMMUNITIES

You will have read my letter of 9 November about the handling of forthcoming European Community business. With this week's adoption by ECOFIN of a common position on Budget Discipline I believe that we are now in a position to start the formal procedures which will enable us to pay our contribution under the Inter-Governmental Agreement.

The Chancellor and I consider that the best route is to use Section 1(3) of the European Communities Act. To do that we must lay a Draft Order, which needs to be considered by the Joint Committee on Statutory Instruments and the two Scrutiny Committees. I should like to lay the Draft Order on Monday 19 November. Then, if the Council of Ministers adopts the final Budget Discipline text on 21 or 22 November we could take the Resolution in the Commons on the Section 1(3) Order in the week beginning 26 November. Consideration by the Lords could follow a day or two later.

Following my discussion with you I would suggest that the Resolution should be taken on the same day as, but after, a debate on the documents recommended by the Scrutiny Committee.

Copies of this letter go to members of L, and of OD(E), and to Sir Robert Armstrong.

Yours sincerely,
Alan Ellis
PP. IAN STEWART

PRIME MINISTER

THE DOOGE COMMITTEE

You were worried about some of the ideas being floated in this Committee and asked for an interim report. This is attached.

The letter summarises the main issues. There are also more detailed analyses of the Ruhfus proposals on Political Cooperation (Flag A) and the Faure draft Report on the European Council (Flag B).

It would be helpful for the FCO to have guidance on the line they should take in further discussion.

There are some ideas which we clearly cannot accept ✓
(majority voting in political cooperation or any other commitment which would hinder us from acting in defence of essential British interests, extension of the powers of the European Parliament, 'objective tests' for invoking the Luxembourg compromise, a declaratory treaty on European Union, participation in EMS, new Community social legislation).

Most others are either positively useful or harmless. This applies for instance to most of the Ruhfus ideas except those rejected above.

But there are two points which come into a grey area:

(a) can we accept an Agreement which would formalise existing commitments in POCO, but not bind us to do any more than at present?

(b) can we agree to a case by case look at possible extension of majority voting in Community (not POCO) business, subject to maintenance of the Luxembourg compromise?

No

In view of our manifesto incl. the 'first sentence of the statement' - I do not see how we can...
M

My view is that we should be able to play these cards, because they would enable ^{us} to head off much more ambitious ideas, while yet offering those such as the Germans who are desperate for some advance enough to present as a significant step forward. You will recall that Kohl is talking rather wildly of a Treaty to be signed only by those member states willing to participate. What is proposed on majority voting in particular is consistent with the Conservative manifesto (also attached). *No work to be done*

I attach a draft letter of instructions. If you agreed this it might save a meeting.

Agree letter?

OR

Hold a meeting?

C.D.P.

16 November 1984



Ref. A084/3029

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 12-13 November at which the United Kingdom was represented by the Minister of State (Mr Rifkind) and the Minister for Overseas Development. The discussion of enlargement did not achieve any progress towards fixing the Community's negotiating position either on one of the outstanding agricultural points, fruit and vegetables (the other agricultural point is wine), or on fisheries. The United Kingdom has no significant problems on fruit and vegetables but the French are holding up the establishment of a Community position. On fisheries we believe that the United Kingdom's hard line, supported by most major fishing member states, will prevail but this is taking time. A further Foreign Affairs Council on enlargement is to be held on 20 November. The Council did make some progress on the size of the European Development Fund for ACP countries in the Third Lome Convention; this was on the basis of a Commission proposal that the agreed figure of 7 billion ecu could be increased to 7.4 billion ecu, reflecting the contributions which Spain and Portugal would make on enlargement, while the United Kingdom and Germany would not contribute more than our existing share of the 7 billion ecu. This proposal was close to acceptance but was blocked by Belgium. It will be discussed further at the Council on 20 November.

2. The Foreign and Commonwealth Secretary will also report that the Foreign Affairs Council endorsed the text of the Council conclusions on budgetary discipline which were agreed in the Finance Council on 12 November, at which the United Kingdom was represented by the Economic Secretary. The agreement on budgetary discipline contains the two main elements setting a framework for all Community expenditure and establishing the strict financial



guideline for agricultural support expenditure. There is no question of "base drift". The text will be formally included in the conclusions of the Council on the measures necessary to guarantee the effective implementation of budgetary discipline in accordance with the Fontainebleau agreement. The text will not be finally adopted until there has been a meeting between the Council and the European Parliament which has been arranged for 21 November. The agreement is the responsibility of the Council itself but the European Parliament is to be given an opportunity to express its views. When the text has been definitively adopted, the Government will be in a position to seek the United Kingdom Parliament's approval to the provision of supplementary finance for 1984.

3. The Foreign and Commonwealth Secretary may also provide the latest report on this week's session of the European Parliament. The European Parliament will propose increases in the Community's 1985 draft budget so that it exceeds the revenue available within the 1 per cent VAT limit. This would not be legal. A conflict between the European Parliament and the Council is therefore to be expected. It is too early to foresee the result. If, as is possible, there is no agreement on the budget, the Community would have to operate from January 1985 on the basis of provisional twelfths of the annual amount. This would not be against the United Kingdom's interest. In revising the 1985 draft budget the European Parliament is also expected to make provision for the United Kingdom's 1984 refund (the ad hoc 1,000 million ecu) not by the method agreed at Fontainebleau of a reduction of VAT contribution but on the previous basis of new expenditure in the United Kingdom. The European Democratic Group has not taken a robust line on this and will probably abstain. The Council can be expected to reject the European Parliament's proposal and to respect the Fontainebleau agreement.

4. The European Parliament also did not give the Commission the budget discharge (clearance of accounts) for 1982. This has no practical effect on payments made but represents a deterioration in relations between the European Parliament and the Commission.



5. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 12-13 November. This made no progress on the reform of the wine regime which is an element in the enlargement negotiation. It is now likely to be referred to the December European Council. On the milk super-levy Mr Jopling stressed the need to avoid discrimination in the collection and asked the Commission for a progress report. This revealed that France was not ready to pay over the levy to the Community and was apparently seeking to equalise out individual shortfalls and excesses in order to avoid payment by French farmers. Belgium and the Netherlands made it clear that they would not collect the levy until France properly applied the rules. Mr Jopling said that in these circumstances he had no alternative but to suspend collection in the United Kingdom (this would otherwise have been necessary in Northern Ireland). The Commission may now propose the postponement of the first collection of the levy to the end of the year. A further French request for approval of recent measures costing 400 million francs to support its beef producers was refused. The Commission said that the measure did not appear to conform with the Treaty and asked for their official notification by France. Mr Jopling and other Ministers pointed out that the beef market was worse in other member states and that there was no justification for French aids.

6. The Secretary of State for Transport will report on the Transport Council on 8 November at which the United Kingdom was represented by the Minister of State (Mrs Chalker). This reached provisional agreement on a compromise on vehicle weights: the scope of the first directive will be confined to international traffic movements, with the question of the drive axle weight being left open. A derogation for the United Kingdom and the Republic of Ireland was agreed which will enable us to preserve our existing limits. The formal adoption of the directive and of the other measures in the May package (infrastructure spending, railway co-operation and road haulage quota liberalisation) is expected at the next Transport Council on 11-12 December.



7. The Secretary of State for Energy may refer briefly to the Energy Council on 13 November, at which the United Kingdom was represented by the Minister of State (Mr Buchanan-Smith), which reviewed member states' energy policies and energy saving programmes.

8. There will be a Foreign Affairs Council and a Political Co-operation Ministerial meeting on 20 November, a Steel/Shipbuilding Council on 22 November and a meeting of Culture Ministers the same day.

R

Approved by
ROBERT ARMSTRONG

and signed in his absence

14 November 1984

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FM ROME
TO IMMEDIATE FCO
TELNO 764
OF 140800Z NOVEMBER 1984

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INFO PRIORITY DUBLIN, UKREP BRUSSELS, PARIS

UKREP TELNO 3626: CITIZENS EUROPE COMMITTEE

ADONNINO TOLD MINISTER TODAY THAT AT THE FRANCO-ITALIAN SUMMIT
ON 9 NOVEMBER CRAXI HAD PERSUADED MITTERAND TO WITHDRAW GALLO'S
CANDIDACY FOR CHAIRMANSHIP OF THE CITIZENS EUROPE COMMITTEE.
ADONNINO WAS THUS THE ONLY RUNNER.

BRIDGES

FRAME GENERAL
ECD (1)

COPIES TO.

MR. WILLIAMSON } CAB. OFF
MS. LAMBERT }
PS/SBS DTI
PS HOME SECRETARY.

(REPEATED AS REQUESTED)

RESTRICTED



hlo

ssl

10 DOWNING STREET

From the Private Secretary

14 November 1984

Ecofin Council: Budgetary Discipline

The Prime Minister was grateful for the Economic Secretary's minute of 13 November summarising the outcome of discussions at the Ecofin and Foreign Affairs Council on Budgetary Discipline. She has no comment to make on the draft answer to the arranged PQ reporting the outcome of the Council to the House.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and David Williamson (Cabinet Office).

C D Powell

A M Ellis, Esq.,

Economic Secretary's Office
H M Treasury



Prime Minister

CDP 13/XI

Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
10 Downing Street
LONDON SW1

13 November 1984

Dear Charles

m

ECOFIN COUNCIL, 12 NOVEMBER: BUDGETARY DISCIPLINE

As agreed at last Thursday's Cabinet the Economic Secretary attended the meeting of the ECOFIN Council on 12 November for the item on budgetary discipline.

The outcome of the meeting was that, after further discussion, the Council was able to agree "a common position" on the substance of the budgetary discipline text. Subsequently, at the Foreign Affairs Council the Greeks, who had continued to argue that the text should be a Resolution of the Council, finally accepted that it should be entitled "Conclusions of the Council of Ministers". Although the Economic Secretary had to return to London for the Autumn Statement before discussion on the budgetary discipline item had been completed, he was able to approve the final version of the text before Sir Michael Butler gave our agreement to it in the Council. I am enclosing with this letter the final version of the text agreed by ECOFIN, which will be made available to Parliament shortly. I am also enclosing the draft of an Answer to an arranged PQ to report the outcome of the Council to the House. I should be glad to know that you and other recipients of this letter are content with the draft in time for it to be answered tomorrow.

The final discussions at ECOFIN centred on Article 4 of the text, which lays down the method for calculating the guideline for agricultural expenditure. The outcome was a satisfactory one. The text agreed follows the method proposed by the Chancellor at the 1 October ECOFIN Council and thus ensures the avoidance of base drift. As foreshadowed in David Williamson's minute to you of 26 October, the French were prepared to agree to this, provided the starting point for the calculations was the average of the agricultural expenditure outturn figures for 1984 and 1985. Our current

estimate is that this will probably permit a maximum increase in total agricultural spending in 1986 of some 6% compared with 1985. Given the current high level of agricultural stocks this will be a tight constraint.

There was some dispute between the French and the Germans over the text of the clause and the question of whether the method of calculation would automatically continue to apply even after the 1.4% VAT ceiling was reached. The compromise eventually agreed consisted of reproducing the commitment to the review of budgetary discipline already contained in the Fontainebleau European Council conclusions. The Economic Secretary accepted this on the basis of a general consensus in the Council, reflected in the Presidency's summing up, that the present method of calculation will continue to be applied for as long as the 1.4% ceiling remains in force.

The Economic Secretary's view, which the Chancellor endorses, is that the text on budgetary discipline achieves our essential negotiating aims. In particular, it:

- achieves the objective stated by the Prime Minister after the Fontainebleau European Council, of incorporating the budget discipline guidelines into the Community's budgetary procedures through the annual fixing of a "reference framework", and non-agricultural expenditure;
- establishes the rule that agricultural expenditure should increase less than the rate of growth of the own resources base and provides a precise and satisfactory method for calculating that guideline;
- gives a new and leading role to ECOFIN Ministers in monitoring both expenditure decisions (including the agricultural price fixing) and their subsequent execution, so as to ensure consistency with the budgetary discipline rules;
- embodies a firm undertaking to contain the growth of non-agricultural expenditure within the maximum rate.

As noted above, the text is at present a "common position" of the Council. The text cannot finally be adopted until after a "dialogue" meeting has taken place between the ECOFIN Council and a delegation from the European Parliament planned for 21 November. Our objective at that meeting will, of course, be to ensure that there is no backsliding on the part of other members of the Council in the face of the criticisms of the European Parliament delegation and that no changes are made in the essential substance of the present text.

There may well, however, be a majority in the Council ready to agree that the European Parliament should be consulted before the ECOFIN Council sets the budgetary reference framework each year. This would not affect the operation of the agricultural guideline and provided the procedure

was purely consultative, if necessary the Chancellor would be willing to accept this if the Council is minded to do so.

Once the discussion with the European Parliament has taken place, the text will be definitively adopted as Conclusions of the Council. The Economic Secretary considers that, when this has been done, the Government will be in a position to seek Parliament's approval to the provision of supplementary finance for 1984 under the Inter-Governmental Agreement.

I am sending copies of this letter to the Private Secretaries to the Foreign Secretary and Minister of Agriculture and to Sir Robert Armstrong.

Yours ever,
A M Ellis.

A M ELLIS

DRAFT

SUGGESTED ANSWER TO ARRANGED PQ ON OUTCOME
OF 12 NOVEMBER ECOFIN COUNCIL

Q. To ask Mr Chancellor of the Exchequer to report the outcome of the ECOFIN Council on 12 November and if he will make a statement.

Economic Secretary : I represented the United Kingdom at the meeting of the Council of Economic and Finance Ministers in Brussels on 12 November.

2. The Council reached agreement on a common position on measures to guarantee the effective application of the guidelines on budgetary discipline adopted by the Brussels and Fontainebleau European Councils. ⁷The intention is that a final text will be formally adopted as Conclusions of the Council of Ministers after a meeting with a delegation from the European Parliament to be held on 21 November.

3. The text agreed by the ECOFIN Council incorporates the European Council guidelines into the Community's budgetary procedures and contains provisions to ensure that in future the rate of growth of net expenditure relating to agricultural markets will be less than the rate of growth of the own resources base. The

agreement thus achieves the Government's essential aims on budgetary discipline. The text of the Council's common position will be made available to Parliament as soon as possible.

4. The Council also discussed the position to be adopted by the Community in discussion in the OECD on export credits for aircraft and mixed credits. These issues were referred to COREPER for further consideration.

5. The Council had a preliminary discussion of the setting of a new multi-annual ceiling for FEOGA Guidance expenditure.

6. The Council invited COREPER ~~and the~~ ~~Permanent Representatives~~ to prepare a report on a Commission proposal to harmonise the income tax regime applicable to Community residents living in one Member State and working in another.

Conclusions of the Council on the measures necessary to guarantee the effective implementation of the conclusions of the European Council on Budgetary Discipline.

THE COUNCIL

Having regard to the Treaties establishing the European Communities,

Whereas at its meetings on 19 and 20 March and 25 and 26 June 1984 the European Council reached agreement on a series of decisions and guidelines to ensure the relaunch of the Community and establish a solid basis for its further development during the present decade:

Whereas principles on budgetary and financial discipline are specifically included;

Whereas the European Council considered it essential that the rigorous rules which at present govern budgetary policy in each Member State shall also apply to the budget of the Communities, and stated that the level of Community expenditure will be fixed as a function of available revenue, and that Budgetary Discipline will apply to all budgetary expenditure;

Whereas the European Council invited the Council of Ministers to adopt the measures necessary to guarantee the effective application of the principles set out in its conclusions,

HAS CONCLUDED AS FOLLOWS:

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hip/HM/mcs

Article 1

1. At the beginning of the budgetary procedure each year, the Council shall fix a reference framework, i.e. the maximum level of expenditure which it considers it must adopt to finance Community policies during the following financial year consistently with the provisions of Articles 2 to 5 inclusive and 9.

2. In fixing the reference framework, the Council shall act by the qualified majority defined in Article 148(2), second indent of the EEC Treaty.

3. The relevant provisions of the financial guidelines concerning the Common Agricultural Policy, set out in the Annex to the Commission communication of 6 March 1984, will be implemented; these provisions are annexed to these Conclusions.

.../...

Article 2

The Council shall so proceed that the net expenditure relating to agricultural markets calculated on a three-yearly basis, in accordance with Article 4 below, will increase less than the rate of growth of the own resources base. This development will be assessed on comparable bases from one year to the next.

Account shall be taken of exceptional circumstances, in particular in connection with enlargement.

.../...

Article 3

The amounts to be taken into account for the application of Article 2 are :

(a) as regards expenditure :

that chargeable to Section III, Part 3, Titles 1 and 2 (EAGGF Guarantee) of the Budget. The calculation of agricultural expenditure for the purposes of the guideline provided for in Article 2 shall be this expenditure, reduced by the sum of amounts corresponding to the marketing of ACP sugar and refunds in connection with food aid, the payments by producers in respect of the sugar and isoglucose levies as well as the revenues from any future internal agricultural charges;

(b) as regards the own-resources base :

the potential revenues upon which Titles 1 and 2 of the Revenue side of the Budget are determined. The calculation of the Community's own resources base for the purposes of the guideline provided for in Article 2 shall be the total VAT base upon which the VAT rate of the year in question is calculated, the amount of financial contributions (if any) included in the Budget of the year together with the own resources, other than those derived from VAT, set out in Revenue Title 1 less the sugar and isoglucose levies as well as the revenues from any future internal agricultural charges.

When the potential revenues from VAT are changed by a change in the VAT ceiling, the guideline provided for in Article 2 shall thereafter be calculated as if the new maximum VAT rate had been applied in all the years relevant to the calculation of the guideline.

.../...

ARTICLE 4

The level of net expenditure relating to agricultural markets for a given year shall be calculated as follows :

(a) the level of expenditure, as defined in Article 3(a), shall be the average of the actual outturn expenditure for 1984, and the best estimate of the outturn for 1985;

(b) the own resources factor will be established by dividing the forecast level of the own resources base for the year in question, as defined in Article 3(b), by the average own resources base for 1984 and 1985,

(c) the level of expenditure for the financial year in question shall be established by multiplying the amounts obtained by the application of paragraphs (a) and (b), unless the Council acting by the majority mentioned in Article 1(2) decides otherwise;

(d) the method of calculation shall be re-examined in accordance with the Fontainebleau conclusions under the heading Budgetary Imbalances on the basis of the report to be presented by the Commission one year before the 1.4 percent VAT ceiling is reached.

Article 5

In the event of failure to respect the qualitative guideline provided for in Article 2, the Council shall during the following two financial years ensure that, barring abnormal developments, agricultural expenditure is brought back within the limits imposed by this guideline. In so doing, the Council shall concentrate primarily on the production sectors responsible for the failure to adhere to the guideline.

Article 6

1. The Council shall, when exercising its powers as legislative authority or branch of the budgetary authority, so proceed that the reference framework is respected.

2. At the request of a member of the Council or the Commission, the Council, acting by the majority referred to in article 1(2), may amend the reference framework.

Article 7

1. Except in the case of decisions mentioned in paragraph 4 below, when the Council is on the point of adopting an act which appears likely to increase expenditure for a financial year beyond the reference framework applicable to that year, the adoption of that act shall, at the request of a member of the Council or the Commission, be suspended.

2. Within a period not exceeding one month, the Council, acting by the majority referred to in Article 1(2), shall determine whether the proposed act would, if adopted, lead to the reference framework being exceeded.

3. If the Council concludes that the proposed act would, if adopted, lead to the reference framework being exceeded, it shall reconsider the proposed act with a view to taking appropriate measures.

4. In the case of decisions affecting net expenditure relating to agricultural markets, the procedures laid down in paragraphs 5(c) and 6(b) of the Annex to the Commission's communication of 6 March 1984 shall apply.

.../...

Article 8

When the Council is on the point of adopting an act which has considerable financial implications for several years, the Council shall, before taking the final decision, formulate an opinion on whether the financial implications of the proposed act are compatible with the principles and guidelines governing the Community's budgetary policy.

Article 9

1. The Council shall comply with the maximum rate provided for in paragraph 3 of art.203 of the EEC Treaty throughout the budgetary procedure.

2. In order to achieve this :

- when establishing the Draft Budget, the Council shall keep the increase in expenditure other than that necessarily resulting from the Treaties or from acts adopted in accordance therewith to a level no higher than half the maximum rate provided for in paragraph 9 of Article 203;
- at the second reading, the Council shall adopt a position such that the maximum rate is not exceeded.

3. The preceding paragraphs of this Article are without prejudice to the provisions of Article 203 of the EEC Treaty, particularly those of the last subparagraph of paragraph 9.

Article 10

On the assumption that the 1986 budget will be prepared on the basis of own resources being increased in that year, these provisions will first apply to the exercise of the Council's powers in 1985 concerning expenditure in the financial year 1986.

.../...

Extract from the Commission Communication of 6 March 1984

referred to in Article 1 par. 3

5. As regards the decisions which have a determinant effect on the volume of agricultural expenditure, that is the decision on agricultural prices which the Council of Agriculture Ministers must take each year on a proposal from the Commission, the Commission proposes the following rules:

- (a) When submitting its agricultural proposals the Commission will supply a quantified estimate of their budget impact in relation to the movement in the growth of the Community's own resource base calculated according to a common and constant formula, namely the sliding average of the growth rates for the current year, the year immediately preceding and the year ahead. These figures will allow a judgement to be made of the compatibility of the proposals with the guideline referred to in §2.
- (b) The Commission will draw up its proposals on prices (and related measures) in the light of the guideline referred to in §2. To this end the Commission confirms that it intends in the coming years to pursue a restrictive price policy for sectors in surplus and for those where a rapid growth in expenditure is coupled with limited outlets for disposal.
- (c) On this basis the Commission suggests that the European Council request the Council to adopt the following rule: if in the Commission's opinion the Council of Agriculture Ministers seems likely to take decisions whose cost would exceed that of the original proposals of the Commission, the final decision must be referred to a special Council session attended by both Finance and Agriculture Ministers and can be taken only by that special session.

6. As regards the preparation and implementation of the budget the Commission proposes the following rules:

- (a) In submitting its budget proposals in the context of its preliminary draft budget the Commission will take account of all foreseeable expenditure in the budget year concerned, including that stemming from its price proposals.

The aim of the Commission and the Council will thus be to keep EAGGF Guarantee expenditure within the appropriations for the year.

- (b) The Commission will institute an early-warning procedure enabling it to detect promptly any risk during the year of budgetary over-runs and report to the Council and Parliament forthwith(4).

It will in any event report to the Council and Parliament each month on the trend of agricultural expenditure.

After making use of all the opportunities afforded by the routine management of the CAP it will if need be propose to the Council and Parliament measures designed, without detriment to the principles of the CAP, to restrict increases in agricultural expenditure. It will be incumbent on those institutions to take the necessary decisions as speedily as possible so that these measures can achieve their purpose. Where appropriate the Council's decisions could be taken at a special session of the kind referred to in §5(c).

The Commission will not introduce a supplementary budget until it has exhausted all the opportunities for savings afforded by the routine management of the CAP and by any additional Council decisions.

- (c) In the event of failure to respect the qualitative guideline referred to in §2 (by reason either of a special Council decision (§5(c)) or of a supplementary budget), adherence thereto will mean both the Council and the Commission must during the following two financial years ensure that, barring aberrant developments, agricultural expenditure is brought back within the limits imposed by the qualitative guideline. In so doing they must concentrate primarily on the production sectors responsible for the failure to adhere to the guideline."

(4) Apart from a Council decision on prices in excess of the Commission's proposals (when the special decision-making procedure in §5(c) would apply), such "over-runs" could only occur as a result of compelling economic developments which could not have been foreseen when the budget was adopted.

STATEMENTS

to be entered in the Council Minutes

1. Re. Article 1 paragraph 1

"The Council states that the reference to expenditure to finance Council policies includes compulsory expenditure not relating to agricultural markets."

2. Re. Article 2

"The Irish delegation considers that the phrase "exceptional circumstances" used in Article 2 should, as well as enlargement, include the disposal of the present high level of agricultural stocks since this is a requirement which has arisen from previous Council decisions, and can clearly be foreseen at this stage."

3. Re. Articles 2 and 9

"Le Conseil déclare qu'en appliquant la discipline budgétaire il tiendra compte des décisions préalables et autres engagements du Conseil européen y compris ceux qui se réfèrent aux besoins des pays les moins développés de la Communauté."

4. Re Article 3

"The UK Delegation states that it has agreed to the definition of expenditure referred to in Article 3(a) solely for the purposes of the agricultural guideline and on the basis that its use in this context has not implications for the budgetary treatment of FEOGA Guarantee or for other purposes."

5. Re. Article 3(a) first sentence

"The Council notes that this expenditure is currently presented in the Budget in a manner which includes "negative expenditure", i.e. is already reduced by the incidence of the financial contribution by milk producers (co-responsibility levy, super levy milk)."

6. Re. Article 7(4)

"A Member State may seek the opinion of the Commission on whether the circumstances referred to in paragraph 5(c) of the Annex to the Commission's communication of 6 March 1984 arise."

7. Re. Articles 1(1), 4(c), 6(2), 7(2), 8

"The Council considers that the functions conferred on it by Article 1(1), Article 4(c), Article 6(2), Article 7(2) and Article 8 should be exercised by the Council composed so as to include Ministers for Finance and Economic Affairs and, as appropriate, Ministers for Foreign Affairs, each Government remaining free to designate other Ministers to participate at the meetings in question."

8. Commission statement

The Commission confirms the undertakings it made in the Annex to its communication of 6 March 1984 and "Common Agricultural Policy : Financial Guidelines". As regards the method of measuring the growth rates of agricultural expenditure and the Community's own resources base, the Commission will use the definitions set out in Articles 3 and 4 of the Council's conclusions.

.../...

The Commission will implement these undertakings so that they may apply in respect of the budgetary exercise of 1986 and subsequent budgetary exercises.

The Commission will also draw up at the beginning of each year the figures necessary for the establishment of a reference framework of the kind set out in Article 1 of the Council's conclusions. These figures will be made available to both branches of the Budget Authority.

9. The Governments of the Member States undertake to provide the necessary data in sufficient time to enable the Commission to present the above-mentioned figures.

10. The Council will invite both the Commission and the Parliament to examine with it ways of securing the co-operation necessary for a budgetary discipline common to all three Institutions.

11. The agricultural guideline will be implemented with respect being paid to the principles developed by the Court of Justice concerning acquired rights and the legitimate expectation of individuals and financial and economic agents in relation to Community legislation.

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FM UKREP BRUSSELS 121956Z NOV 84

TO IMMEDIATE F C O

TELEGRAM NUMBER 3692 OF 12 NOVEMBER,

INFO IMMEDIATE STRASBOURG,

ROUTINE COPENHAGEN THE HAGUE ROME DUBLIN PARIS

BONN LUXEMBOURG ATHENS,

INFO SAVING BRUSSELS.

FOREIGN AFFAIRS COUNCIL: 12 NOVEMBER 1984.

BUDGET DISCIPLINE.

SUMMARY

1. THE GREEKS LIFTED THEIR RESERVES AND THE FOREIGN AFFAIRS COUNCIL ENDORSED THE PRESIDENCY TEXT AS REVISED BY THE ECOFIN COUNCIL.

DETAIL

2. DUKES (PRESIDENCY) REPORTED ON DISCUSSION IN THE ECOFIN COUNCIL. HE RECALLED THAT AGREEMENT HAD BEEN REACHED, EXCEPT THAT THE GREEKS STILL HAD A RESERVE ON ARTICLE 4(D), WHICH HE HOPED THEY MIGHT NOW DROP, AND ANOTHER RESERVE ON THE TITLE. HE SUGGESTED THAT THE TITLE COULD BE LEFT OPEN UNTIL AFTER THE DISCUSSION WITH THE PARLIAMENT ON 21 NOVEMBER.

3. PANGALOS (GREECE) MADE A LONG AND IRRELEVANT STATEMENT, THE GIST OF WHICH WAS THAT THE COMMUNITY SHOULD DROP THE 'GROCER'S SHOP MENTALITY' REFLECTED IN THE BUDGET DISCIPLINE TEXT AND SPEND MORE MONEY ON THE ECONOMIC CONVERGENCE OF GREECE WITH THE REST OF THE COMMUNITY. HE COULD DROP THE RESERVE ON ARTICLE 4(D), BUT THE TEXT SHOULD GO TO THE PARLIAMENT WITHOUT A TITLE.

4. BARRY (PRESIDENCY) SAID THAT AS A FORMER GROCER, HE OBJECTED TO PANGALOS' REMARKS. DUMAS (FRANCE) SAID THAT IT WAS UP TO THE PRESIDENT OF THE FOREIGN AFFAIRS COUNCIL TO TALK TO THE PARLIAMENT. IT SHOULD NOT BE LEFT TO ECOFIN. TYGESEN (DENMARK) SAID THAT THERE COULD BE NO TALKS WITH THE PARLIAMENT UNTIL AGREEMENT WAS REACHED ON ALL POINTS INCLUDING THE TITLE. PANGALOS SHOULD LIFT HIS RESERVE. MR RIFKIND AGREED. PANGALOS TRIED TO SUGGEST THAT THERE WAS ALREADY AGREEMENT AMONG NINE MEMBER STATES TO CALL THE TEXT A 'RESOLUTION'. HOWEVER, UNDER PRESSURE FROM THE PRESIDENCY, THE DANE AND THE ITALIAN HE FINALLY AGREED TO JOIN THE CONSENSUS IN FAVOUR OF 'CONCLUSIONS' ETC, SUBJECT TO THE INCLUSION OF A UNILATERAL STATEMENT IN THE MINUTES SAYING THAT THE TEXT WAS POLITICAL AND HAD NO BINDING FORCE. ITALY ASKED TO BE ASSOCIATED WITH THIS STATEMENT.

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5. THE SECRETARIAT EXPECT TO PRODUCE A CLEAN TEXT IN THE NEXT DAY OR TWO.

FCO ADVANCE TO:

FCO - P.S. P.S/MR RIFKIND, RENWICK, FAIRWEATHER, WALL, MARSDEN.

CAB - WILLIAMSON, LAMBERT.

TSY - P.S. P.S/MR STEWART, UNWIN, FITCHEW, HOPKINSON.

BUTLER

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PP ATHENS
PP ROME
GRS 707
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FRAME ECONOMIC

FM FCO 121717Z NOV 84
TO IMMEDIATE UKREP BRUSSELS
TELEGRAM NUMBER 513 OF 12 NOVEMBER
INFO IMMEDIATE TO UKDEL STRASBOURG
PRIORITY TO OTHER EC POSTS
FCO TEL TO DUBLIN NO 316: 1985 DRAFT BUDGET AND UK ABATEMENTS FOR
1984

1. I HAD A FURTHER MEETING WITH MEMBERS OF THE EDG THIS MORNING. THE FINANCIAL SECRETARY TO THE TREASURY WAS ALSO PRESENT

2. I STRESSED THE IMPORTANCE THE GOVERNMENT ATTACHED TO BUILDING A CLOSE WORKING RELATIONSHIP WITH THE EDG, TO IMPROVING THEIR RELATIONS WITH THE HOUSE OF COMMONS AND TO HELPING THEM DEVELOP EFFECTIVE COOPERATION WITH OTHER LIKE-MINDED GROUPS IN THE EUROPEAN PARLIAMENT. I ACKNOWLEDGED THE PRESSURE THEY WERE UNDER BUT SAID THAT IF THEY VOTED FOR EXPENDITURE SIDE REFUNDS FOR THE UNITED KINGDOM FOR 1985 THEY WOULD BE FUNDAMENTALLY UNDERMINING THE FONTAINEBLEAU AGREEMENT AND JEOPARDISING THE GOVERNMENT'S ABILITY TO SECURE THE APPROVAL OF THE HOUSE OF COMMONS FOR THE NEW OWN RESOURCES DECISION.

3. CURRY, WHO DID MOST OF THE TALKING, SAID THE EDG HAD VOTED FOR EXPENDITURE SIDE REFUNDS PRIMARILY FOR TACTICAL REASONS. IF THEY MAINTAINED THEIR POSITION THEY WOULD FALL FOUL OF THE BRITISH GOVERNMENT. IF THEY CHANGED IT, THEY WOULD UNDO MONTHS OF HARD WORK IN ESTABLISHING THE CONFIDENCE OF THEIR FELLOW MEPS. IF THEY WERE TO CHANGE THEIR VOTE, THE GOVERNMENT MUST REALISE (A) THAT THIS WOULD NOT AFFECT THE OUTCOME (THE REFUNDS WOULD BE PUT ON THE EXPENDITURE SIDE ANYWAY) AND: (B) THAT THE LEVERAGE OF THE EDG ON OTHER ISSUES WOULD BE SERIOUSLY WEAKENED.

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4. SIR FRED CATHERWOOD SAID THAT IF THE EDG CHANGED THEIR VOTE THE MAIN UPSHOT WOULD BE THAT THE REFUNDS WOULD BE PLACED IN CHAPTER 100. PRESENTATIONALLY, THIS COULD BE MUCH MORE DAMAGING THAN IF THEY WERE VOTED THROUGH ON THE LINE. CHRISTOPHER PROUT (EDG CHIEF WHIP) SAID THAT THE FONTAINEBLEAU CONCLUSIONS DID NOT CLEARLY STATE THAT OUR 1000 MECU FOR 1985 WAS TO BE MADE AVAILABLE ON THE REVENUE SIDE. IT WOULD BE OPEN TO THE GOVERNMENT TO ARGUE IN THE HOUSE OF COMMONS THAT ONE FURTHER YEAR OF AD HOC REFUNDS HAD BEEN ENVISAGED AT FONTAINEBLEAU, AND TO DEFEND THE EDG'S VOTE ON THAT BASIS.

5. I SAID THAT THE FONTAINEBLEAU CONCLUSIONS WERE CLEAR. OUR 1000 MECU FOR 1984 WAS TO BE DEDUCTED FROM OUR VAT SHARE IN 1985. THIS WAS ACCEPTED BY ALL MEMBER STATES AND PROVISION HAD BEEN WRITTEN INTO THE DRAFT OWN RESOURCES DECISION. THERE WAS NO QUESTION OF ACCEPTING OR DEFENDING FURTHER EXPENDITURE SIDE REFUNDS. NOR WAS THERE ANY QUESTION OF THE EUROPEAN PARLIAMENT'S VOTE MATERIALLY AFFECTING THE OUTCOME. ONCE THE OWN RESOURCES DECISION HAD BEEN ADOPTED BY THE COUNCIL OUR ABATEMENT WOULD BE AUTOMATIC. IT WOULD, HOWEVER, BE DAMAGING FOR CONSERVATIVE MEPS TO UNDERMINE THE INTEGRITY OF THE FONTAINEBLEAU AGREEMENT WHICH HAD BEEN SO HARD WON. OUR ABILITY TO HOLD OTHER MEMBER STATES TO THE AGREEMENT COULD BE IMPAIRED IF THEY COULD POINT TO A CONTRARY VOTE BY OUR OWN CONSERVATIVE MEPS.

6. SIR PETER PRICE SAID THE POSITION OF THE EDG, VIS A VIS THE OTHER GROUPS, WOULD BE HELPED IF I COULD WRITE TO THE EDG ACKNOWLEDGING THAT THE EUROPEAN PARLIAMENT HAD SOME POWERS OVER REVENUE. I SAID THAT THERE COULD BE NO QUESTION OF THAT. THERE WAS CLEARLY AN ARGUMENT ABOUT THE PARLIAMENT'S POWERS OVER REVENUE, BUT IT WAS NOT NECESSARY FOR THE PARLIAMENT TO TRY TO ASSERT THEIR VIEW BY ATTACKING THE FONTAINEBLEAU CONCLUSIONS. NOR WAS THERE ANY QUESTION OF THE UK DEPARTING FROM THE AGREED POSITION OF THE COUNCIL WHICH WAS THAT THE PARLIAMENT DID NOT HAVE POWERS OVER REVENUE.

8. CURRY SAID THAT THE ARGUMENT OVER OUR 1985 ABATEMENT WOULD GET ENMESHED WITH THAT OVER BUDGET DISCIPLINE. IT WAS NOT

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YET CLEAR WHETHER THE PROBLEM OF THE BRITISH REBATE WOULD ACCORD-
INGLY ASSUME LESS IMPORTANCE OR WHETHER THE PARLIAMENT WOULD EXPRESS
ITS IRRITATION AT BEING BYPASSED ON BUDGET DISCIPLINE BY GETTING ITS
OWN BACK ON THE UK REBATE. IT WOULD HELP IF THE UK AT LEAST WERE
READY TO CONTEMPLATE ALLOWING THE PARLIAMENT A SAY IN
ESTABLISHING THE REFERENCE FRAMEWORK. I SAID THAT WE HAD ALREADY
TOLD LORD DOURO OF OUR WILLINGNESS TO CONSIDER PROVISION FOR THE
PARLIAMENT TO BE CONSULTED BEFORE THE REFERENCE FRAMEWORK WAS
SET.

7. AT THE END OF THE MEETING, THE EDG SAID THEY WOULD
REFLECT ON THEIR POSITION. THEY WERE IN NO DOUBT OF THE
GOVERNMENT'S VIEW THAT IT WOULD BE DAMAGING IF THEY WERE TO
VOTE IN PLENARY FOR EXPENDITURE SIDE REFUNDS.


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Qz.04030

MR POWELL

Prime Minister
 A useful summary
 of where we stand.
 Budget discipline may
 come up in PM's
 questions this week.
 EDP 12/xi

EUROPEAN COMMUNITY: BUDGETARY ISSUES IN THE EUROPEAN PARLIAMENT

There is a plenary session of the European Parliament this week and there may be publicity about their views on a number of budgetary questions. It may be helpful, therefore, to set out where we stand on the following points -

(1) the revised Decision on Own Resources. This text will put into effect the Fontainebleau agreement on the budget correction (both the lasting system of abatements of the United Kingdom VAT contribution and the ad hoc abatement of 1000 million ecu in 1985 in respect of 1984) and the increase in the VAT ceiling on Own Resources to 1.4 per cent. The text is agreed in all substantive respects by all member states, except for a German reserve on the date of entry into effect. All member states other than Germany are prepared to see some new finance made available under the revised Own Resources Decision in 1985 (either by setting an interim rate for 1985 or by fixing the month of entry into effect of the additional 0.4 per cent VAT with no retroactivity). This is necessary as the authority for the 1000 million ecu abatement of the United Kingdom's VAT contribution and in order to finance any irreducible budget overrun in 1985. The Germans argue for 1 January 1986 as the date of entry into effect and make a link with the enlargement of the Community. When the main difficulties over enlargement are settled, the Germans may reconsider their position and come into line with the Nine on the revised Own Resources Decision.

The European Parliament has to give an Opinion on the revised Own Resources Decision. It has no power to

/change

change the text. There is little doubt, however, that the European Parliament will press its wholesale changes in the text (eg separating the budget correction mechanism from the increase in the VAT ceiling, the introduction of a terminal date, correction on the expenditure side) which are wholly inconsistent with the Fontainebleau agreement. They must be rejected by the Council. We believe that they will be. The United Kingdom's task is to make sure that the Council does not deviate in any way from the Fontainebleau agreement.

Line to take. There are no significant difficulties over the revised Own Resources Decision in the Council. There is only a German reserve on the date of entry into effect. We understand the German wish to move in parallel on the Community's Own Resources and on the enlargement negotiations with Spain and Portugal. We hope that sufficient progress will have been made shortly in those negotiations so that the Germans can review their position on the date of entry into effect of the revised Own Resources Decision. The revised Own Resources Decision will then be submitted to national parliaments for ratification.

The European Parliament has the right to express an Opinion on the revised Own Resources Decision but cannot unilaterally change the text.

(2) budget discipline. The text on Community budget discipline has now been agreed by the Council of Ministers (Finance). It contains the two main elements: setting a reference framework for all Community expenditure and establishing the strict financial guideline for agricultural support expenditure. The text will be formally included in the conclusions of the Council on the measures necessary to guarantee the effective implementation of budgetary discipline in accordance with the Fontainebleau agreement (there is a Greek reserve on the status of the text but it will probably fall). It will be binding on the Council

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in all its forms. The text will not be finally adopted until there has been a meeting between the Council, European Parliament and Commission. Although the wording is the responsibility of the Council itself, the European Parliament has expressed a strong interest.

Line to take. We are satisfied that an important step forward has been taken, since the Council of Ministers (Finance) has reached agreement on the measures necessary to guarantee the effective implementation of budgetary discipline, in accordance with the Fontainebleau agreement. These measures include a reference framework for all Community expenditure and a strict financial guideline for agricultural support expenditure, which would be formally included in the conclusions of the Council. We also accept that the European Parliament should be given an opportunity to express its views before the measures are finalised. I understand that a meeting between the Council, European Parliament and Commission is being arranged shortly.

(3) the 1985 budget. It seems very probable that the European Parliament this week will propose increases in the Community's 1985 draft budget (the Council sent this forward within the 1 per cent VAT limit) so that it exceeds the available revenue. This would not be legal. The Council will not agree to a budget for which revenue is not available. A conflict between the European Parliament and the Council is to be expected. It is too early to forecast the result. There may be no agreement on a budget (in those circumstances the financial rules would provide that monthly expenditure has to be restricted to a provisional twelfth of the annual amount). It is also possible that before the 1985 budget has to be adopted the Germans may lift their reserve on the provision of some new finance in 1985 through the proper procedure of the revised Own Resources Decision.

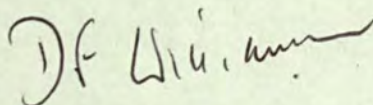
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It is also probable that in revising the draft 1985 budget the European Parliament will make provision for the United Kingdom's 1000 million ecu not by a rebate of VAT contribution (as it should be) but by providing for expenditure in the United Kingdom. Thus the money would be available but by the wrong method. We shall look to the Council to reject this and to respect the Fontainebleau agreement to the letter. I recommend, however, that we should not highlight the question of the 1000 million ecu, which is at this stage likely to be only one element in a much wider and continuing disagreement between the Council and the European Parliament on the 1985 draft budget.

Line to take. The Treaty is quite explicit (article 199) in stating that "the revenue and expenditure shown in the budget shall be in balance". This means that at present the 1985 draft budget of the Community must be within the 1 per cent VAT ceiling. We have made clear that we can accept that, subject to Parliamentary ratification, the revised Decision on Own Resources should come into effect during 1985 and thus provide some extra finance to meet any irreducible budget needs by the proper legal procedures. It is too early to comment on the details of any differences between the Council and the European Parliament on the 1985 draft budget, as the discussions are only just beginning.

I am sending copies to Colin Budd (FCO), David Peretz (Treasury) and to Sir Robert Armstrong.



D F WILLIAMSON

12 November 1984

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FM BONN 091700Z NOV 84
TO PRIORITY FCO

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TELEGRAM NUMBER 1065 OF 9 NOVEMBER
INFO ROUTINE UKREP BRUSSELS, UKDEL NATO, ATHENS, BRUSSELS,
COPENHAGEN, DUBLIN, LUXEMBOURG, PARIS, ROME, THE HAGUE

MY TELNO 1045: BRITAIN, GERMANY AND THE EC

SUMMARY

1. DISCUSSION WITH UNGERER (AUSWAERTIGES AMT) ON LINES SIMILAR TO THAT WITH TELTSCHIK (CHANCELLOR'S OFFICE). GERMAN READINESS FOR PRIVATE ANGLO-GERMAN BILATERAL DIALOGUE ON IMPORTANT COMMUNITY QUESTIONS CONFIRMED.

DETAIL

2. IN RUHFUS' ABSENCE ON LEAVE, I WENT OVER THE SAME GROUND TODAY WITH UNGERER, FISCHER'S SUCCESSOR AS DEPUTY UNDER-SECRETARY (ECONOMIC) IN THE AUSWAERTIGES AMT, THIS TIME INCLUDING WILLIAMS' CONTRIBUTION TO THE COMMITTEE ON A PEOPLE'S EUROPE (UKREP BRUSSELS TELNO 3626) IN THE LIST OF BRITISH PAPERS, SPEECHES, ETC, WHICH I THOUGHT ILLUSTRATED THE LOGICAL AND SYSTEMATIC DEVELOPMENT OF THE BRITISH POSITION DURING THE LAST FEW MONTHS.

3. UNGERER SHOWED NO MORE DESIRE THAN TELTSCHIK TO GIVE DIRECT ANSWERS TO MY TWO QUESTIONS. HE SAW A GREAT DEAL IN COMMON BETWEEN THE BRITISH POSITION AND THE GERMAN, OR AT LEAST THAT OF THE FOREIGN MINISTRY. ON THE NEED TO COMPLETE THE INTERNAL MARKET, FOR EXAMPLE, WE WERE BOTH PULLING ON THE SAME ROPE AND COULD BOTH BE GLAD THAT THE ITALIANS WERE TALKING OF MAKING A BIG THING OF THIS DURING THEIR PRESIDENCY. I SAID THAT LAST NIGHT I HAD LECTURED AN AUDIENCE OF BUSINESSMEN IN DUESSELDORF ON THE NEED TO LIBERALISE THE EUROPEAN INSURANCE MARKET AND AIR TRANSPORT, AND HAD FOUND THEM SYMPATHETIC. THEY HAD SEEMED ATTRACTED BY THE IDEA OF FLYING TO LONDON AND BACK FOR ONLY DM 120 (£32) AND WERE ONLY SORRY THAT THEY HAD TO DRIVE TO MAASTRICHT TO DO THIS. ON INSURANCE, I URGED REVIVAL OF TIETMEYER'S EARLIER PROPOSAL TO MAKE A START BY LIBERALISING THAT PART OF THE MARKET WHERE NO QUESTION OF CONSUMER PROTECTION AROSE, I.E COMPANY BUSINESS. UNGERER TOOK NOTE.

4. UNGERER THOUGHT THAT CHANCELLOR KOHL HAD BEEN ENCOURAGED BY HIS EXPERIENCE IN THE MATTER OF FRONTIER RESTRICTIONS BETWEEN GERMANY AND FRANCE, WHERE ONLY A JOINT POLITICAL DECISION AT THE HIGHEST LEVEL HAD FORCED THE SPECIALIST AGENCIES TO SOLVE PRACTICAL PROBLEMS WHICH THEY HAD HITHERTO REPRESENTED AS INSUPERABLE. KOHL SAW THIS AS THE RIGHT TACTICS IN THE MARCH TOWARDS "EUROPEAN UNITY". BUT UNGERER COULD NOT SAY WHAT THE CHANCELLOR'S ANSWER WOULD BE IF ASKED TO DEFINE THIS TERM. HE HIMSELF WOULD ONLY SAY THAT IT MEANT "SOMETHING MORE THAN EXISTS TODAY".

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/BUT

BUT AT THIS POINT THE DIFFICULTIES BEING: ECONOMIC UNION COULD HARDLY BE PURSUED IN THE ABSENCE OF REAL CONVERGENCE IN ECONOMIC POLICIES BASED ON COMMON GOALS FOR E.G. INFLATION; MONETARY UNION WAS OPPOSED BY THE BUNDESBANK, ETC ETC.

5. UNGERER SAID THAT THIS WAS WHY GERMANY HAD TURNED BACK TO THE IDEA OF A NEW EUROPEAN TREATY COVERING POLITICAL COOPERATION AND SECURITY. THE CHANCELLOR DID NOT WANT TO SEE THIS IDEA WATERED DOWN THIS TIME AS IT HAD BEEN DURING THE GENSCHER-COLOMBO EXERCISE. THE PROGRESS MADE IN WEU HAD IN ANY CASE REDUCED THE NEED FOR NEW EUROPEAN MACHINERY TO DISCUSS SECURITY, AND THE IMPLICATIONS OF THIS NEEDED TO BE CAREFULLY THOUGHT OUT. BUT A NEW TREATY ON POLITICAL COOPERATION WAS DEFINITELY WHAT KOHL UNDERSTOOD BY PROGRESS TOWARDS EUROPEAN UNITY IN THE PRESENT PHASE. (UNGERER MENTIONED IN PASSING THAT THE GERMAN INPUT INTO THE DOOGE COMMITTEE WAS BEING HANDLED PERSONALLY BY RUHFUS, WITH TRUMPF AS HIS ASSISTANT, REPORTING DIRECTLY TO THE CHANCELLOR BUT KEEPING THE FOREIGN MINISTRY INFORMED.

6. I SAID THAT SOME POINTS IN RUHFUS' PAPER ON POLITICAL COOPERATION WERE ACCEPTABLE TO US AND OTHERS MIGHT PROVE TO BE ACCEPTABLE ON EXAMINATION. IT WOULD BE MUCH BETTER TO ALLOW THE NECESSARY TIME FOR THE DOOGE COMMITTEE TO REACH UNANIMOUS CONCLUSIONS THAN TO FORCE ISSUES WITHIN THE NEXT FEW WEEKS SIMPLY IN ORDER TO PRODUCE A REPORT TO THE EUROPEAN COUNCIL IN DECEMBER. I HAD A FEELING THAT IF THE ISSUES WERE BROUGHT TO DECISION SOMEWHAT LATER, THE CHANCES OF UNANIMITY MIGHT BE GREATER. UNGERER SAID THAT AT PRESENT THE FRG ENVISAGED MAJORITY AND MINORITY REPORTS. BUT HE SAW THE MARCH RATHER THAN THE DECEMBER MEETING OF THE EUROPEAN COUNCIL AS THE IMPORTANT DATE AND HE NOTED MY POINT ABOUT NOT FORCING ISSUES PREMATURELY.

7. IT WAS LEFT THAT THE AUSWAERTIGES AMT WOULD BE GLAD TO PLAY ITS PART IN THE PRIVATE ANGLO-GERMAN BILATERAL DIALOGUE TO BE CONDUCTED IN PARALLEL TO THE WORK OF THE DOOGE AND PEOPLE'S EUROPE COMMITTEES. UNGERER AND I AGREED THAT WE WOULD EACH BE AT EACH OTHER'S DISPOSAL FOR THIS PURPOSE.

8. DISCUSSION ON OTHER COMMUNITY SUBJECTS IS BEING REPORTED SEPARATELY.

BULLARD

LIMITED
WED
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DEF D
PS
PS/LADY YOUNG
PS/MR RENTON
PS/MR RIFKIND
PS/PUS
MR DEREK THOMAS
MR RENWICK
MR JENKINS
MR WESTON

THIS TELEGRAM
WAS NOT
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No. 10 DOWNING STREET

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C.P.P.
9/xi

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

9 November 1984

Len Appleyard Esq
Private Secretary to the
Foreign and Commonwealth Secretary
Foreign & Commonwealth Office
Downing Street
LONDON SW1

Dear Len

ECOFIN: 12 NOVEMBER

I think the Foreign Secretary had a word with the Chancellor yesterday about UK representation at ECOFIN on Monday for the discussion on budgetary discipline. As you know, for obvious reasons the Chancellor himself cannot attend. Since it is now clear that there will be a substantive discussion about budgetary discipline on Monday, the Chancellor has arranged for the Economic Secretary to represent him.

I am sending a copy of this letter to Charles Powell (No 10).

Yours ever,

David

D L C PERETZ
Principal Private Secretary

JR
bc PC

10 DOWNING STREET

*From the Private Secretary*MR. WILLIAMSON

COMMITTEE ON PEOPLE'S EUROPE

Thank you for your minute of 8 November about the first meeting of this Committee. The Prime Minister has noted your comments and said that this looks a more realistic and practical exercise than the Dooge Committee.

I am copying this minute to Mr. Budd in the Foreign and Commonwealth Office.

(C.D. POWELL)
9 November 1984



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MR POWELL

cut ②
Prime Minister
This looks a
more realistic
exercise than the
Dodge Committee.
CDP 17xi

COMMITTEE ON PEOPLE'S EUROPE

This Committee, on which I represent the United Kingdom, is now under way. We expect that it will inform the European Council on 3-4 December of the main topics on which work is being undertaken. Its report will be made to the European Council in March or June 1985.

2. The first impression of the Committee's approach is quite good. We were able to obtain support for the view that the Committee should concentrate on practical actions likely to be of real benefit to the ordinary citizen, in particular in these areas -

- personal travel and transport (freer and cheaper travel across frontiers, but without, of course, prejudicing security or immigration controls);
- movement of goods (eg obstructions at frontiers);
- freedom of establishment and recognition of professional qualifications;
- youth exchanges.

We made no proposals ourselves on the various "symbolic" ideas in the text which the French Presidency issued (on its own authority) after Fontainebleau, and there was also scepticism from at least some other members on these ideas.

3. In informal discussions we supported the Italian candidate for the chairmanship, in line with the discussion at the

/Anglo-Italian

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Anglo-Italian summit. This was clearly appreciated by the Italians. A final decision on the chairmanship will be made at the beginning of the Committee's next meeting.

4. I am sending a copy to Colin Budd (FCO) and to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

8 November 1984

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Ref. A084/2983

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Development Council on 6 November, at which the United Kingdom was represented by the Minister for Overseas Development. Discussion focussed mainly on the famine in Ethiopia and other East African countries. The Council passed a resolution welcoming the allocation of 32 mecu of aid, but concern was expressed about the need for greater co-ordination of the relief measures and about the need to cater for the medium and longer term.

2. The Foreign and Commonwealth Secretary may also give a brief progress report on the discussions about budget discipline. Some progress was made at this week's meeting of the Committee of Permanent Representatives and there is now a reasonable prospect of an agreement being endorsed by the Finance Council on 12 November.

3. In the absence of a Department of Trade and Industry Minister, there will be no formal report on the Research Council on 6 November, at which the United Kingdom was represented by the Minister for Information Technology. In fact, this was a low key Council which mandated the Presidency and the Commission to have bilateral discussions on eight research and development programmes on which decisions are due to be taken at the next Council on 19 December.

4. The Transport Council will meet on 8 November, the Finance Council on 12 November, the Foreign Affairs and Agriculture Councils on 12-13 November, and the Energy Council on 13 November.

RIA

ROBERT ARMSTRONG

7 November 1984



Foreign and Commonwealth Office

London SW1A 2AH

7 November, 1984

QEP

Dear David,

*NBRM
C/D
7/11*

Advance of New Own Resources

Thank you for copying to us your letter of 5 November about the Commission's latest request for an advance of own resources.

The Foreign Secretary agrees that we should agree to an advance against the December own resources and that this should be announced to Parliament by written answer.

As for the inter-governmental agreement, our understanding is that the Commission are asking for the sums due under the agreement to be paid as soon as possible and with a value date of 5 November. We cannot of course make any payments under the agreement until our remaining condition, the conclusion of a satisfactory text on budget discipline, has been met and until Parliament's approval has been obtained.

I am copying this letter to Charles Powell (No 10), Ivor Llewellyn (MAFF) and Richard Hatfield (Cabinet Office).

*Yours Sincerely,
Colin Budd*

(C. R. Budd)
Private Secretary

David Peretz Esq
HM Treasury

Budget: Euro per A27

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10 DOWNING STREET

From the Private Secretary

6 November 1984

Advance of Own Resources

Thank you for your letter of 5 November reporting the Commission's request to Member States to advance their December payment of levies and duties to 20 November.

The Prime Minister agrees that we should comply with this latest request and with the method proposed by the Chancellor for doing so. She also agrees that we should on no account pay our share of the supplementary finance for 1984 under the inter-governmental agreement until agreement has been reached and approved by Parliament on budget discipline.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), Ivor Llewelyn (Ministry of Agriculture Fisheries and Food) and Richard Hatfield (Cabinet Office).

C D Powell

David Peretz Esq
H M Treasury

lo.



cc No
PC (F)

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

5 November 1984

C D Powell Esq
10 Downing Street
LONDON
SW1

Prime Minister
Content?

CDP
S/xi

Dear Charles

Yes and

ADVANCE OF OWN RESOURCES

You will recall that following the Chancellor of the Exchequer's minute to the Prime Minister of 17 October Cabinet agreed to advance the November payment of own resources to 22 October. This enabled the Commission to pay us the bulk of our 1983 refunds on 26 October.

The Commission still, however, face cash flow problems until the supplementary finance under the inter-government agreement has been paid over to them, and are now inviting member states to advance their December payment of levies and duties to 20 November. Our advance would amount to some £130 million.

All the other member states are likely to comply with this latest request and the Chancellor thinks we should do so again as well. He therefore proposes to make the payment, like previous ones, by a repayable advance from the Contingencies Fund. We shall subsequently present a supplementary estimate to Parliament to repay the Fund the amount of this and last months advance, and in the meantime make an announcement about this further advance by Written Answer as soon as the House returns.

Quite separately, the Commission have also now invited member states to pay their shares of the supplementary finance under the inter-government agreement on 5 November. As we have made clear, however, there is no question of our making any payments under the agreement until the budget discipline issue has been settled and we have obtained Parliament's approval for the agreement.

I am copying this letter to Len Appleyard (FCO), Ivor Llewellyn (MAFF) and Richard Hatfield (Cabinet Office).

Yours ever,
David

D L C PERETZ
Principal Private Secretary

Euro PA
~~Partners~~ Pt 27
Budget

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10 DOWNING STREET

From the Private Secretary

1 November 1984

European Community: Chairmanship of
the Ad Hoc Committee on "A People's
Europe"

Thank you for your letter of 29 October about the candidacy of Andonnino for Chairmanship of the Ad Hoc Committee on "A People's Europe".

The Prime Minister agrees that we should support him.

(C.D. POWELL)

C.R. Budd, Esq.,
Foreign and Commonwealth Office.

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PART 27 ends:-

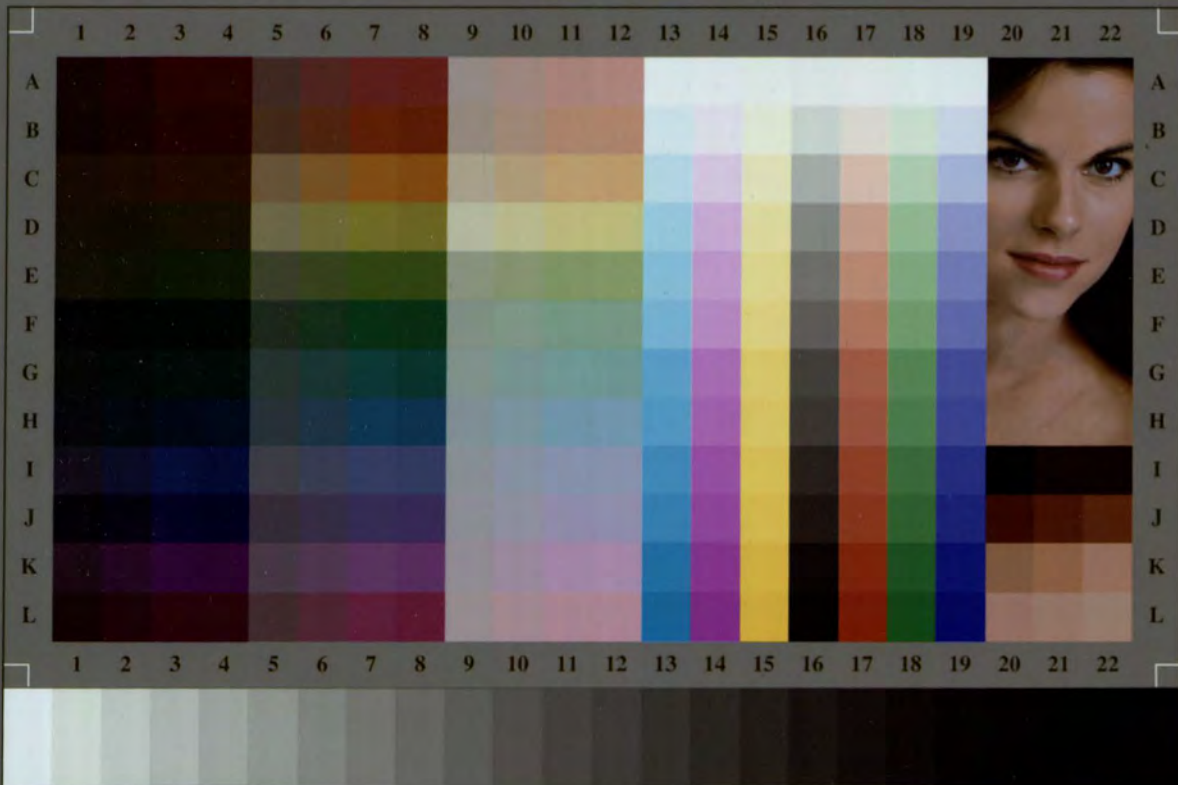
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PART 28 begins:-

CNP to FCO 1.11.84.

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