

PREM 19/1479

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The Community Budget.

EUROPEAN

Developments in the European Community.

POLICY

Part 1: May 1979

Part 29: March 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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14.3.85		16.5.85					
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Foreign and Commonwealth Office

London SW1A 2AH

30 May 1985

Dear Rachel,

Foreign Secretary's Meeting with the President
of the EC Commission

I enclose a record of Sir Geoffrey Howe's discussions with M. Delors. Sir Michael Butler is being asked to follow up the exchanges on the Social Fund. M. Delors clearly regarded this as a private conversation and talked with some frankness. The Foreign Secretary would be grateful if Departments would ensure that his remarks are not quoted to other members of the Commission.

I am sending copies of this letter and enclosure to the Private Secretaries to the Prime Minister, the Secretaries of State for Trade and Industry and Employment, the Minister for Agriculture and Sir Robert Armstrong.

Yours sincerely,

L V Appleyard

(L V Appleyard)
Private Secretary

Ms Rachel Lomax
Private Secretary to the
Chancellor of the Exchequer
HM Treasury

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RECORD OF A MEETING BETWEEN
THE FOREIGN AND COMMONWEALTH SECRETARY AND M. JACQUES DELORS
AT CHEVENING ON 24 MAY 1985

APPROACH TO THE MILAN EUROPEAN COUNCIL

1. M. Delors said that he did not believe that Signor Craxi was fully committed to the document Andreotti had just circulated. The Italians had done this in part in response to the German/British and Franco/German bilateral meetings, and to show that they were pressing for ambitious proposals. He did not intend himself to recommend going beyond the Treaty of Rome at Milan. But the Commission would give examples of what could be done if the member states themselves agreed on change. There might be some extravagant proposals at Milan. It was important to avoid dramatising the differences. The distance between Member States was not very great in reality. The Commission would make proposals on the internal market and technological cooperation.

2. Sir Geoffrey Howe said that the Treaty of Rome was the basic constitution of the Community. It was extremely difficult to change, since that required the assent of twelve governments and twelve parliaments. The Community could advance without taking on that difficult and unnecessary task. Political Cooperation had evolved: this could now be embodied in a new agreement. The Luxembourg compromise was not in the Treaty, but was a recognition of reality. Any increase in the powers of the European Parliament would raise great difficulty with some national Parliaments and needed unanimous agreement. We should look for practical changes to deal with the frustration of the Parliament, but these must not be of a kind that actually obstructed decision making. The need was to aim for real consultation between the Council and the Parliament; to encourage the Parliament itself to make constructive proposals; and for the Council to follow up their resolutions properly.

3. M. Delors agreed that "co-decision" would mean no decisions. But something was going to have to be done for the Parliament at Milan if it was not to make major trouble thereafter. The Germans also would insist on this. Sir Michael Butler said that the Parliament committees could be encouraged to work on some draft proposals from the Commission and to send forward to the Council ideas for improving draft legislation; all this naturally to be subject to a real conciliation procedure.

4. M. Delors said that when the Commission presented a directive, it could be required to explain whether it had taken account of the suggestions of the Parliament. The Commission could agree with the Parliament on studies or proposals on matters of common interest. The Parliament must not be given a separate right of initiative or the Council would be deluged with proposals. There was a consensus on the need to improve decision making. If the articles concerning the internal market were not amended to provide for majority voting, there should be some greater delegation of powers to the Commission to enable it to

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get on with the task of completing the common market under the directions of the Council. He agreed that it was not possible to launch a new Community, or extend its role to education, security etc, in the short period before Milan.

5. Sir Geoffrey Howe said that we were convinced that our approach, ie no Treaty amendment but decisions by the European Council itself, would be most effective. The Spinelli Treaty could not be stuck on top of the working constitution of the Treaty of Rome. There was a need to achieve something of both practical and political importance, which would arouse some enthusiasm. We thought that the moment had arrived to enter into a formal agreement on political cooperation.

6. M. Delors said that it would be wrong to create a Lord Carrington type of position in political cooperation. Sir Michael Butler agreed. There was already a Secretary General of the Council. The small PoCo Secretariat should operate alongside the Council Secretariat.

7. M. Delors said that he agreed that there should in future be one Commissioner per Member State or less and two European Councils a year. Sir Geoffrey Howe said that we had tried very hard to get the number of Commissioners reduced, but so far had got little support.

8. M. Delors said that if Treaty amendment was ruled out, he thought that our ideas on decision making could provide a way forward. He thought it would make sense for the European Council itself to lay down objectives in certain areas and to try to get it agreed that for the accomplishment of those objectives unanimity should not be insisted upon. The predominance of the General Affairs Council must be maintained. Ministers of Agriculture had transformed themselves into a separate lobby. In cases where the Luxembourg compromise was invoked, the Member State concerned should be required to explain itself in a special meeting of the General Affairs Council. There had been relatively few cases in which the compromise had actually been invoked. It was not so much its use as the threat of its use which held up decision taking. The German attempt to claim that Kiechle had invoked only the first and not the second paragraph of the Luxembourg compromise was hypocritical.

9. Sir Geoffrey Howe said that if progress was to be made towards completion of the internal market, it was essential to get commitments to a timetable. In areas where specific agreement had been reached, there could be agreement also not to invoke the unanimity rule on the lines the Prime Minister and Lubbers had suggested at Dublin. M. Lamy thought that this could be presented in a positive way - the "Milan accord", as a development of the Luxembourg compromise.

10. Sir Geoffrey Howe said that we wanted Milan, like Stuttgart and Fontainebleau, to mark another step forward for the Community. The way not to have a success was to concentrate on doctrinal arguments.

11. M. Delors agreed that it would be hopeless to have a conference which had a wide or vague remit. It would never be able to complete its work within a five month deadline. The Italian paper was not realistic. He could see a way ahead on the other issues, but the problem of the Parliament remained.

12. Sir Michael Butler pointed out that the change to Article 203 had caused more, not less, friction with the Parliament. M. Delors agreed that there must be no change to the Parliament's budgetary powers. This would encourage irresponsibility. M. Lamy said that the European Parliament already had more financial powers than most national parliaments. M. Delors saw a need to reform the budgetary procedure. The French would not press for any real extension of the Parliament's powers, but the Germans and Italians would. If we or he had any further ideas on the point, we should exchange them before Milan.

13. Sir Geoffrey Howe said that the heads of government should be able to achieve something positive at Milan on political cooperation, the internal market, technology and decision-making.

14. M. Delors said that the European Council must arrive also at conclusions on the work of the "People's Europe" Committee. What should be done about cultural cooperation? Sir Michael Butler said that on culture and education we saw no need for a new Treaty or an extension of the Treaty of Rome. There were already mixed Councils in these areas. The same could be done for health. There was a need to maintain flexibility.

15. M. Delors said that culture now had a considerable economic fall out, eg satellite broadcasting systems. But he agreed that the Treaty conferred sufficient powers. Did the member states envisage anything more being done on defence cooperation? Mr Renwick said that any formal agreement would cover those security issues discussed in political cooperation. But defence issues were a matter for the Alliance and must remain so. Our ideas were intended to enable all Twelve countries to continue their cooperation in PoCo, and to enable all except the Irish to consult together on the political aspects of security. If the WEU route were taken instead, that would leave out Spain and Portugal. M. Delors agreed with this approach. He expressed concern about the state of opinion in Germany.

Technical Cooperation

16. Sir Geoffrey Howe said that we were agreed on the danger of Europe falling further behind the US and Japan in high technology. SDI was a manifestation of this. But we did not believe that the right response was to go for publicly financed programmes. Subsidised national programmes of this type had not been successful in Britain. The Esprit approach was a good one. We thought that European exploitation of research rather than basic research was the problem. The chairman of Phillips had said that he would forego all aid if he could get a unified European market. It has not been possible to sell the EMI scanner in France and Germany though it had been sold all over the United States. We should get our experts together with the

industrialists to promote cooperation across frontiers. There should be a group of senior technically competent experts from the member states, with the Commission involved, drawing on the advice of industry and looking for ways of opening up public procurement. Europe spent more on basic research than Japan.

17. M. Delors said that this was true for basic research, but more had to be done about its application. It was important at Milan to establish the right framework. Europe was falling behind in pre-competitive research and in opening up public purchasing. We were losing ground and people. He agreed that joint efforts must be subject to cost benefit analysis. They should not be undertaken when this was not necessary, but there were cases when they might be the only way forward. The JET and CREST models could both be appropriate. Whatever financing was required should be by national contributions from those countries which were interested in a given project. There could not be large-scale public funding. Participation must be open to other European countries, as with JET. There was no need for a new Treaty. High technology products must have access to an integrated market. Cooperation should be à la carte. But US research was subsidised through the defence budget. He agreed that some Community programmes had not been well conducted. Subsidisation took different forms: 40% of the UK contribution to research came through tax exemptions. There was a need to be flexible. Sir Geoffrey Howe said that public funding for INMOS had not been a success. It had been a major task when he was Chancellor to get ICL geared to market forces. In Japan the emphasis was on cooperation between the companies.

18. M. Delors said that we provided funds for basic research. Not all finance could be generated privately. But whatever was done must be geared to demand. He agreed on the need for consultation with the industrial interests. Sir Geoffrey Howe read out the passages on this subject from "Europe - The Future". M. Delors said that he agreed entirely with the analysis in that paper. The Commission would be producing a paper before Milan, which they would show to us privately in draft. Mr Williamson said there was a need to know precisely how market access for high technology would be guaranteed. We should be putting forward our own ideas on this.

Internal Market

19. Sir Geoffrey Howe said that we must establish at Milan a timetable for completion of the common market; and follow up the Prime Minister's initiative on deregulation. M. Delors said that if progress was to be made, there must be unanimity for the major decisions but some delegated authority for the means of putting them into effect. Mr Williamson gave examples of areas where powers had been delegated to the Commission, in accordance with Article 155. Sir Michael Butler said that in relation to the "grey area" between the Council's authority and that of the Commission, we had supported M. Delors on IMPs. Delegated authority was possible for some measures of implementation, but not before the main decisions had been taken and embodied in Community law. Mr Renwick referred to the agreement to delegate

a limited amount of authority to the Commission at the Internal Market Council in May on the mutual recognition of standards.

Tax Approximation

20. Sir Geoffrey Howe hoped that the Commission in its proposals on the internal market would not place too much emphasis on tax approximation. In the US there was tax diversity, including widely different corporate taxes, differences over unitary taxation, etc. There were also differences in sales tax; yet there was a genuine common market. National governments would not agree to alter their tax arrangements adversely to their citizens' interests, this would create great difficulties. In the UK any change from the zero rating of food, children's clothing, etc would be deeply unpopular. This had been a major issue in the last election. VAT extensions, however, were being made. Other member states would have similar problems. In France tax approximation could entail a threefold increase on the tax on wine and an 87% increase on the tax on cigarettes.

21. M. Delors said that he would reflect on this. But Europe had fiscal frontiers, unlike the US. The sensible course would be to aim eventually for a broad VAT fourchette. But he acknowledged that indirect taxes were an integral part of fiscal and economic policy. Sir Michael Butler said that he hoped that the Commission might produce for Milan the equivalent of a White Paper on completion of the common market, but a "Green Paper" only on tax approximation. Neither we nor others could agree to anything precise for this by 1992. M. Lamy said that it might be possible to pose the question more in terms of intellectual analysis. The question of tax approximation arose from the measures necessary to try to do away with frontier procedures.

VAT Limit for Small Businesses and Deregulation

22. Sir Geoffrey Howe raised the VAT limit for small traders. We believed that we were entitled to operate on a basis of the equivalent of the 1973 and not the 1977 rate. Otherwise we would be bringing into the VAT registration net over 170,000 small businesses. In France there were special tax benefits for small traders. The Irish VAT limit was over £21,000. The whole question of the VAT limit should be addressed in the context of deregulation. We did not see how this could affect across border trade.

23. M. Delors said that we were in a quarrel with the Commission legal services as a result of the raising of our threshold. But there was an unusual separation of direct and indirect taxes for small businesses, which was specific to Britain. In the longer term he was prepared to look at the possibility of trying to raise the VAT rate. But there were very difficult problems with complete exemption. He would look at simplification or exoneration in the deregulation context and would be making proposals on deregulation to the December European Council. He could not interfere with the infraction process in relation to the current rules (but M. Lamy indicated privately afterwards that it probably could be slowed down).

24. M. Delors said that the Community had to consider how to pursue environmental objectives without adding unreasonably to the burden on industry. On deregulation, he had been studying the memorandum we had already given him. He had been astonished to find that there was no unit in the Commission to study the problem of small and medium enterprises and was himself creating one.

Agricultural Price Fixing

25. Sir Geoffrey Howe emphasised the need to maintain the pressure on cereals prices: otherwise there would be further troubles with the United States. The German position was extraordinary, as Genscher had been firm on the need for guarantee thresholds in earlier discussions. M. Delors said that the Commission had taken a firm position. The outcome was not a bad one except on cereals. He intended to look closely at the way the management committees operated. Mr Renwick said that we hoped that the Commission would maintain its price proposal at the next Agriculture Council. M. Delors said that there were disagreements in the German Cabinet at present about everything.

Reference Framework

26. Sir Geoffrey Howe asked if the Commission would be able to calculate the reference framework for spending in time for the ECOFIN Council on 12 June. M. Lamy said that Christopherson would be away at the European Parliament. But all the calculations on which the reference framework would be based had already been made available to the member states. The framework had been taken into account in the Commission's preparations for the 1986 budget.

Regional Fund

27. M. Delors said that he was seriously concerned about the 8 billion ecu gap which the previous Commission had permitted to open up between commitments and payments from the Structural Funds. During the Commission's "weekend of reflection" on budgetary matters he intended to insist that this would have to be corrected. This would require painful decisions. There would have to be cuts in the amounts promised from the funds.

28. Sir Michael Butler questioned whether it was wise to permit Spain and Portugal to reach their full take up from the Regional Fund in the first year of transition. They should do so gradually, as the counterpart of the degressive reimbursement of their VAT contribution. This would avoid a difficult renegotiation next year of the quotas. M. Delors said that he would reflect on this. M. Lamy said that the Commission would have to cut the funds to put some order into the Community's finances. A full Spanish and Portuguese take up had been included in the Commission calculations on which their VAT rebates were based. Mr Williamson drew attention to the need to watch the impact on other member states. Sir Geoffrey Howe said that it was not in the Community's interests to have a Regional Fund almost exclusively for the Mediterranean, from which no northern member state apart from Ireland stood to benefit.

Ecu

29. M. Delors noted the rapid increase in the private use of the ecu. There were those who thought that the market would make this a greater success. But he was worried about the effect on use of the ecu of inclusion of the escudo and peseta. If the deutschmark element were less than 20%, the ecu would lose its attraction. This had led him to wonder whether there was any case for a different internal accounting and external rate. It was rather like the SDR problem. Sir Geoffrey Howe said that different values for the ecu as between its internal and external use surely must be avoided. Sir Michael Butler wondered whether the escudo/peseta weighting could not be relatively low.

Social Fund

30. Sir Geoffrey Howe raised his letter to M. Delors about the Social Fund. M. Delors showed a draft reply. Sir Geoffrey Howe pointed out that this would mean a sharp reduction in UK receipts: the Commission were still calculating on the basis of 13 and not 16 weeks off the job training. M. Lamy said that in 1984 nearly one-third of the disbursements from the Social Fund had gone to the UK. The youth training scheme had been very well adapted to maximise our take. We could not expect to continue to benefit at that rate. The Commission thought that this year we could expect to get about 26% of the Fund - closer to the norm for 1981 to 1983. (In a separate conversation M. Lamy was given arguments showing that the calculation of our entitlement should be based on 16 weeks on the job training and that 72% of the trainees go on to jobs or further courses of education).

Budgetary Control

31. M. Delors said that he was insisting that the 1986 budget must be presented with the best possible margin within the 1.4% VAT ceiling. But even with tough measures on the structural funds, this would take the Community close to the ceiling. Sir Michael Butler said that we believed that it was possible to have a 1986 budget at about 1.3% of the VAT rate. The Community's ability to remain within the ceiling would be extremely important to parliamentary ratification of the increase in own resources. M. Delors said that he took the point but there was not much margin. He had told the Commission services that they must plan for a 1986 budget with as much headroom as possible within the 1.4% ceiling. But to achieve any headroom there would have to be cuts in disbursements from the structural funds.

30 MAY 1989

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MR WILLIAMSON

23 May 1985
CVP
23/5

c Mr Braithwaite
Mr Renwick
Mr O'Neill - FCO

Miss Lackey - DTI

EUREKA: THE HIGH LEVEL GROUP.

1. I have read the paper circulated by Mr Braithwaite at your meeting last night and am more re-assured than I was after the verbal presentation. I think there is enough new substantive material to support both our discussions with the Germans today and a possible similar bilateral with the French next week. I have the following comments on the paper:

i. I think there is still some danger in confusing the High Level Group, which is obviously short-term, with whatever replaces the Agency, which is clearly long term. Indeed it is not clear (bottom of page 1.) that the Germans distinguish between these. Hopefully we can clarify this point today and then amend paragraph 3. and perhaps amend and amplify paragraphs 5(a) and (g).

ii. I am still worried that the French will rightly criticise our proposals as lacking urgency in dealing with the American threat. I suggest we add at the end of 5(f) "The group is encouraged to agree urgent actions as soon as possible so that these may be implemented in advance of the group report". (A similar procedure was used for the Versailles Group).

In commenting on the FCO paper I also want to confirm my agreement to the procedure you suggested for amending my draft letter for the Foreign Secretary to M. Dumas. I regret the post OD(E) veto on the mention of the warrant by the

DTI but I hope that, with the help of DTI's expertise in this area, your proposed MISC group will come up with an agreed alternative which meets the real needs of industrialists in Europe rather than the theory of the Treaty of Rome. The Foreign Secretary's account at OD(E) of his meeting with the Chairman of Philips was very illuminating on this point.

But if paragraphs 4 and 5 of my draft are simply eliminated I believe we will have failed to meet the point in Mr Pattie's letter which I think OD(E) members agreed with namely: "If we are not to be swept along we need to take an effective initiative ourselves".

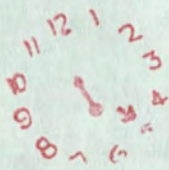
I suggest that consideration be given to including paragraph 5(b) of the FCO note in the Dumas letter and, additionally, a de-warranted version of my paragraph 4. as follows:

"We are working on some practical means to achieve this which would complement the efforts we are already making in the Community to create a more dynamic internal market. I believe that, in those technological sectors which you have identified in your Eureka proposal or in such other sectors as we may agree, there is a need for new measures to ensure uninhibited access for high technology products and services throughout the Community and other participating European countries".

I am copy this letter to others who attended your meeting, to Oscar Roith (DTI), to Geoffrey Fitchew (Treasury), and to Charles Powell (No.10) and Richard Hatfield here.

SIR ROBIN NICHOLSON
Chief Scientific Adviser

23 MAY 1985



Qz.04485

NOTE FOR THE RECORDDEVELOPMENT OF THE COMMUNITY: FOLLOW-UP TO THE PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL

I spoke to Herr Ruhfus again this afternoon, giving him a very brief outline of the generally favourable response which Monsieur Dumas had given to our ideas at the meeting with the Foreign and Commonwealth Secretary. The main points which arose in my discussion with Herr Ruhfus were:-

(i) the Germans will be ready to give us some specific comments on the draft agreement on political cooperation when they meet us in Bonn tomorrow;

(ii) they will give us some further comments on our programme for completing the common market. This may take a few more days;

(iii) Herr Ruhfus was extremely pleased that there would be the meeting tomorrow in Bonn about the approach to the Community proposals on EUREKA, technological co-operation and the development of a wider market for new technological products;

(iv) Herr Ruhfus reiterated that, although there was a good deal of common ground between the Federal Republic of Germany and the United Kingdom on decision making, our ideas did not go as far as the Federal German Chancellor's. While accepting that there should be a "financial veto" he remained anxious to move towards majority voting in relation to other articles of the Treaty. In explanation of the "financial veto" Herr Ruhfus said that this referred, in particular, to Article 201 of the Treaty and possibly some other financial articles.

D F Williamson

D F WILLIAMSON

22 May 1985

cc: Mr Powell, 10 Downing Street
Sir Robert Armstrong

Mr Braithwaite) FCO
Mr Renwick)
Mr Stapleton
Mr Jay



Ref. A085/1416

PRIME MINISTER

Cabinet: Community Affairs

The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 13-16 May. The main conclusions were:

1. Agreement (the Federal Republic of Germany and Greece abstaining) on 1985-86 prices and related measures for all products except cereals and rapeseed. The measures are those proposed by the Commission adjusted by the final Presidency compromise, ie within the terms agreed at Cabinet last week. No extra financial provision will be made in 1985 above the level already agreed by the Budget Council and included in the draft budget now before the European Parliament. The decisions do not breach the financial guideline for 1986. The effect on food prices will be negligible but the price of the 250 gm pack of butter (about 50p) may rise by about 1p over a period of time (ending of the butter subsidy).

2. Mr Jopling negotiated the continuation of the beef variable premium scheme for a further year. The present arrangements for sheepmeat, which are favourable to the United Kingdom, are also substantially unchanged.

3. The current situation on cereals prices in that the Commission's revised proposal of -2 per cent and the Presidency's suggestion of -1.8 per cent are on the table and are undecided. The cereals marketing year does not begin until August. The Council will come back to these products on 11-12 June. It should be our prime objective



to continue to stiffen the Commission's resolve to stay with a restrictive price proposal which respects - partially, if not completely - the earlier decision on guarantee thresholds.

4. It is unsatisfactory that the package has been truncated by the deferment of the decisions on cereals and rapeseed. In the circumstances, however, it was probably in the United Kingdom's interest to have settled all the other items, in order to avoid further unstitching by Agriculture Ministers.

5. The incoherence of the German position was made explicit. Although the spokesman in Bonn has tried to cloud the issue, it is clear throughout the Community that Herr Kiechle did invoke the Luxembourg compromise* in order to defer the vote on a proposal which he found unacceptable. This will give us an important dividend in the wider discussions on decision taking and the development of the Community.

2. The Foreign and Commonwealth Secretary may report on the Foreign Affairs Council of 20 May. This was a routine Council. Agreement was reached that the Accession Treaty would be signed in Lisbon and Madrid on 12 June. There was informal discussion of the way in which the main issues on the development of the Community might be handled at the Milan European Council. While the position of the Federal Republic of Germany, France and the

*para 1 "Where, in the case of decisions which may be taken by majority vote on a proposal of the Commission, very important interests of one or more partners are at stake, the Members of the Council will endeavour, within a reasonable time, to reach solutions which can be adopted by all the Members of the Council"



United Kingdom appear to be coming closer together on our lines, the Italian Presidency and the Benelux countries are still on the earlier track (Signor Andreotti has circulated an informal document on a mandate for an intergovernmental conference). The Foreign and Commonwealth Secretary went on to Paris for discussions with Monsieur Dumas, the French Foreign Minister, which covered the development of the Community and the first steps in the conversion of the French EUREKA proposal on research into something more acceptable (no bureaucratic agency, emphasis on exploitation of research through a wider market).

3. You may wish to refer to your discussion with the Federal German Chancellor, Herr Kohl, on 18 May.

4. The Consumer Affairs Council met on 21 May, when the United Kingdom was represented by the Parliamentary Under Secretary of State, Department of Trade and Industry (Mr Fletcher), but there are no points requiring a report to Cabinet. The Budget Council is meeting today (22 May), when the United Kingdom is being represented by the Economic Secretary, Treasury. The Council is examining European Parliament proposals for changes in the draft 1985 budget and is expected to reinstate, in all significant respects, the original provision (there is no threat to the United Kingdom's 1,000 million ecu abatement because the European Parliament has not altered the provision on the revenue side).

5. The Transport Council and the Development Council are meeting tomorrow (23 May). Monsieur Delors, the President of the Commission, is visiting the United Kingdom for discussions with you and the Foreign and Commonwealth Secretary on 24 May. There will be a meeting of Culture Ministers on 28 May.

RA

22 May 1985

ROBERT ARMSTRONG

[I attach
a note
on which
you could
draw
C.D.?]

PRIME MINISTER

MEETING WITH CHANCELLOR KOHL

The main subject of discussion was the development of the European Community. You put to him a programme for completion of the internal market and a proposal for formalising political co-operation arrangements. He reacted positively and hoped that we could agree on a position which both Britain and Germany could sponsor - ideally with France - at the European Council. He did not mention European Union or a new Treaty: and did not seem unduly attached to an Inter-Governmental Conference. You were able to exploit, to some effect, German resort to the Luxembourg compromise at the Agricultural Council. But there was a clear difference of view on the European Assembly with Kohl wanting to increase their powers. He also appeared susceptible to French views on technological co-operation.

You also discussed SDI on which there was broad agreement: he described it as 'morally and ^{materially} ~~nationally~~ justified'. But he remains keen on a joint European position on participation in SDI research. He had some quite interesting information on the problems facing Gorbachev eg drug problems among Soviet soldiers in East Germany. He promised to press Mitterrand further on the European Fighter Aircraft.

C D P

C.D. Powell

22 May 1985



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ADP
22/5.

The Rt Hon Sir Geoffrey Howe QC MP
Foreign Secretary
Foreign and Commonwealth Office
Whitehall
LONDON
SW1

22 May 1985

Dear Geoffrey,

SEX DISCRIMINATION ACT: EUROPEAN COURT RULING

Thank you for your note of 13 May. I am glad that you agree that I should raise our concern about bringing small firms under the Sex Discrimination Act at the Council of Ministers on 13 June. I also take the point that we must avoid giving the impression that we are using deregulation as a means to block Community measures which we dislike. At the same time, it is important to present our case in a Community context and a reference to the European Council conclusions is essential for this purpose. I have therefore made certain changes to the letter to relate the argument mainly to the issues of substance (while keeping some of the references to the Council conclusions in support) and enclose the version I am sending to my Council colleagues.

I am sending copies of this letter to the Prime Minister, to members of "H" Committee, Norman Tebbit, David Young, Michael Havers, John Gummer and Sir Robert Armstrong.

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Miss Grethe Fenger Moller
Minister of Labour Arbejdsministeriet
Laksegade 19
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May 1985

Grethe Moller,

I am writing to you and to other members of the Council of Ministers for Labour and Social Affairs to raise an issue which I believe has important and serious implications for the work of the European Community in the employment field.

A recent judgement of the European Court of Justice (Case No 165/82), following proceedings brought by the Commission, found that the United Kingdom had failed to implement fully the Equal Treatment Directive on three counts. These concerned the application of our legislation to collective agreements, private households and small firms. On the first two, I intend to consult interested parties within the United Kingdom to establish how our legislation can most suitably be changed to give effect to the Court judgement. However, the third count - small firms - raises a serious difficulty for the United Kingdom, and I believe for the whole Community, on which I should like to seek your support.

Our legislation (the Sex Discrimination Act 1975) exempts firms with five or fewer employees. This reflects the view of successive British governments that it is inappropriate in situations of this kind (covering, for example, a small family business) to impose legal requirements and sanctions that are essentially intended to meet the circumstances of larger firms. I am not of course suggesting that other member states should not enact such legislation if it seems right in their particular national circumstances. But to impose a blanket requirement across the whole Community carries the risk of



frustrating other Community policies of major importance and of impairing public support for our work. As you know, at the last meeting of the European Council on 29-30 March our heads of government laid emphasis in their conclusions on the need to encourage the creation and development of small and medium sized undertakings, particularly by significantly reducing the administrative and legal constraints to which they are subject. The Council went on to call upon the Commission to report to it on the problem in this sector and on the measures to be taken at national and Community level, particularly with regard to administrative simplification.

I believe these conclusions accurately reflected a growing consensus within the European Community that we must do everything possible to protect small firms, which represent a major source of economic growth and innovation, from legal and administrative constraints hampering their development. Against this background, it would in my view be seen as inconsistent for the Community to be taking steps to increase legislative burdens in a sector where the Council has called for them to be reduced. I would certainly find it extremely difficult to explain to public opinion in the United Kingdom why we were having to make such a change.

I recently discussed this issue with Commissioner Pfeiffer and am grateful to him for a clear and helpful explanation of the position of the Commission, which will feel obliged to take proceedings against the United Kingdom if we remain unable to implement the Court's judgement. Nevertheless, I would earnestly hope that before such a situation were to arise, we could take the opportunity in the Council of Ministers to consider this issue. I hope the Council might be able to conclude that whatever our differences on the substantial issues involved, the Commission should defer any legal proceedings until the examination of relevant legislation had taken place on the lines requested by the European Council.

I am writing to Gianni de Michelis as President of the Council to say that I should greatly appreciate an opportunity to raise this question at our next meeting on 13 June. I shall of course be very glad to know your views either then or beforehand.

May I say in conclusion that the United Kingdom takes its Community obligations very seriously indeed and that we have not taken this step without searching consideration of the issues involved. It is my concern that the policies of the



Community should be seen to work coherently and not to conflict with each other and it must surely be to our common advantage to secure this objective.

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NOTE FOR THE RECORD

DEVELOPMENT OF THE COMMUNITY: GERMAN VIEWS

In the course of a discussion with Herr Ruhfus this afternoon on other points, he asked me to emphasise that, in addition to the other matters raised by the Federal German Chancellor at Chequers on 18 May, the Federal Republic of Germany wished to reiterate that British membership of the Exchange Rate Mechanism in the European Monetary System was a German objective and that our participation would be welcome. I think that he went out of his way to make this point because Chancellor Kohl had intended to do so but had not done so at Chequers.

D F Williamson

D F WILLIAMSON

22 May 1985

cc: Mr Powell, 10 Downing Street
Sir Robert Armstrong
Mr Braithwaite)
Mr Renwick) FCO
Mr Unwin, H M Treasury
Mr Stapleton
Mr Jay

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CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 7089

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From Sir Robin Nicholson F.Eng, FRS
Chief Scientific Adviser

W0405

The Rt Hon Sir Geoffrey Howe QC, MP
The Secretary of State for Foreign
and Commonwealth Affairs

20 May 1985

Dear Secretary of State,

EUREKA/EUROTYP

In your summing up at OD (E) on 14 May you said that you would reply to M. Dumas' letter of 17 April expressing interest in the French proposals, outlining our own ideas and suggesting the creation of a high level group.

I thought it might be useful to let you have a draft which could form the basis for your reply. It reflects your summing up and provides a little more detail about my proposal for a warrant for high technology goods. I am sending copies to other members of OD (E) but suggest that if they have any comments that they should be sent to your office.

I have also attached an outline of my ideas on the EUROTYP warrant for the further information of members of OD(E) but I do not recommend that we send this level of detail of the scheme to the French and our Community partners at this stage. The intention is to discuss it in EQO in the near future.

The draft has been written in what I hope is courteous but plain language since I think it is important to make it clear to the French at this stage that we believe that EUREKA is no doubt well meant but also well off target. In order to counter the media treatment that EUREKA is receiving, you might feel it is appropriate to disclose the basis of your reply to M. Dumas to selected members of the Press at the time that you send it.

M. Dumas' letter was copied to his colleagues in other member states of the European Community and to the Commission. You may wish to consider whether your reply should be given a similar distribution.

In addition to members of OD(E), I am copying this letter to Mr Addison (No 10) and Mr Gregson, Mr Williamson and Mr Hatfield here.

Yours sincerely,

ROBIN NICHOLSON

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DRAFT LETTER FROM THE FOREIGN AND COMMONWEALTH SECRETARY TO THE FRENCH FOREIGN MINISTER.

1. You wrote to me on 17 April setting out your proposal for a European Research Co-ordination Agency (EUREKA) which would help promote a "Europe of Technology" capable of competing on an equal footing with the United States and Japan. Since then we have had the opportunity to discuss the idea in the margins of the WEU, the Foreign Affairs Council and the Economic Summit and our officials have also had several meetings to consider details. I think it would now be useful if I let you know our preliminary reaction to the proposal and offer some suggestions on how to move forward.

2. Your analysis of the problem which Europe faces in research and development, particularly in the advanced technologies over the next decade and beyond, is timely. It has to be recognised that there is a growing technological gap between Europe on the one hand and Japan and the United States on the other and that the gap with the United States may widen further as a result of the research to be undertaken as part of President Reagan's Strategic Defence Initiative (SDI). The EUREKA proposal, in our view, addresses a matter of real concern for Europe and I would like to express appreciation to you for focussing on the problem.

3. It is important now to develop this idea in a practical and effective way which will achieve the objectives to which we all subscribe. In the view of the United Kingdom, however, the French diagnosis of the problem is incomplete. We believe that a major weakness in Europe lies in the exploitation of research

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and development to produce high technology products and services as effectively as the Americans and Japanese. We want a "Europe of Technological Products and Services" not just a "Europe of Technology". Of course you recognise this in your own letter by referring to the need for action on opening up of public procurement, and definition of European standards.

4. We have been working on some practical means to achieve this which would complement the efforts we are already making in the Community to create a more dynamic internal market. I believe that, in those technological sectors which you have identified in your EUREKA proposal or in such other sectors as we may agree, there should be made available a warrant for high technology products and services which would guarantee certain advantages including their uninhibited access throughout the Community or the participating European countries. This warrant might be called a EUROTYPE.

5. In brief the EUROTYPE warrant would be granted to a European manufacturer who registered a new product with appropriate evidence for its novelty or superiority in terms of specification and performance over existing products. The act of registration (if accepted) would constitute an invitation to other European manufacturers to discuss with the originator the possibility of participating, on a risk-sharing basis, in the R & D production or marketing of the product. These products would be guaranteed the right of treatment as a domestic product for national financial support schemes and public procurement in the Community or the participating European countries.

6. While we have found our bilateral discussion with you and other Community countries useful, and I understand these are continuing at a technical level, I also think that we have now reached the stage where it would be useful to start

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multilateral talks in which the ideas on EUREKA and EUROTYPE can be discussed and developed. I should like to suggest the establishment of a group of high level officials - I have in mind that we would be represented by Sir Robin Nicholson - which could be given the task of assessing the different elements and product recommendations. I would also suggest that the group should be asked to draw on the experience and expertise of leading European industrialists, perhaps through the formation of a small team who could act as consultants to the high level group. The high level group itself should be open to those Community (and possibly other European) countries which would be interested in participating, and, of course, to the Commission.

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EUROTYPE PRODUCT WARRANT

An outline

European manufacturers of high technology products are at a significant disadvantage compared with their American and Japanese counterparts because of the fragmented nature of the European market and the nationalism of most public procurement in Europe. It is well established that it is often only a Mark II or Mark III product which is really "right" and which achieves commanding acceptance and sales; instant cameras, hand-held calculators and videos are obvious examples. But the Mark I product serves a vital purpose of establishing the market and providing cash flow for product development. European Mark I products are not able to take advantage of the real size of the European market and too often they simply serve to stimulate market interest for Mark II Japanese and American products, supported by Mark I sales in their more dynamic domestic markets, to take over.

European progress on the internal market, standards and public procurement is real but slow. By various means, however, domestic markets for high technology goods often remain protected. Something more is needed.

The EUROTYPE product warrant is designed to meet this need. It is analogous to a patent in that it is a bargain between the innovator and the state to their mutual benefit. The manufacturer of a novel high technology product will have the option of registering it at the research and development stage with a specification, description and supporting evidence for its superiority over existing products. If the registration is accepted it will be warranted a EUROTYPE product and a brief description and specification will be circulated to other European manufacturers. They, in turn, will have the option to contact the originating manufacturer and offer, on a risk sharing basis, to participate in the research and development, production and marketing of the product. The originator will be bound to negotiate in good faith with other manufacturers but will not be compelled to accept these offers.

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In return for this disclosure and possible sharing of his product, the originator will receive the following warrant:

- (a) a EUROTYPE product is warranted as eligible for domestic financial support schemes in all Community (or participating European) countries, regardless of the Community (or participating European) country in which it is actually produced;
- (b) a EUROTYPE product is warranted as a domestic product for public procurement purposes in all Community (or participating European) countries;
- (c) the EUROTYPE product may apply to products within the areas of research and development cooperation covered by the EUREKA scheme.
- (d) a EUROTYPE product will be eligible for any new self-financing Community scheme for demonstration and pre-production orders.
- (e) a EUROTYPE product warranty will last for a fixed period of time or until superseded by a new product which shows a substantial improvement in specification or performance.

The EUROTYPE scheme would be administered by the European Patent Office in Munich, assisted by a small team of independent industrial consultants.

As with patents, there is an anti-competitive element but this is countered by the obvious existence of American and Japanese competition and by the fact that any European manufacturer can launch a competitor to a EUROTYPE but will not have the EUROTYPE advantages given above.

Compared with the original concept of EUREKA, the coordination would not be confined to research and development and would be developed organically by manufacturers themselves rather than being thrust upon them. The products would be the result of manufacturers' judgement of the market place rather than the whims of an agency's administration.

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

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From the Minister

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London SW1H 0ET

*NBPM
OD 2095*

20 May 1985

Norman Tebbit

DRAFT EC DIRECTIVE ON PRODUCT LIABILITY

I refer to your letter of 7 May to Geoffrey Howe concerning a review of the UK's negotiating position on the draft EC directive on product liability.

I support your proposals for flexibility by the UK in the forthcoming negotiations. However, in accepting such a compromise I agree that we should not lift our general reserve on the draft directive until various important points have been satisfactorily resolved. We are particularly concerned to ensure that manufactured foodstuffs are excluded (as primary agricultural products are already) from the scope of the draft directive when Working Group level discussions begin. I know that this has long been part of the UK's negotiating brief but I thought it worth pointing out once again the importance we attach to this issue in case it should be thought that pharmaceuticals were the only real problem that remain to be resolved.

I am sending copies of this letter to the Prime Minister, members of OD(E), the Lord Chancellor, the Lord Advocate, Tom King and Sir Robert Armstrong.

*James Evans
Michael*

MICHAEL JOPLING

Europa AT29

Budget



20 MAY 1985

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Treasury Chambers, Parliament Street, SW1P 3AG
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Prime Minister
You might also
raise this with
M. Delors.

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FOREIGN AND COMMONWEALTH SECRETARY

**THE PRIME MINISTER'S INITIATIVE ON DEREGULATION IN THE
EUROPEAN COMMUNITY: OUR VAT THRESHOLD**

As you know, the Prime Minister raised this question with Arthur Cockfield when they met on 1 May. Arthur's response was to suggest that I might raise the matter with my ECOFIN colleagues in order to seek their support for a higher threshold.

2. I intend to follow up this suggestion and am planning to air the question at the July ECOFIN. My approach will be to place the question firmly on the political level and to argue strongly for greater flexibility to mitigate the impact of VAT on small businesses. Most Member States recognise the difficulties in this area, in that special arrangements are a feature of their VAT systems, whether for small traders generally or for individual sectors (like farming) that would be particularly hit by the regulatory burden of the full tax system. Our chosen path is to ease the administrative load by simply excluding many small firms from the VAT net; but this approach is not qualitatively different from the schemes employed elsewhere. Without freedom under Community law to set our exemption threshold at the optimum level for the prevailing economic circumstances, the European Community would be seen in this country as directly hampering job prospects.

3. If the Council is prepared to lend a measure of support, we shall be able to put increased political pressure on the Commission both to propose suitable amendments to the present Community VAT law and to set aside their legalistic challenge to the present level of our threshold. It would be helpful if you were able to reinforce this message when you meet Delors on 24 May. I shall equally take advantage of opportunities over the next few weeks to underline the importance of this matter.

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... 4. I enclose a background brief on the VAT threshold issue which you may find helpful next week.

5. A copy of this minute goes to the Prime Minister.

A handwritten signature in black ink, appearing to be "N.L." with a horizontal line underneath.

N.L.

17 May 1985

**THE PRIME MINISTER'S INITIATIVE ON DEREGULATION IN THE
EUROPEAN COMMUNITY: OUR VAT THRESHOLD**

BACKGROUND BRIEF

Current UK threshold

- raised to £19,500 in 1985 Budget
- equivalent in real terms of £5,000 limit set when VAT introduced in 1973
- this revalorisation is consistent with UK interpretation of 6th Directive, now disputed by Commission

Threatened infraction proceedings

- Commission maintain we can revalorise only from May 1977 (when 6th Directive was adopted)
- this would reduce current threshold to £14,815
- Commission considering whether to issue Reasoned Opinion, as preliminary to case before European Court
- Law Officers advise we would be likely to lose

Harmonisation of thresholds

- independently of infraction proceedings, Commission favour harmonisation of thresholds in all Member States
- likely to propose 10,000 ECU (about £5,800)

Prime Minister's initiative

- Prime Minister launched 'deregulation' initiative at March European Council to relieve small businesses from burdens of EC legislation

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- considerable pressure in UK to maintain or increase VAT threshold; part of Prime Minister's initiative
- aim, on VAT, is to achieve flexibility to set UK limit in light of economic circumstances

Arguments for flexibility

- all Member States face problem of small traders, but cope in variety of ways - eg low exemption limits and graduated tax schemes, no exemption limit but special flat rate schemes
- no evidence that variety of solutions affects competition in Community
- for example, most Member States have simplified schemes for farmers; but UK and Denmark - with larger and more efficient farming units - do not need them. Conversely, UK and Ireland choose to keep more very small traders out of VAT net than other Member States. And Italy now proposes flat-rate arrangements for up to 94 per cent of all its taxable traders
- this demonstrates economic circumstances very different from one country to another. So harmonisation would fly in face of economic reality

UK aims

- convince Commission and Member States of need for flexibility and reassure them that distortions of competition (and own resources payments) will not follow
- argue for freedom and set exemption limit at higher level (up to, say, £50,000), and keep it there, if desired, in real terms
- challenge infraction proceedings on political grounds (is it really Commission policy to impose unnecessary uniformity and stifle enterprise at vital small business level, thus damaging prospects for jobs?)

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MR POWELL

~~Prime Minister~~ (2)
An interim
Report.
CDP 17/5.

EUROPEAN COMMUNITY: CUTTING THE BURDEN OF COMMUNITY LEGISLATION
ON BUSINESS AND ENTERPRISE

The Prime Minister has asked to be kept closely in touch with the action we are taking to follow up the initiative on deregulation which she launched at the European Council. This action is now being pressed forward. First, we have identified the most important targets among regulations and directives already in force or in the pipeline and put these to the Commission. Secondly, we have held extensive discussions with the Commission and we have considerable confidence that they will not only review some existing regulations but also, more importantly, establish a permanent procedure for vetting future proposals for their effect on business. Thirdly, we have stirred up the CBI, Institute of Directors and other bodies, including those at Community level, to follow up the initiative. Fourthly, we have already set out our main proposals to some other member states and the Minister without Portfolio is planning a series of visits to reinforce the message. The following paragraphs set out more fully what has been done since my last report.

2. Identification of burdensome legislation or proposals. The Cabinet Office has coordinated an initial departmental review of Community legislation. This has identified 40 Community measures in force or in the pipeline which in our view are unnecessarily burdensome on business. We have proposed specific action which can be taken to reduce or remove the burden. These measures and our proposals are set out in the annex.

3. Sir Michael Butler has passed the lists to the Commission, with proposals of both substance and procedure on how the Commission should use them and how the exercise as a whole should be taken forward. We shall provide further cases of burdensome measures before the June European Council as a result of contributions



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expected from organisations which the Department of Trade and Industry is consulting: these include the CBI, Institute of Directors, Association of British Chambers of Commerce and bodies representing small firms.

4. In a separate initiative we have obtained the most recent list of proposals made by the Commission which they are considering withdrawing. We shall be taking steps to encourage the swift demise of moribund, plain bad or otherwise burdensome proposals on this list.

5. We also intend to show the Commission some of the working material on domestic deregulation which is being prepared for Lord Young's Committee (MISC 114) so as to demonstrate to the Commission, and indirectly to other member states, a practical approach to tackling the problems.

6. Spurring on the Commission. The Commission is taking its mandate seriously. We have, however, made our own proposals to them for giving practical effect to the conclusions of the European Council and through a longer-term and systematic focus on deregulation in Community affairs thereafter. We understand that in consequence Monsieur Delors' report to the June European Council is likely to:

- include a general commitment to reduce the burden on business of Community regulation
- cite examples of burdensome legislation
- propose methods of action on measures already in force, under negotiation in the Council or yet to be put forward by the Commission, probably with a commitment to set up permanent arrangements for vetting new proposals on the lines we recommend
- invite member states to look also at the burden created by domestic legislation (the United Kingdom is already doing this and our exporters should benefit from action in some other markets).

/Meanwhile



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Meanwhile, they have prepared a more detailed paper for discussion with member states next week at senior official level, which clearly reflects some of our ideas. As a priority it sets the need for action:

- " - to complete the internal market and to introduce more Community-wide competition in the field of services
- to assess the burden on business which originates in Community legislation with a view to diminishing it by
 - systematic assessment of the administrative burden on enterprises produced by new proposals from the Commission
 - review of existing Community legislation."

7. The Commission has engaged the British consultants Touche Ross to identify quickly some specific areas of excessive Community regulation and to discuss their practical disadvantages in depth with two or three companies in the United Kingdom, the Federal Republic of Germany and perhaps the Netherlands. To ensure a worthwhile outcome to this study, Department of Trade and Industry and Enterprise Unit officials have discussed its shape and purpose with the Commission and Touche Ross in Brussels and again with the Commission and Touche Ross, plus the CBI, in London.

8. Action with industry. In addition to trawling the CBI and other organisations for examples of burdensome legislation, we have urged them to press their counterparts in other member states, individually and through the Union of Industries of the European Community (UNICE), to propose specific action on deregulation and to lobby both the Commission and their respective Governments. This is to ensure that as much momentum as possible is generated by those on whom the burdens actually fall. Our Embassies in Community capitals will also contact national organisations to explain our thinking. We already know that the German industry federation is taking a constructive line and is preparing its own list. Lord Young is writing to Sir Terence Beckett to reinforce the importance of the CBI taking the whole exercise seriously.



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9. Action with other member states. Our Embassies are stressing to Community Governments the importance which the United Kingdom attaches to deregulation. We raised this subject at the Anglo/Italian economic talks on 24 April. We shall take other opportunities to do so in the near future, for example during the Secretary of State for Trade and Industry's visit to Brussels in June. In addition, Lord Young intends to visit the Hague and Paris shortly to discuss the Community and domestic aspects of deregulation with Dutch and French Ministers. (He will also meet the responsible Commissioners before the June European Council.)

10. I am sending copies to Colin Budd (FCO), Rachel Lomax (Treasury), John Mogg (DTI), David Normington (Department of Employment), Leigh Lewis (Office of the Minister without Portfolio) and to Sir Robert Armstrong.

D F WILLIAMSON

17 May 1985

EUROPEAN COMMUNITY REGULATIONS WHICH
POSE AN UNNECESSARY BURDEN ON BUSINESSES

A. COMMUNITY MEASURES ALREADY IN FORCE

INDUSTRY, ENVIRONMENT, CONSUMER AFFAIRS

1. 4th company law directive (78/660/EEC)

a. Purpose:

With 7th company law directive, specifies reporting duties of firms including form and content of annual reports.

b. Burden:

Hinders any domestic move further to reduce reporting requirements for small companies.

c. Solution:

Amend to allow more flexible treatment of SMEs.

2. Directive on major accident hazards of certain industrial activities (82/501/EEC)

a. Purpose:

Requires operators of sites handling more than threshold quantities of certain dangerous substances to undertake full hazard surveys, explain danger to neighbouring public, and help public authorities to produce off-site emergency plans. After Bhopal disaster, Commission propose (in draft amending directive) lower threshold for methyl-isocyanate, chlorine and phosgene which in UK alone would bring more than 100 extra sites into the net.

b. Burden:

Scope and rigour of controls do not reflect sufficiently the balance between the degree of hazard involved and compliance costs for industry.

c. Solution:

List of substances and thresholds should be determined on basis of adequate technical evidence with indication of compliance costs. Consideration should be given to relaxation of thresholds for substances not thought to constitute a major accident hazard.

3. ECSC regulation on steel stockholders' price rules (1835/83/ECSC)

a. Purpose:

In conjunction with other ECSC measures, it aims to stabilise steel prices by requiring stockholders to maintain price lists, and to submit them to Government.

b. Burden:

Extra paperwork for stockholders, particularly small ones. A few stockholders are inspected each year under the rules.

c. Solution:

Relaxation or non-renewal when instrument expires at the end of 1985.

4. Administration of state aids rules of EEC Treaty (Articles 92-94)

a. Purpose:

Treaty requires Commission to be notified of, and give approval to, all aids granted by member states to enterprises

b. Burden:

In the case of justified aids, pace of Commission scrutiny not always consistent with commercial needs of enterprises, eg may not fit in with investment lead-times

c. Solution:

Commission to consider scope for streamlining procedures.

5. Administration of Competition rules of EEC Treaty (Articles 85-90)

a. Purpose:

Treaty prohibits restrictive practices etc affecting trade between member states unless specifically exempted by Commission.

b. Burden:

Amount and nature of data required in support of notifications (if notification format changed as proposed by Commission).
Legal uncertainty if Commission's response to notification is delayed.

c. Solution:

Commission efforts to streamline procedures (reorganisation, block exemptions, "opposition procedure") much welcomed. Other block exemptions in the field of innovation (eg licensing of know-how, joint ventures) could usefully be considered. Explanatory guidelines on research and development block exemption would be helpful. Commission might consider again whether volume and complexity of data required in support of notification are essential in all cases.

EMPLOYMENT AND SOCIAL AFFAIRS

6. Directive on collective redundancies (75/129/EEC)

a. Purpose

Requires both advance notification (to SOS for Employment) of redundancies of 10 or more employees and advance consultation with recognised trade unions.

b. Burden:

Compliance cost and reduction of flexibility in labour market.

c. Solution:

Increase threshold level to 100 employees.

7. Equal treatment directive (76/207/EEC)

a. Purpose:

Requires equal treatment of men and women in access to employment, vocational training and promotion and working conditions.

- b. Burden:
Potentially onerous for SMEs. UK implementing legislation (Sex Discrimination Act 1975 and parallel N Ireland legislation) currently provides exemption for SMEs employing five or less people. ECJ in November 1983 upheld Commission's case that this (and other features) did not meet requirements of directive.
- c. Solution:
Amend directive to allow exemption for small firms.

8. Directive on acquired rights (77/187/EEC)

- a. Purpose:
Safeguards employees' rights when business or part of it in which they work is transferred to new employer. Those employed automatically become employees of new owner on same terms and conditions. Trade unions in undertakings transferred have information and consultation rights.
- b. Burden:
Obligations on employers reduce likelihood of business being transferred as going concern, so reducing employment. Consultation procedures and disproportionate amount of litigation also impose costs and administrative burdens.
- c. Solution:
Repeal totally, or remove SMEs from scope by introducing threshold of (say) 100 employees.

9. Regulations on labour costs surveys (3149/83/EEC and earlier regulations)

- a. Purpose:
Collection from firms of information about labour costs. Up to now, three-yearly (1975, 1978, 1981 and 1984). Henceforth to be four-yearly.
- b. Burden:
Administrative and cost burden of form-filling.

- c. Solution:
Abandon system. Or cut frequency to (say) six years and reduce or remove requirement on SMEs to participate.

10. Management of European Social Fund (Commission Decision 83/673/EEC)

- a. Purpose:
Rules require submission of applications to cover one calendar year only. Decisions on funding not made until at least March/April in that year.
- b. Burden:
Uncertainty together with cash flow problems are severe disincentives to firms seeking support for training. This amounts to discrimination against such applicants in administering Community funds.
- c. Solution:
Amend rules to allow applications to cover any 12-month period, not just calendar year.

VALUE-ADDED TAX

11. 6th VAT directive (77/388/EEC - Article 24(2))

- a. Purpose:
Allows member states to set an exemption limit for registration for VAT by small businesses and, if the limit was above the minimum at the time the directive was implemented, to maintain the value in real terms.
- b. Burden:
Member states unable to be sufficiently flexible in determining the limits.
- c. Solution:
Directive should be amended to recognise the differences in the control of small traders in each of the member states and to allow a harmonised upper threshold not less than that of the highest already permitted, ie Ireland's at £(Irish) 25,000.

ENERGY

12. Regulation on notifying crude oil imports (1055/72) and crude oil exports (588/75)

a. Purpose:

To provide the Commission with company-disaggregated details of imports and exports of crude oil by companies trading at above a cut-off level of 100,000 tonnes per annum.

b. Burden:

Administrative burden on 25 UK oil companies who provide annual details.

c. Solution:

Review whether regulations are necessary.

13. Regulation on notifying investment projects in petroleum, gas and electricity sectors (1056/72)

a. Purpose:

To provide the Commission with details of installed and planned capacities:

- (i) Refining: distillation plant, reforming and cracking plants.
- (ii) Transport: crude oil pipelines, and product pipelines.
- (iii) Supply/distribution: tanks for storing crude oil and products.

b. Burden:

Administrative burden on 25 UK companies who provide annual details.

c. Solution:

Re-examine the use to which data on pipelines and storage are put with a view to reducing the frequency of reporting or to discontinuing these aspects of the survey.

14. Directive on information and consultation on oil and petroleum prices (76/491)

a. Purpose:

To provide the Commission with data on the prices of crude oil and petroleum products in pursuit of the principle of price transparency and the objective of establishing a common energy policy for the Community.

b. Burden:

Cost to UK oil companies of completing the necessary monthly and quarterly returns and cost to Government of administering and processing data from these returns.

c. Solution:

Consider reducing the amount of information collected.

TRANSPORT

15. Regulation on drivers' hours (543/69) and Commission proposal for amendment (5937/1/84)

a. Purpose:

To limit the hours of driving and provide sufficient rest for lorry and coach drivers.

b. Burden:

The wide scope of the regulations which catch operators who are not directly connected with the transport industry but who need heavy goods vehicles to carry on their business.

c. Solution:

Exempt such operators from regulations and set more flexible rules for operators who remain covered.

16. Regulation on tachographs (1463/70) and Commission proposal for amendment (5937/1/84)

a. Purpose:

To aid application and enforcement of Drivers' Hours Regulation (543/69).

b. Burden:

As 15 above. Additionally, the Commission propose time-consuming and complex rules on tachograph chart issue, serial numbering and registration by vehicle operators.

c. Solution:

Exempt "de minimis" driving and revise or abandon proposals on charts.

17. Regulation for authorisation of regular and special regular coach services (517/72)

- a. Purpose:
Rules for authorising such services.
- b. Burden:
Prevents authorisation of new competing services so preserving monopoly of existing land passenger transport undertakings.
- c. Solution:
Modify regulation (especially article 8) to allow competition on international regular routes.

18. Authorisation procedures for bus and coach operators (516/72 and 517/72)

- a. Purpose:
Regulations 516/72 and 517/72 prescribe authorisation procedures for, respectively, shuttle services and regular services.
- b. Burden:
Procedures are too bureaucratic and lengthy.
- c. Solution:
Simplify authorisation procedures or, ideally, abolish them.

AGRICULTURE

19. Regulations on Community aid for peas, beans and lupins (1431/82/EEC etc)

- a. Purpose:
Regulations controlling the payment of aid for peas, field beans and lupins. This aid is intended to encourage the production of protein crops in the Community mainly for animal feed.
- b. Burden:
Time-limits and record-keeping requirements excessively precise.

c. Solution:

Keep the regulations but simplify to eliminate/moderate the burdens identified above. (NOTE: Details of regulations may change in the light of the 1985/86 price-fixing.)

20. Regulations on beef and veal (805/68/EEC etc)

a. Purpose:

Detailed regulations subordinate to that specified above to discourage abuse of schemes for private storage aid and for sales of intervention beef for processing.

b. Burden:

Arduous rules on release of securities lodged with IBAP and on processing sales.

c. Solution:

Modify provisions of regulations to moderate burdens. (NOTE: Details of regulations may change in the light of the 1985/86 price-fixing.)

21. Regulations on the sheep annual premium scheme (3007/84/EEC)

a. Purpose:

To harmonise member states' administration of the Community's sheep annual premium scheme.

b. Burden:

One hundred day retention period for ewes can conflict with sound commercial and husbandry practice. Requirement that tugged ewe-lambs should be visibly in-lamb is unenforceable and confuses the farming community.

c. Solution:

Keep the regulations but modify to eliminate the burdens identified above. (NOTE: Details of regulations may change in the light of the 1985/86 price-fixing.)

22. Regulation on the suckler cow premium scheme (1357/80/EEC)

a. Purpose:

Income support for quality beef producers.

b. Burden:

Over-rigid rule on number of cows to be maintained to avoid forfeiture of whole of premium on all cows. Rule relating to main occupation test difficult for some small farmers to comply with.

c. Solution:

Keep the regulation but modify to eliminate the burdens identified above. (NOTE: Details of regulations may change in the light of the 1985/86 price-fixing.)

B. PROPOSED COMMUNITY MEASURES

INDUSTRY, ENVIRONMENT, CONSUMER AFFAIRS

1. Proposal to amend or re-interpret directive amending for the sixth time directive 67/548/EEC on classification, packaging and labelling of dangerous substances (79/831/EEC)

a. Purpose:

Directive requires inter alia notification to the Commission of technical information about new chemical substances placed on the market, but allows partial exemption where less than one tonne is marketed in the EC in a year.

b. Burden:

Exemption avoids administrative burden on firms dealing in small quantities, but Commission propose to remove it.

c. Solution:

Existing arrangements should be maintained.

2. Draft directive on pollution in titanium dioxide industry (189/83 and 303/84)

a. Purpose:

To set uniform emission standards to control TiO₂ pollution and to remove distortions of competition arising from different pollution control measures.

b. Burden:

Unnecessary and substantial cost increase in producing what is often only a marginally profitable product.

c. Solution:

Achieve the objective by less burdensome means.

3. Draft directive on limit values for discharges of certain dangerous substances (772/84)

a. Purpose:

To control, by means of limit values and quality standards, discharges into water of four chemicals, with the possibility of further Commission proposals to extend control over up to 125 further substances.

b. Burden:

Unnecessary cost increase if standards too stringent, and no rational justification for inclusion of carbon tetrachloride and chloroform.

c. Solution:

Directive to cover only those substances that meet established criteria and warrant strict control at Community level. Standards set should protect the environment but not be unnecessarily stringent.

4. Draft 9th directive on company law (no proposal yet)

a. Purpose:

To provide a harmonised legal structure for unified management of a PLC which is controlled by another undertaking and of the other undertaking itself.

b. Burden:

Directive would make no contribution to the more effective operation of the internal market and would set an undesirable precedent for small companies.

c. Solution:

Drop proposal.

5. Draft directive on commercial agents (670/76 and 773/78)

a. Purpose:

To harmonise member states' laws on relations between self-employed commercial agents and their principals.

b. Burden:

Directive would impose additional administrative burdens (eg mandatory written contracts) and costs (eg indemnity provisions) on principals making use of commercial agents.

c. Solution:

Drop proposal or recognise validity of contracts freely negotiated in the marketplace.

6. Draft directives on unit pricing for foodstuffs (4687/84) and non-foodstuffs (4083/84)

a. Purpose:

To extend unit pricing to food pre-packed in pre-determined quantities and to non-food products.

b. Burden:

Cost increases for manufacturers and retailers with only marginal improvement in information for consumers.

c. Solution:

Directives should instead provide for standardisation of package sizes into ranges based on a simple arithmetical relationship.

7. Draft directive on consumer credit (342/84)

a. Purpose:

To harmonise member states' laws on the protection of consumers involved in credit transactions.

b. Burden:

Joint and several liability provisions will apply to all debtor-creditor-supplier agreements so exposing banks, credit card companies and others to the risk of having to defend a host of small claims which could be disproportionately expensive to investigate.

c. Solution:

There should be a separate financial limit specified in the directive below which the concept of joint and several liability should not apply.

8. Draft directive on package holidays (no proposal yet)

a. Purpose:

To harmonise consumer protection afforded to people taking package holidays. Commission have yet to table a formal proposal.

b. Burden:

Proposal would establish bureaucratic administrative procedures which would add to the cost of package tour operators without providing any protection for consumers additional to those available under the existing and effective voluntary arrangements.

c. Solution:

Do not pursue proposal.

EMPLOYMENT AND SOCIAL AFFAIRS

9. Draft directive on parental leave and leave for family reasons (11118/83 and 10681/84)

a. Purpose:

To entitle both men and women to parental leave and leave for family reasons.

b. Burden:

Increased burdens and costs for employers so damaging business competitiveness.

c. Solution:

Drop proposal.

10. Draft directive on voluntary part-time work (4053/82 and 4138/83)

a. Purpose:

To increase the opportunities for part-time work; improve its status; improve conditions for part-time workers; and put their pay and benefits on the same basis as for full-time workers.

b. Burden:

Increase in employers' costs. Reduction in flexibility which is major attraction of part-time work for both employers and employees. Net effect likely to be reduction rather than increase in opportunities for such work.

c. Solution:

Drop proposal.

11. Draft directive on temporary work (6886/82 and 6365/84)

a. Purpose:

To control misuse of temporary labour and to give certain temporaries much the same social protection and employment rights as permanent employees. Also provision for control of employment agencies.

b. Burden:

No evidence that proposed controls are needed or wanted.
Would increase administrative costs, impair competitiveness
and so reduce creation of new jobs.

c. Solution:

Drop proposal.

12. Draft directive on equal treatment in occupational social
security schemes (6871/83)

a. Purpose:

To extend equal treatment for men and women to occupational
social security schemes.

b. Burden:

Equalisation of provision for women and men may increase
employers' costs.

c. Solution:

Reasonable timetable for implementation, and specific amendments
to proposal (eg exemption for schemes with small number of members).

13. Draft directive on equal treatment in self-employed occupations
(5825/1/84)

a. Purpose:

To ensure equal treatment for men and women in self-employed
occupations and for their spouses who participate in the business
but do not have formal status either as a partner or as an employee.

b. Burden:

Could lead to claims in the courts against businesses to secure
the general entitlements which are proposed. Extra administrative
activity would be imposed on small businesses if the draft were to
be properly enforced and in order for general entitlements to be
given.

c. Solution:

Drop the proposal.

14. Draft directive on procedures for informing and consulting workers
(the "Vredeling" directive) (8256/83)

a. Purpose:

To require head offices of large companies (including multinationals) regularly to inform employees in all branches of the organisation, including subsidiaries, about the group's affairs and to consult affected employees about major decisions (eg closures, transfers of business, changed organisation and production methods).

b. Burden:

Impairment of efficiency and competitiveness through introducing delays and extra costs into decision-making and disrupting existing industrial relations systems.

c. Solution:

Drop proposed directive.

15. Draft 5th directive on company law (8949/83)

a. Purpose:

To distinguish between directors of a Public Limited Company responsible for "management" and those responsible for their supervision; to provide for worker participation at board level; and to harmonise some other aspects of company law.

b. Burden:

As with the Vredeling directive (14 above).

c. Solution:

Drop proposal.

16. Draft directive on the protection of workers and the public from
microwave radiation (8308/80)

a. Purpose:

The draft purports to harmonise member states' provisions on protection from microwaves. In fact no member state currently has statutory provisions though some apply standards for guidance.

- b. Burden:
Evidence of risk from microwaves is not sufficient to justify the directive. Commission is nevertheless preparing a revised proposal on electro-magnetic fields.
- c. Solution:
Proposal should not be pursued unless and until scientific evidence becomes available to demonstrate need for protective legislation.

17. Draft directive on the protection of workers from noise at the workplace (8818/82)

- a. Purpose:
To harmonise member states' provisions on the protection of workers from noise through setting common exposure limits and associated protective measures.
- b. Burden:
Proposal to require regular hearing tests for workers exposed to relatively low levels of noise would impose considerable costs on firms, especially SMEs.
- c. Solution:
Directive should require regular hearing tests, if at all, only for workers exposed to very high noise levels.

VALUE-ADDED TAX

18. Draft 12th VAT Directive (4582/83)

- a. Purpose:
To harmonise expenditure on which input tax may not be deducted. For the UK this would involve a considerable increase in the items of expenditure involved.
- b. Burden:
Would lead directly to increase in costs of production. The blocking of input tax deductions of all expenditure on business travel including that on food, drink and hotels would be detrimental, for example to organisers of trade fairs.
- c. Solution:
Reconsider advisability of proposal.



Ref. A085/1345

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report that in the European Parliament on 9 May the attempt by some members to transfer the United Kingdom's 1,000 million ecu abatement for 1984 from the revenue to the expenditure side of the budget had failed. The provision for abatement on the revenue side, in accordance with the Fontainebleau agreement, is now expected to go through as part of the 1985 budget. This does show how far opinion has moved towards our position as a result of our rigid insistence on the letter of the Fontainebleau agreement.

2. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 13-15 May which has not yet reached a farm price settlement for 1985-86 because of the intransigence of the Germans on cereal prices. The Commission put forward a final compromise package which, for the United Kingdom, was better than expected: in particular, it reinstated the beef variable premium unchanged for another year, did not add to budgetary expenditure in 1985 and added only an estimated 74 million ecu in 1986. On cereals the Commission proposed a cut of 2 per cent in support prices (compared to the Commission's original 3.6 per cent and the Presidency's 1.8 per cent), but added an adjustment of the monthly scale equivalent to another 0.5 per cent cut and the ending of the end-of-season carryover payment for cereals (an excellent proposal saving about 120 million ecu in 1985 and about 143 million ecu in 1986). On milk the proposal was basically unchanged but there would be an extra 58,000 tonnes milk quota for the Republic of Ireland in 1984/85 and 1985/86. There would be a small relaxation of the original proposals for fruit and tobacco. A



number of Ministers, including Mr Jopling, had reservations on particular points and a subsequent Presidency attempt to further modify the package fortunately attracted little enthusiasm. But in any event the Federal Republic of Germany totally rejected the cereal proposals and made clear that they were not prepared to be outvoted. Chancellor Kohl himself wrote to Monsieur Delors, President of the Commission, stating that very important German interests would be involved in any reduction in the price of cereals, rapeseed or butter. So far the Germans do seem to have fallen into the box of either being outvoted or being forced to invoke the Luxembourg compromise. Herr Kiechle, the German Agriculture Minister, has had to return to Bonn to consult his colleagues again before the Council resumes at 5.00 pm on 15 May. The tactical position therefore remains that considered by Cabinet on 9 May.

3. You are meeting Chancellor Kohl at Chequers on 18-19 May. The Foreign Affairs Council meets on 20-21 May, the Consumer Affairs Council on 21 May, the Budget Council on 22 May, the Transport Council on 22-23 May and the Development Council on 23-24 May. Monsieur Delors, the President of the Commission, is visiting you on 24 May. If farm prices are not agreed this week, there will be a further Agriculture Council on 20-21 May.

RTA

ROBERT ARMSTRONG

15 May 1985

(2)



10 DOWNING STREET

Prime Minister

You might glance
at OD(E)'s minutes.

They record agreement
on a UK position on
EUREKA.

Also agreement to
introduce legislation on
the Revised Own Resources
Decision and the IGA
in June, ^{completing} ~~completely~~ as
many stages as possible by the
time the House rises. CDP 15/5

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

14 May 1985

PARLIAMENTARY HANDLING OF THE OWN RESOURCES DECISION
AND THE INTER-GOVERNMENTAL AGREEMENT

The Prime Minister has, of course, already set out her views on this matter. She has however seen the Lord Privy Seal's minute of 13 May to the Foreign Secretary and has commented: "I think this is running it very close."

I am copying this letter to the Private Secretaries to the Lord Privy Seal, the Lord President, the Minister of Agriculture, the Attorney General, the Solicitor General, the Chancellor of the Duchy of Lancaster, the Chief Whip, the Lord Advocate, the Economic Secretary, Lord Denham, Sir George Engle and Sir Robert Armstrong.

(CHARLES POWELL)

C R Budd Esq
Foreign and Commonwealth Office

CONFIDENTIAL



Budget

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street
LONDON
SW1

*NSOM
(until results
of OD (E) discussion
is available).*

13 May 1985

*CDP
13/5.*

Dear Geoffrey

@ Summit

EUREKA

Since we first heard of the French proposals in Dumas' letter to you of 17 April, while EUREKA has gained nothing in precision it has acquired a life and a momentum of its own.

For all their reservations about the proposals, other Member States recognise that the French concern about the failure of Europe to keep pace with the USA and Japan in high technology areas is justified and that present arrangements, either on a Community or bilateral basis, to promote co-operation are either rigid or are not commensurate with the challenge. So the danger is that between now and the Milan Summit we shall be faced with developments born of disorganised discussion, political compromise and special interest. It would not serve our interests if either the Commission succeeds in taking over the concept as a device for pursuing their aspirations to double the Community's R & D budget, nor if another Franco-German understanding emerged with satellite interest from Italy and the Netherlands. Either outcome would undervalue, and push to one side, the importance which we attach to a wider, more open market stimulating technological co-operation and making it possible to exploit the fruits of Europe's R & D potential.

Yet if we are not to be swept along we need to take an effective initiative ourselves. That means something with the elan of EUREKA.

MY2/MY2ABC



My proposal is that the Milan Council should invite Viscount Davignon, with the support of nominated "correspondents" at Ministerial level in interested [European] [Community] capitals, to look into the modalities [non-financial as well as financial] for strengthening technological collaboration; suggest priority areas and specific projects/programmes; and to report back to the [autumn] European Council for its consideration.

If this device was successful ^{13 MAY 1985} most importantly it would

- buy some time, which we all badly need, if EUREKA is to be turned into a workable mechanism;
- given Viscount Davignon's experience and contacts, strengthen the industrial input into the development of whatever emerges;
- give us a better opportunity to inject some of our own thinking - for example, on the contribution of deregulation and an improved internal market framework for enterprise; and by seeking to identify market-led priorities for co-operative action.

I hope we can discuss this proposal at OD(E) tomorrow. If the basic approach commands general acceptance, we can go on to flesh out the details as a matter of urgency. I have indicated some of these in the passages in square brackets.

I am sending a copy of this letter to the Prime Minister, to the other members of OD(E) as well as to Sir Robert Armstrong and Sir Robin Nicholson.

GEOFFREY PATTIE

M12/M12AES

Econ PPT: Bonn Summit

AMBASSADE DE FRANCE
LONDRES

17th April 1985

Dear Mr Appleyard,

I have just received the text of a letter from
Monsieur Roland Dumas, Ministre des Relations Extérieures,
addressed to Sir Geoffrey Howe.

I enclose it herewith.

Yours Sincerely
A. Grenier

A. GRENIER
Minister Counsellor

Mr Wall (ECD) (I)

✓ cc PS

PS/Lady Young

PS/Mr Rifkind

Mr Braithwaite

Mr Derek Thomas

Mr Renwick

Mr Jenkins

Mr O'Neill

Mr Blathernick (ESSD)

Mr Houston

Mr A. Ferguson

L.V. APPLEYARD, Esq.,
Private Secretary to
the Secretary of State for Foreign
and Commonwealth Affairs

Downing Street

London SW1A 2AL

Advice please,
coordinated with
ESSD.

ABdd
17

Monsieur le Ministre et cher ami,

Nous constatons aujourd'hui une accélération spectaculaire de la recherche-développement, en particulier pour ce que l'on appelle les technologies de pointe. L'Europe n'a pas d'avenir si elle ne les maîtrise pas. Dans ce but, à partir de leurs besoins, de leurs intérêts et de leurs objectifs propres, les pays européens doivent s'organiser très rapidement. C'est une entreprise à la fois difficile et stimulante, et les succès communs récents -Airbus, Ariane, Esprit, Jet- indiquent déjà la voie à suivre, et montrent que l'Europe, si elle s'en donne les moyens, peut aussi être un exemple. Après avoir surmonté de nombreux défis depuis l'appel de Robert Schuman, il y a 35 ans, elle doit donc relever aujourd'hui le défi technologique.

Il conviendrait de mettre en place sans délai l'Europe de la technologie, permettant en tant que de besoin une coopération d'égal à égal avec nos grands partenaires internationaux, avant tout les Etats-Unis et le Japon. Une Europe de la sous-traitance, une Europe travaillant sous licence ne serait pas l'Europe.

C'est pourquoi, en accord avec M. Genscher, je vous propose une initiative européenne, ouverte à tous les pays européens intéressés, qui aurait pour objet la mise en place d'une Europe de la technologie.

Ce projet consisterait à constituer une agence de coordination de la recherche européenne (en anglais : European Research Coordination Agency, soit Eureka), dont les structures demeureraient très légères. Cette agence, dotée de l'autonomie juridique et financière, pourrait être chargée d'organiser de façon cohérente les

.../...

activités de recherche développement des pays intéressés, par exemple pour les sujets suivants :

- optronique
- matériaux nouveaux
- lasers de puissance
- grands ordinateurs
- intelligence artificielle
- micro-électronique très rapide et très miniaturisée :
le programme Esprit est tout à fait approprié ; il s'agit seulement de l'accélérer
- Espace : là aussi le programme défini à Rome répond aux intérêts des Européens, mais devrait être encore accentué.

Pour chacun de ces secteurs, un "Comité de gestion" réunissant les gouvernements, les entreprises et les instituts de recherche, serait mis en place en vue d'arrêter un programme européen coordonné. L'expérience, tirée du programme Esprit, de financement conjoint à égalité par les pouvoirs publics et par les entreprises pourrait être reprise et généralisée, en tenant compte des caractéristiques de chaque secteur.

Cette action de l'agence, à laquelle la Communauté serait associée, suppose également une accélération parallèle des efforts propres de celle-ci en ce qui concerne l'ouverture réciproque des marchés publics, la définition de normes européennes et les actions de formation. A cet égard, le dernier conseil européen a défini à Bruxelles des orientations importantes concernant les nouvelles technologies. Mais ces dispositions doivent être rapidement complétées par des mesures pratiques impliquant directement les entreprises et associant effectivement les programmes de recherche des gouvernements

Les recherches visées auront de très nombreuses retombées dans tous les domaines civils, bien entendu, mais aussi dans le domaine militaire. A cet égard je propose de distinguer entre, d'une part les fonctions militaires, à des fins pacifiques car

.../...

concernant la sécurité, qui consistent à écouter, voir et communiquer, et, d'autre part l'introduction d'armes dans l'espace, qui est d'une toute autre nature.

Cette initiative, Monsieur le Ministre, à laquelle la République Fédérale d'Allemagne a accepté de s'associer, ne prendra son sens que si elle permet de déboucher sur un projet européen rassemblant le plus grand nombre de nos partenaires européens.

C'est pourquoi j'attends avec le plus vif intérêt de connaître vos réactions à ces suggestions. Je fais part de cette même proposition aux autres membres de la Communauté et au Président de la commission.

Nous pourrions parler prochainement de ce projet de façon informelle en marge de la réunion de l'UEO à Bonn et de la réunion "Gymnich" à dix en Italie en mai prochain. Une réunion ad hoc pourrait bien entendu être organisée.

En attendant vos propres réactions et propositions, je vous prie, Monsieur le Ministre et cher ami, de croire à l'expression de mes sentiments les meilleurs.

signé : Roland Dumas.

Dear Sir Geoffrey

We are today witnessing a spectacular acceleration in research and development, particularly in what are called the advanced technologies. Europe has no future unless it can master them. To that end, on the basis of their own needs, interests and objectives, the countries of Europe must organise themselves with all speed. It is both a difficult and a stimulating undertaking and recent joint successes - Airbus, Ariane, Esprit, Jet - already point the way and show that Europe too can set an example if it gives itself the means to do it. After rising to many challenges since Robert Schuman first called on it 35 years ago, it must now, therefore, meet the technological challenge.

The Europe of technology must be established without delay, enabling us, as and when the need arises, to cooperate on an equal footing with our great international partners, above all the United States and Japan. A Europe of sub-contractors, a Europe working under licence would not be Europe.

That is why, in agreement with Herr Genscher, I am proposing to you a European initiative, which would be open to all European countries interested and would have the aim of establishing a Europe of technology.

The project would consist in forming a European Research Coordination Agency (English acronym: Eureka) which would remain very lightly structured. This agency, which would have legal and financial autonomy, could be given responsibility for organizing research and development activities in the countries concerned in a

coherent manner, covering the following subjects, for example:

- optronics
- new materials
- power lasers
- large computers
- artificial intelligence
- very high-speed and highly miniaturised micro-electronics: the Esprit programme is perfectly appropriate; it would simply be a matter of speeding it up
- space: here too, the programme defined in Rome meets European needs but should be given even more emphasis.

For each of these sectors, a "Management committee" would be set up, bringing together Government, industry* and research establishments, with the aim of drawing up a coordinated European programme. The experience gained from the Esprit programme, of joint financing on equal terms by the public authorities and industry, could be repeated and generalised, taking the characteristics of each sector into account.

This action by the agency, with which the Community would be associated, also presupposes a parallel acceleration of the Community's own efforts to promote the opening of public contracts on a reciprocal basis, the definition of European standards and action on training. In this connection, the last European Council in Brussels set important guidelines concerning the new technologies. But these provisions must be speedily complemented by practical measures involving industry directly and associating Government research programmes effectively.

The research envisaged will of course have very extensive spin-off effects in all civil sectors, but also in the military field. In this connection, I suggest to you that a distinction be drawn

* Translator's note : Literally "enterprises" or "undertakings". This includes public and private concerns and we have used the term "industry" throughout for the sake of simplicity.

between, on the one hand, military functions - for peaceful purposes since they concern security - which consist in listening, seeing and communicating, and, on the other hand, the introduction of arms in space, which is quite different in nature.

This initiative, Sir Geoffrey, with which the Federal Republic of Germany has agreed to be associated, will come into its own only if it offers the possibility of leading to a European project involving most of our European partners.

For this reason, I look forward with the greatest interest to hearing your reactions to these suggestions. I am putting this same proposal to the other members of the Community and to the President of the Commission.

We could talk about this project soon informally in the margins of the WEU meeting in Bonn and the "Gymnich" meeting à dix in Italy in May. An ad hoc meeting could of course be organised.

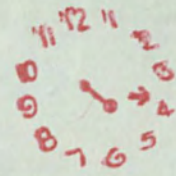
I await your own reactions and proposals and remain meanwhile yours etc. [complimentary close]

[signed]

Roland Dumas

EN MEXIA?

13 MAY 1985





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13/5

FCS/85/130

Secretary of State for Employment

Sex Discrimination Act: European Court Ruling

1. Thank you for your letter of 2 May. ^{will request} I agree that we should continue to voice our concern about the Court's ruling against the Sex Discrimination Act's derogation for very small firms. There appears to be little benefit to be gained from applying the SDA to very small firms which are often family concerns; and to remove the derogation would clearly run counter to our efforts to generate the right climate for small businesses to flourish.
2. As you recognise, this issue is linked to David Young's work on deregulation and the Prime Minister's initiative at the March European Council. As regards the Community aspect of this, we hope to be in a position in the next week or two to give the Commission a list of forty or so directives which we believe should be amended or annulled to reduce the burden they impose on business. The application of the Equal Treatment Directive to small firms is included in the proposed list.
3. I attach great importance to establishing a good working relationship with the Commission on deregulation. A good start has been made. To attain objectives we must avoid creating the impression that we are using deregulation as a means simply to block Community measures we dislike. I think the best approach in your letter to your Community colleagues will be to concentrate on the substantive issue - that it would be unnecessary and unproductive to apply the



Sex Discrimination Act's provisions to small firms. The European Council's views on the need to reduce the administrative burdens on small businesses could then be cited in support of the main argument. I do not believe that this presentation would weaken your case for discussion on 13 June.

4. By the time of the 13 June Social Affairs Council we shall be in a position to take account not only of our further exchanges with the Commission but also of the results of David Young's proposed visit to some EC capitals to encourage others to deregulate domestically and support complementary action at the Community level.

5. I am copying this letter to the Prime Minister, to members of "H" Committee, Norman Tebbit, David Young, Michael Havers, John Gummer and Sir Robert Armstrong.

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

GEOFFREY HOWE

Foreign & Commonwealth Office
13 May 1985

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(2)



CCW
PC

Prime Minister

FOREIGN AND COMMONWEALTH SECRETARY

You should see this, as it conflicts with your own view that we should try to get Committee stage

1 think this is moving it very close not

PARLIAMENTARY HANDLING OF THE OWN RESOURCES DECISION AND THE INTER-GOVERNMENTAL AGREEMENT

and second Reading out of the way in July

CDP
13/5

1. Thank you for your minute of 9 May. I have also seen the Attorney General's minute of 8 May and learned of the Prime Minister's views. I very much agree that a discussion in OD(E) will be a useful next step; the Chief Whip and I will attend.

2. I also agree that timing is the essential question we have to determine and it is consideration of this issue which has delayed my reply to the Economic Secretary's letter of 30 April. However, I also believe that timing considerations may affect the form of the legislation; we should not therefore adopt an unduly rigid posture on the form at this stage.

3. For the record, I agree with you and Ian Stewart that a single Bill dealing with both aspects is preferable, provided that this does not of itself present us with further difficulties. (I should say at this stage that some of the difficulties I have in mind could best be avoided by ensuring that the Scrutiny and Treasury Select Committees were kept fully in the picture and given the opportunity to make an appropriate contribution to the debate). I will assume for the purposes of the remainder of the argument that there will be a single Bill.

4. On the timing of legislation, there are three main options:

a. introduction as soon as possible - which I understand could not be before the week beginning 17 June - rapid progress through House of Commons - House of Lords Stages to begin in July. Royal Assent in October;

b. introduction and all Stages in both Houses in the spillover;

c. introduction at the beginning of the new Session; rapid progress in both Houses. Royal Assent perhaps by 19 December.

5. I would rule out option b. entirely; there is simply not enough time in the spillover to rely on our getting a Bill through both Houses. Option a. could give real difficulties in the House of Commons. The run-up to the Summer Adjournment is not the time to be dealing with such highly charged matters and I would wish to avoid it if at all possible. The Opposition would seize on the timing problems involved and there could well therefore be implications for the dates of the Summer Adjournment. Option c. would be tight for mid-December Royal Assent without some co-operation; there must be a risk that Royal Assent would be in the New Year.

6. My own preferences would be for the Bill to be drafted and made ready for introduction as soon as possible. If events in Europe and the general consensus compelled early introduction, it could begin its journey in mid-June. If, however, there were any delay beyond mid-June in its start, I prefer that it should not be until the new Session.

7. That leaves the timing of any possible Estimate. On balance I think that the situation is so fluid that we could well do without the additional complication of an Estimate Stage. I am strengthened in my view by the cogent arguments put forward by the Attorney for dealing with the IGA by the s. 1(2) route. If we go down this road we shall have maximum flexibility in timing and, provided we ensure that the Select Committees have time to do their work, no more difficulty than the other form of primary legislation.

8. In summary, therefore, I suggest:

a. A Bill covering the IGA and the ORD.

b. The form of the Bill being to add both documents to the list of Community treaties in s. 1(2) of the European Community Act.

c. If at all possible, to avoid debates in the House of Commons in July.

9. Finally, could I say that the debates on the Bill, in whatever form will be very difficult and it would be most helpful if you could take part in them yourself.

10. I am copying this minute to the Prime Minister, the Lord President of the Council, the Minister of Agriculture, the Attorney General, the Solicitor General, the Chancellor of the Duchy of Lancaster, the Chief Whip, the Lord Advocate, the Economic Secretary, Lord Denham, Sir George Engle and Sir Robert Armstrong.

WJB

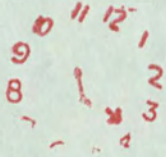
W J B

13 May 1985

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Budget

173 MAY 1985





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SECRETARY OF STATE FOR TRADE AND INDUSTRY

Draft EC Directive on Product Liability

1. Thank you for your letter of 7 ^{with CBP} May concerning your review of our negotiating position on the draft EC directive on product liability.
2. In view of the fact that our essential requirements would be met by the latest Presidency compromise, I agree that we should aim to reach agreement at the Consumer Affairs Council on 21 May on the basis set out in your letter.
3. I am sending copies of this minute to the Prime Minister, members of OD(E), the Lord Chancellor, the Lord Advocate, Norman Fowler, Tom King and Sir Robert Armstrong.

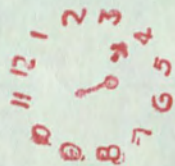
GEOFFREY HOWE

Foreign and Commonwealth Office

13 May 1985

EURO PA Budget

13 MAY 1985



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FM PARIS 101635Z MAY 85 AMENDED DISTRIBUTION 13 MAY 1985
TO IMMEDIATE F C O [FRAME GENERAL]
TELEGRAM NUMBER 398 OF 10 MAY

INFO IMMEDIATE UKREP BRUSSELS, PRIORITY OTHER EC POST, MADRID, LISBON
MIPT (NOT TO ALL): MITTERRAND AND EUROPEAN UNION

SUMMARY

1. AT AN INFORMAL PRESS BRIEFING YESTERDAY MITTERRAND LET IT BE UNDERSTOOD THAT HE HAS NO GREAT HOPES OF PROGRESS AT THE MILAN EUROPEAN COUNCIL AND NO SURPRISE IN STORE. APPARENTLY HE DOES NOT INTEND TO PRESS FOR AN INTER-GOVERNMENTAL CONFERENCE TO AMEND THE TREATY OF ROME BUT WOULD LIKE TO GIVE A NEW IMPETUS TO POLITICAL UNION, POSSIBLY THROUGH A CONFERENCE OF HEADS OF GOVERNMENT OF THOSE STATES WHICH WISH TO MOVE FASTER.

DETAIL

2. MITTERRAND GAVE AN INFORMAL BRIEFING TO SELECTED CORRESPONDENTS, INCLUDING HOUSEGO OF THE FINANCIAL TIMES, ON A VARIETY OF SUBJECTS AT THE ELYSEE YESTERDAY. APART FROM THE FINANCIAL TIMES, LE MONDE AND LES ECHOS PUBLISHED SHORT ARTICLES TODAY BASED ON HIS BRIEFING. ON EUROPEAN UNION, HE GAVE THEM TO UNDERSTAND THAT HE WOULD NOT MAKE A PROPOSAL AT THE NEXT EUROPEAN COUNCIL FOR AN INTER-GOVERNMENTAL CONFERENCE OF THE TEN TO AMEND THE TREATY OF ROME ON THE BASIS OF THE RECOMMENDATIONS OF THE DOOGUE COMMITTEE. HE DID NOT THINK MRS THATCHER WOULD AGREE ON THE MAIN POINT - THE PRINCIPLE OF MAJORITY VOTING. HE DISCOUNTED THE IDEA THAT HE HAD A SURPRISE TO SPRING. ON THE OTHER HAND, HE INDICATED THAT A JOINT INITIATIVE BY A SMALLER NUMBER OF EC MEMBER STATES MIGHT BE POSSIBLE AND SAUTTER, DEPUTY SECRETARY-GENERAL OF THE ELYSEE, TOLD HOUSEGO AFTERWARDS THAT HE BELIEVED THAT THE PRESIDENT HAD IT IN MIND TO GIVE A PUSH FORWARD TO POLITICAL UNION IN EUROPE THROUGH A CONFERENCE OF THOSE HEADS OF GOVERNMENT WHO WERE SIMILARLY DISPOSED. ACCORDING TO LE MONDE, HE SPECIFICALLY RULED OUT A REFERENDUM ON EUROPE.

3. LES ECHOS DEDUCES THAT MITTERRAND'S COOLING ON THE IDEA OF RELAUNCHING EUROPE AT MILAN DERIVES FROM THE CHILL IN HIS RELATIONS WITH KOHL. LE MONDE THINKS THE STAGE IS SET FOR A TWO SPEED OR VARIABLE GEOMETRY EUROPE, WITH EUREKA AS THE PROTOTYPE.

4. MME GUIGOU (MITTERRAND'S STAFF ADVISER FOR EUROPEAN AFFAIRS) IS OUT OF PARIS TODAY. I WILL REPORT WHEN WE OBTAIN COMMENT FROM HER OR OTHERS AT THE ELYSEE. THE QUAI SEEMS TO HAVE BEEN TAKEN BY SURPRISE (EG MY TELNO 378).

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FM UKREP BRUSSELS 101700Z MAY 85

TO IMMEDIATE F C O

TELEGRAM NUMBER 1711 OF 10 MAY

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

*This seems
quite business-like*

DEREGULATION.

SUMMARY

1. COMMISSION OFFICIALS' THINKING ON THE WAY FORWARD TO THE MILAN EUROPEAN COUNCIL SEEMS TO BE IN THE RIGHT DIRECTION. THEY HAVE COMMISSIONED TOUCHE ROSS TO EXAMINE 2-3 CASE STUDIES IN THE UK AND GERMANY, IN TIME FOR ATTACHMENT TO A PAPER TO BE CIRCULATED FOR DISCUSSION BY CHEFS DE CABINET ON 10 JUNE.

DETAIL

2. BRECKNELL (DTI) AND TWYMAN AND GILBERTSON (ENTERPRISE UNIT) CALLED ON DEFRAIGNE (COMMISSION, DGIII) AND THREE OF HIS STAFF ON 10 MAY TO DISCUSS THE COMMISSION'S FOLLOW-UP TO THE MARCH EUROPEAN COUNCIL CONCLUSIONS ON DEREGULATION.

3. DEFRAIGNE CONFIRMED THAT THE COMMISSION WERE WORKING TOWARDS A REPORT ON 'DEREGULATION AND THE CREATION OF NEW BUSINESS' FOR THE MILAN EUROPEAN COUNCIL. THEIR REPORT WOULD BE LIKELY TO INVITE MEMBER STATES THEMSELVES TO LOOK AT THE BURDEN CREATED BY DOMESTIC REGULATIONS: THE MAIN THRUST OF THE COMMISSION'S REPORT WOULD CONCERN EC LEGISLATION. DEFRAIGNE DID NOT UNDERESTIMATE THE DIFFICULTIES OF ACTION ON THIS FRONT, IN VIEW OF THE COMMISSION'S TRADITION HITHERTO OF REGULATING. HE ENVISAGED THAT THE REPORT MIGHT CONTAIN A COMMITMENT TO DEREGULATE: PROPOSE A METHOD OF ACTION: AND CITE EXAMPLES OF BURDENSOME REGULATIONS. FOR ALL FUTURE PROPOSALS THERE MIGHT BE A SYSTEMATIC ASSESSMENT OF THE ADMINISTRATIVE COSTS, SO THAT THIS ASPECT COULD BE TAKEN EXPLICITLY INTO ACCOUNT IN COUNCIL DISCUSSION. A MORE DIFFICULT QUESTION CONCERNED THE HANDLING OF EXISTING LEGISLATION OR PROPOSALS CURRENTLY UNDER DISCUSSION. IN THIS LATTER CONTEXT, HE HAD THOUGHT IT USEFUL TO COMMISSION WORK BY TOUCHE ROSS, GETTING THEM TO COME UP WITH QUANTIFIED EXAMPLES OF BURDENSOME REGULATIONS. THE STUDY, FOR WHICH 30,000 ECU WAS AVAILABLE, WOULD ONLY BE A FIRST STEP. THE EVENTUAL AIM WOULD BE TO INITIATE A SYSTEMATIC REVIEW OF EC LEGISLATION, TO SEE WHETHER IT STRUCK THE RIGHT BALANCE. THE TIMETABLE FOR THE PRELIMINARY STAGE, LEADING UP TO THE MILAN EUROPEAN COUNCIL, DICTATED CIRCULATION OF A DGIII PAPER TO CHEFS DE CABINET BY 10 JUNE.

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/4. BRECKNELL

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4. BRECKNELL SAID THAT ANY STUDY IN THE RELATIVELY SHORT PERIOD AVAILABLE NEEDED TO BE ACTION ORIENTED. IN THE LIGHT OF OUR OWN EXPERIENCE, WE DID NOT SEE MUCH VALUE IN A LARGE SCALE RELATIVELY SHALLOW ATTITUDE SURVEY, IN WHICH THE ORDINARY SAMPLE OF FIRMS WOULD FIND IT DIFFICULT TO DISTINGUISH BETWEEN NATIONAL AND EC LEGISLATION. IN THE TIME AVAILABLE, IT WOULD SEEM MORE PRODUCTIVE TO SELECT CERTAIN SPECIFIC AREAS AND THEN GET THE CONSULTANTS TO CARRY OUT 2 - 3 IN-DEPTH CASE STUDIES OF THE WAY IN WHICH EC LEGISLATION WAS IMPACTING ON BUSINESS. DEFRAIGNE ENTIRELY SHARED THIS APPROACH.

5. TWO REPRESENTATIVES OF TOUCHE ROSS THEN JOINED THE MEETING. DEFRAIGNE EXPLAINED THEIR REMIT, AND PROPOSED THE FOLLOWING COURSE OF ACTION:

- DISCUSSIONS WITH THE ENTERPRISE UNIT TO FAMILIARISE TOUCHE ROSS WITH THE NATIONAL WORK THAT WAS UNDER WAY.
- DISCUSSIONS WITH INDUSTRY FEDERATIONS (E.G. THE CBI AND IOD IN THE UK AND THE BDI IN GERMANY) TO IDENTIFY AREAS WHERE EC LEGISLATION SEEMED TO BE CREATING PROBLEMS OUT OF PROPORTION TO THEIR BENEFITS.
- WITH THE HELP OF THE GOVERNMENT AND INDUSTRY EXPERTS TO PICK OUT 2 - 3 COMPANIES IN THE UK AND FRG (AND, IF TIME AND RESOURCES PERMITTED, THE NETHERLANDS), AND TO CONDUCT IN-DEPTH INTERVIEWS AT A SENIOR LEVEL ON 1 - 2 TOPICS.

THE AIM WAS TO IDENTIFY THE NATURE AND MAGNITUDE OF THE BURDEN IN THESE CHOSEN CASES, IN A WAY THAT COULD BE ANNEXED TO THE COMMISSION'S REPORT AS EXAMPLES OF BURDENSOME REGULATIONS. DEFRAIGNE STRESSED THE NEED FOR THE CONSULTANTS TO KEEP IN CLOSE TOUCH WITH THE COMMISSION THROUGHOUT: TO CONCENTRATE ON A STRICTLY LIMITED NUMBER OF IN-DEPTH CASE STUDIES RATHER THAN SPREADING THE NET TOO WIDELY: AND TO COMPLETE THE STUDY BY 10 JUNE. A REVIEW MEETING WAS PROVISIONALLY FIXED FOR 3 JUNE.

6. AS A FIRST CONCRETE STEP, IT WAS AGREED THAT TOUCHE ROSS WOULD MEET WITH MEMBERS OF THE ENTERPRISE UNIT AND THE CBI IN LONDON ON 14 MAY. A MEMBER OF DEFRAIGNE'S TEAM (RICHARDS) WILL ATTEND. (WE HAVE TIPPED OFF THE CBI OFFICE IN BRUSSELS ABOUT THE PROPOSED MEETING, AND ADVISED THEM TO ENSURE THAT THEIR REPRESENTATIVES WILL HAVE DONE THEIR HOMEWORK).

-2-
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/7. DEFRAIGNE.

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7. DEFRAIGNE WELCOMED OUR INTENTION OF PROVIDING HIM WITH A LIST OF BURDENSOME EC LEGISLATION NEXT WEEK.

FCO ADVANCE TO:

FCO - FAIRWEATHER, SAWERS ECD(1).
CAB - JAY, BOWEN, TWYMAN, GILBERTSON (ENTERPRISE UNIT).
DTI - BRECKNELL (GP), KEMMIS (ECIP).

FCO PLEASE PASS SAVING TO COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN, LUXEMBOURG, ATHENS.

BUTLER

FRAME INSTITUTIONAL/STRUCTURAL
ECD (1)

COPIES TO .
PS | LORD YOUNG.
ENTERPRISE UNIT-CAB
OFFICE

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Auto Budget

CP





CLC

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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

Telephone 01-407 5522

From the Minister for Health

NBPM
COP
10/5

The Rt.Hon.Norman Tebbit.MP.
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London SW1H 0ET.

10 May 1985

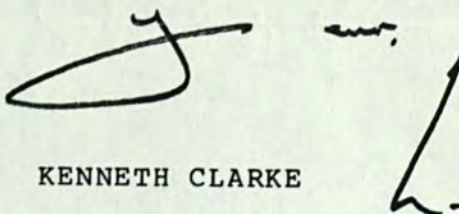
Dear Mr.

Your letter to Geoffrey Howe of 7 May proposing a modification of our negotiating position on the draft EC directive on product liability, was copied to Norman Fowler and I am responding.

As you know, product liability is of particular concern in the field of pharmaceuticals and my Department has therefore been closely involved in the preparation for negotiations throughout the last 9 years.

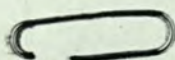
Our views on the revised negotiating position have been taken into account and I support the intended modifications. We are particularly interested in paragraph 8 of your letter. As you know, the "important points of detail" to which you refer largely concern pharmaceuticals and we certainly support the view that the UK should not lift our general reserve until these points are resolved at Working Group level.

I am sending copies of this letter to the Prime Minister, members of OD(E), the Lord Chancellor, the Lord Advocate, Geoffrey Howe, Tom King and Sir Robert Armstrong.


KENNETH CLARKE

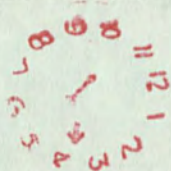
Mr Godber
Mr Kerin
Mr Hale
Mr Hagger

cc
Mr Hale
Mr Hagger
Mr Cox
Mr Bond



Budget: EURO POL 1429.

~~_____~~



10 MAY 1985

~~_____~~



FCS/85/129

LORD PRIVY SEAL

NBP 17
COP
9/5

Parliamentary Handling of the Own Resources Decision and the
Inter-Governmental Agreement

1. I have seen a copy of the Economic Secretary's letter to you of 30 April, and the Prime Minister's comments set out in Charles Powell's letter of 7 May.

2. I agree that:

(a) in view of the advice of the Law Officers, we should not use the Section 1(3) procedure for the Own Resources Decision but should introduce a Bill instead;

(b) there are strong arguments in favour of dealing with the inter-governmental agreement in the same Bill.

3. We need to decide, however, on the timing of the legislation and of the Supplementary Estimate. We have succeeded in putting in place a mechanism which should enable us to receive our 1000 mecu abatement in 1985, as agreed at Fontainebleau. For this to happen, the Own Resources Decision needs to be ratified by all Member States by the end of the year. We could not risk delaying receipt of our abatement by having failed to complete our own Parliamentary procedures in time. Nor, however, will we introduce the Bill until we know what position the European Parliament has taken on the 1985 budget incorporating our 1000 mecu correction on the revenue side. Second reading of the budget will be in the week beginning 10 June. Thereafter, and on the assumption that our abatement goes through as part of the budget,



I believe we should try to complete the Commons stages of the Bill before the Summer recess. If we delay introduction of the Bill until the new session this would put at risk our ability to complete all the procedures in time to secure our abatement this year.

4. I note the problems about presentation of a Summer Supplementary estimate before the Bill itself is approved. To wait, however, for the Winter Supplementary Estimates could mean that we could not make our contribution to the inter-governmental agreement until mid-December or later. This could lead other member states to delay ratification of the Own Resources Decision until the end of the year, while the Commission would cease to make any effort to enable us to receive our 1000 mecu before 31 December. Given the attitude of the German Finance Ministry, there is some risk in any event that we might not receive the 1000 mecu until the first few days of January. It would be very inadvisable, however, ourselves so to proceed as to render it virtually impossible for us to receive our abatement when it should be due, ie by the end of December.

5. The timing of the Bill and the supplementary estimate (and the alternative of designating the IGA as a Community treaty in the Bill) need to be decided in the light of these considerations. I propose we should have a discussion in OD(E) on 14 May. The Cabinet Office are making the necessary arrangements.



6. I am copying this minute to the Prime Minister, the Lord President of the Council, the Minister of Agriculture, the Attorney-General, the Solicitor-General, the Chancellor of the Duchy of Lancaster, the Chief Whip, the Lord Advocate, the Economic Secretary, Lord Denham, Sir George Engle 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

9 May, 1985

ENR for Budget
Pr 29



59 MAY 1985

Qz.04436

MR POWELL

EUROPEAN COMMUNITY BUDGET FOR 1985

The Budgets Committee of the European Parliament discussed the draft 1985 budget on 6 May and, as expected, voted to delete the United Kingdom's 1000 million ecu abatement for 1984 from the revenue side of the budget and to replace it by token entries on the expenditure side providing for refunds. The vote was 14 in favour, 10 against and 7 abstentions (including the German Christian Democrats). This and many other proposed changes in the draft budget are now being submitted to the European Parliament, when a vote will be taken on 9 May.

We strongly recommend that, if the European Parliament does follow the line of its Budgets Committee and there is public or press speculation on this point, the United Kingdom's response should be:-

(i) we note that the European Parliament's Budgets Committee considers that the 1000 million ecu for 1984 should be made available not by an abatement of contribution but by direct payments to the United Kingdom. This is not the completion of, but only a stage in, the budget procedure. We are fully confident that the Council will reinstate the correct method, ie by abatement of contribution, and that on second reading the European Parliament will reconsider the matter. All member states are agreed on this point;

/(ii)

cc BI (2)
Prime Minister
This could come up
in the House
tomorrow.
CJP
85.

(ii) in any event the 1985 budget can only be financed when the separate intergovernmental agreement has been accepted by the United Kingdom Parliament and that of other member states. We have already made clear that for this purpose we shall need to be satisfied that the 1000 million ecu abatement is guaranteed.

I am sending copies to Colin Budd (Foreign and Commonwealth Office), Rachel Lomax (H M Treasury) and to Sir Robert Armstrong.

Df Williamson

D F WILLIAMSON

8 May 1985

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CONFIDENTIAL



WBPM
CDP
P/S

Ian Stewart Esq. MP.
Economic Secretary
HM Treasury
Treasury Chambers
Parliament Street
London SW1

8 May 1985

Dear Ian,

IMPLEMENTATION OF THE OWN RESOURCES DECISION (ORD)
AND INTERGOVERNMENTAL AGREEMENT (IGA)

I have seen a copy of your letter of ~~30~~ April to John Biffen. The choice between the various options set out in your letter for implementing the IGA depends far more on political and Parliamentary considerations than legal factors. It may, however, be useful if I comment on the legal issues which you raise in your letter.

You rule out option (a) (an Order under Section 1(3) of the 1972 Act) in view of the degree of controversy it provoked last year and the risk of a further Court case. Although it is quite possible that Mr Smedley or one of his supporters might try again to challenge the vires of such an Order, we have very strong Judgments from the High Court and the Court of Appeal in our favour. I would not expect any Court to entertain such an action sympathetically, except in the unlikely event that the plaintiff could establish that the 1985 IGA was in law fundamentally different from the 1984 IGA and that the earlier Judgments were not valid precedents for the circumstances of the 1985 IGA.

You also mention that proceeding by way of a Bill (rather than Section 1(3) Order) would avoid the need to take up extra Parliamentary time with a Special Supplementary Estimate and Consolidated Fund Bill as we eventually did last time. You will recall that we resorted to that procedure last time due to the rather

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-page two -

special end-of-year problems which arose on the 1984 IGA. I would hope that if we decided to follow the Section 1(3) route - and I can well understand the Parliamentary reasons for not doing so - these problems which occurred on the 1984 IGA could be avoided for 1985 by laying the Order well before the end of the year.

As for the choice between the Section 1(2) method and the Supplementary Estimate, I believe that the former would be far more consistent with the course of action we took last year and defended in the Smedley litigation. If we decided to proceed by way of Supplementary Estimate, I can well see Mr Smedley proclaiming that the Government's action vindicated his assertion that the IGA could not be a "Community Treaty" and maintaining yet again that he should be entitled to his costs. Moreover, I think it would be extremely difficult ever again to use Section 1(3) for an IGA or indeed for any other ancillary Treaty (other than one dealing with the Communities Own Resources) where the principal obligation was financial, if we were in the Bill to stand back from adding the 1985 IGA to the list of Community Treaties, whilst at the same time adding the ORD to that list.

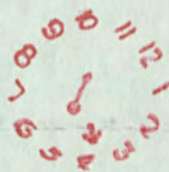
I am sending copies of this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, John Biffen, Michael Jopling, Grey Gowrie, John Wakeham, Kenneth Cameron, Bertie Denham, Sir George Engle and Sir Robert Armstrong.

Yours as.

Michael.

CONFIDENTIAL

ENVO Pa Budget
Pt 29



-9 MAY 1985



Ref. A085/1289

PRIME MINISTER

Cabinet: Community Affairs

Unless it has already been covered under Foreign Affairs, you may wish to inform the Cabinet of any Community aspects of the Bonn Economic Summit on 2-4 May.

2. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 2-5 May. No agreement was reached, the main stumbling block being the German refusal to countenance any price reduction for cereals. The Commission made no changes in its proposals and put strong emphasis on the need for budgetary restraint. Mr Andriessen, the Commissioner responsible for agriculture, launched a strong attack on Herr Kiechle, the German Minister of Agriculture, describing his position publicly as unacceptable and in conflict with the principles established by the Council both for the operation of the cereal market and for budgetary consequences. The influence of Monsieur Delors was evident. A Presidency document, which was circulated but not agreed, implied a smaller cut in cereal support prices than proposed by the Commission; would have extended, with some changes, the beef variable premium scheme for a further year in line with the United Kingdom's objective; was unsatisfactory on sheepmeat; and proposed to leave the agri-monetary arrangements for Germany unchanged but to dismantle the monetary gap for Greece, Italy and France, which have negative monetary compensatory amounts. The Foreign and Commonwealth Secretary is discussing these issues, and the extent to which such a package would be compatible with the financial guideline, with the Ministers concerned this evening (8 May), in preparation for the resumption of the Council on 13 May.



3. In the absence of the Secretary of State for Trade and Industry in the United States, there will be no formal report on the Internal Market Council on 7 May, at which the Minister of Trade (Mr Channon) represented the United Kingdom. The Council did achieve a significant agreement on the Community standards initiative. This will speed up the process of opening up the common market to our industry, as the Council will now lay down the main guidelines for standards rather than having to agree them in detail product by product. The Council also made progress in the right direction on the draft frontier formalities Directive. In the earlier discussions the United Kingdom had been almost isolated on the need for systematic checks at our ports and airports but now, as a result of the report of the Committee on People's Europe and the discussion in the European Council, nine member states agree to our position with only Denmark and the Commission against. The Foreign and Commonwealth Secretary may comment on the results of this Council in the light of the OD(E) discussion of the Internal Market before Cabinet.

4. There were informal meetings of Health Ministers on 3-4 May and of Education Ministers on 6 May, but these reached no decisions requiring a report to Cabinet.

5. The European Parliament this week is giving a first reading to the Community's 1985 draft budget established by the Budget Council on 29 April. This budget does not cover the long-term method agreed at Fontainebleau for correcting our budget contribution which will come into effect in 1986 but it does include the ad hoc 1,000 million ecu abatement for 1984 due in 1985. The Budgets Committee of the European Parliament has already recommended that the United Kingdom's 1,000 million ecu abatement for 1984 should be removed from the revenue side and that token entries should be made on the expenditure side of the budget. The intention would be that, instead of receiving the 1,000 million ecu by abatement of our contribution we would



receive it by direct payments. If the European Parliament follows the advice of its Budgets Committee, there is no doubt that the Council will reject the amendment and restore the correct method of implementation. The European Parliament will then reconsider its position at its second reading in June.

6. The Consumer Affairs Council meets on 13 May and the Agriculture Council on 13-15 May.

A handwritten signature in dark ink, consisting of a stylized 'R' followed by a smaller 'A' and a horizontal line.

P.P. ROBERT ARMSTRONG

8 May 1985

C.P.



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

7 May 1985

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

NBPM
CDR 715

Dear Geoffrey,

I have been reviewing our negotiating position on the draft EC directive on product liability, which has now been under discussion in Brussels for 9 years.

2 Our position to date has been to agree that harmonisation of EC laws on defective products, based on the concept of strict liability, is desirable; that this should incorporate a "development risks" defence; that there should be no financial limit on a manufacturer's total liability for a defect appearing in a series of identical products; and that the directive should not extend to liability for damage to property. Although we have regarded total harmonisation as the ideal, we have been prepared to accept a regime that would allow other Member States to introduce development risk liability, subject to a financial limit if they chose, and to consider further the case for including material damage within the scope of the directive.

3 We have tried for some years to negotiate a directive on these lines. But it is now clear that resistance (especially from France and Germany) to our favoured solution cannot be worn down. If we stick to our position as described above we will therefore end up with no directive and consequently no harmonisation. Some member states, including France, would then adopt strict national legislation, while others, such as Italy and Denmark, would retain their present lax regimes. The Council of Europe Convention (which allows no development risk defence) would then remain the only international agreement. This could pose problems for the UK, as non-signatories, because UK citizens would not be protected by it, while the Convention would give advantage to consumers from other Member States.

4 The UK would almost certainly become isolated as the only Member State not prepared to give any ground in attempting to reach a compromise, even though Germany has proved almost as resistant as

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us in moving away from their favoured position. But even Germany is prepared to give some ground in permitting other Member States to adopt regimes of their choice on the questions of development risks and financial limits. So the UK would be left with the blame for adopting an inflexible and obstructive attitude.

5 Neither would such an outcome be in the interests of our industry or our consumers. The consumer movement would accuse us of obstructing progress on the directive without making alternative proposals to protect consumers against defective products - an objective to which this and previous governments have given support ever since the thalidomide scandal and the subsequent reports of the Pearson and Law Commissions. There would also be concern among the more enlightened sectors of industry that the lack of any agreement on a basic product liability regime could lead to an uneven, unfair and unpredictable array of laws within the EC, and possibly to developments in UK common law that could be more detrimental to their interests than a negotiated directive.

6 I therefore propose to make a slight modification to our negotiating position in order to try to reach agreement in Brussels on a directive which, though not ideal, would at least achieve harmonisation of the concept of strict liability and allow us to incorporate a full development risk defence, and no financial limit, in UK law. The latest proposal from the Italian Presidency would allow Member States the option of introducing a financial limit regardless of whether they choose to impose development risk liability, but high enough for there to be no difference in effect from an unlimited liability system. The limit would apply for a transitional period (10 years), following which the Council would review the position on development risks and on financial limits.

7 All the recent proposals have suggested the inclusion of material damage within the scope of the directive, though it has been conceded that this should be limited to personal property and that there should be a minimum claim limit. Under these circumstances I propose that we should be prepared to go along with the views of other Member States on this point.

8 Given that there appears to be no sensible alternative, I hope that you and copy recipients will agree that we should be flexible enough in the forthcoming negotiations (including the Consumer Affairs Council on 14 May, where this subject will come up for debate) to be able to accept a compromise solution on the lines of the Presidency proposal. In accepting such a compromise we would, of course, make clear that there are a number of important points of detail that need to be resolved at Working Group level before we can lift our general reserve and agree to the adoption of this directive.

9 I am sending copies of this letter to the Prime Minister,

JH4AZW



RESTRICTED

members of OD(E), the Lord Chancellor, the Lord Advocate, Norman Fowler, Tom King and Sir Robert Armstrong. In view of the imminent discussion at the Council of Consumer Affairs Ministers, and of the debate on personal injury in the House of Lords on 8 May, I should be grateful if anyone who sees any difficulties with my proposals could let me know by the end of the week.

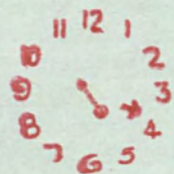
A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a stylized initial 'N' and a horizontal line underneath.

NORMAN TEBBIT

JH4AZW

RESTRICTED

27 MAY 1985





10 DOWNING STREET

From the Private Secretary

7 May 1985

Dear Adrian,

The Prime Minister has seen a copy of the Financial Secretary's letter of 30 April to the Lord Privy Seal about the action necessary to obtain Parliament's agreement to ratification of the Own Resources Decision and to the implementation of our payments under the second Inter-Governmental Agreement.

Subject to the views of colleagues, the Prime Minister thinks that if the legislation is very controversial it would be better for it to be introduced nearer the beginning of July so that it would be possible to complete the second reading and Committee stage before Parliament rises for the summer recess.

I am copying this letter to the Private Secretaries to the Lord President, the Foreign and Commonwealth Secretary, the Minister of Agriculture, Fisheries and Food, the Chancellor of the Duchy of Lancaster, the Chief Whip, the Attorney General, the Solicitor General, the Lord Advocate, Captain of the Gentlemen at Arms, First Parliamentary Counsel and Sir Robert Armstrong.

Yours sincerely,

(CHARLES POWELL)

Adrian Ellis, Esq.
HM Treasury.

6



10 DOWNING STREET

From the Private Secretary

6 May 1985

Dear Len,

POLITICAL COOPERATION

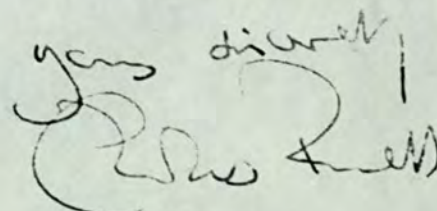
The Prime Minister has considered the Foreign Secretary's minute of 26 April with which he enclosed a draft agreement on political cooperation. He recommended that this might be handed privately to Chancellor Kohl at Chequers on 18 May.

The Prime Minister finds the Foreign Secretary's proposals reasonable and would be content to hand them over to Chancellor Kohl as proposed. On a number of detailed points:

- (i) although used in "Europe: The Future", the phrase "common external policy" suggests a degree of loss of sovereignty which is not compatible with the limited arrangements set out in the draft agreement. The Prime Minister would prefer it to be omitted at least at this stage;
- (ii) the Prime Minister attaches great importance to ensuring that the proposed Political Cooperation Secretariat is kept small and that its size cannot be increased except by unanimous agreement. The provision in (i) of annex I for the members of the Secretariat to attend relevant meetings in the Community framework already smacks of proliferation. A proviso that the Secretariat should number no more than X with Y supporting staff and this number would not be increased save by unanimous agreement of member states would provide some reassurance.

I should be grateful if the text could now be translated into German.

I am copying this letter to Richard Mottram (Ministry of Defence), Henry Steel (Law Officers' Department) and David Williamson (Cabinet Office).

Yours sincerely,


(C. D. POWELL)

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

SWH

PRIME MINISTER

MEETING WITH CHANCELLOR KOHL, ON

18 MAY, 1985

Your meeting with Chancellor Kohl on 18 May will be crucial in determining whether we succeed in channelling the debate on the future of the European Community over the next months towards sensible conclusions with which we can live. On the one hand we have to convince the Euro-enthusiasts if not the Euro-fanatics that Britain is prepared to move ahead. On the other we don't want to succumb to the drivel about European union.

You have already agreed some general guidelines for the discussions between now and the June European Council. These are in brief:

- priority for completing the internal market;
- no more powers for the European Parliament;
- more use of majority voting where the Treaty already provides for it, subject to the Luxembourg compromise being formalised;
- formalising the existing arrangements for political co-operation.

We have already got the Community moving on the internal market. Political co-operation is the other area where we can give a lead and conduct the debate on our terms without giving away anything essential.

The attached paper sets out a draft agreement on political co-operation with the suggestion that you launch/^{it} on Chancellor Kohl on 18 May as a substantial British initiative.

/The draft

The draft agreement would be an agreement between Member States and therefore not part of the Community law. It simply codifies and sets down in formal language what we are already doing. It does not restrict our national independence of action.

In short, it is dressing up mutton to look like lamb. But it will appeal to the Germans because it is an agreement and should be a "step forward" The experts will not be convinced. But I think you could sell it politically to Chancellor Kohl and to wider Community opinion as a British initiative, stake out a strong position, and make it impossible for others to put us in the dock as being a backmarker on European union.

If you agree, we would get it translated into German so that you could give it to him at Chequers and base your discussion with him on it. We would subsequently use it with other Member States.

The Attorney General has been through the text and is content with it, ⁱⁿ particular that it does not in any way give the Community competence over our foreign policy.

Agree to launch this initiative on 18 May?

C.D.P.

Yes. it seems fairly reasonable
not

3 May, 1985



Ref. A085/1241

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 29-30 April, at which the United Kingdom was represented by the Minister of State (Mr Rifkind). There was a meeting with the European Parliament about the revised Own Resources Decision. The European Parliament representatives made the predictable points (the United Kingdom's rebate should be on the expenditure side of the budget and limited in time and that the Decision should provide for an automatic increase in the VAT ceiling to 1.6 per cent without requiring the approval of national Parliaments). The European Parliament has no power to block or change this text and the Presidency, on behalf of the Council, made clear very firmly that their proposals were rejected. On a separate point the European Parliament representatives suggested a small amendment in relation to research on the new technologies. Nine member states could accept this. The Federal Republic of Germany could not approve it immediately, but their written agreement is expected by the end of the week. If so, the European Parliament will have been seen off on the text of the revised Own Resources Decision containing the Fontainebleau mechanism. This will be formally adopted and submitted to national Parliaments for ratification. The European Parliament may yet be able to cause us some short term difficulties on the 1985 budget but, once ratified, the new text will be law and the United Kingdom's continuing abatement will be firmly based on the law.

2. The Chancellor of the Exchequer may report that the European Parliament will have a first reading next week of the 1985 Community draft budget, as now established by the Budget



Council. The European Parliament may transfer the United Kingdom's 1,000 million ecu abatement for 1984 on to the expenditure side of the budget. If so, the Council will not accept this and it is probable that the European Parliament will give way on a second reading. It will be important to avoid, as far as possible, any press speculation that the United Kingdom may not get the 1,000 million ecu. The European Parliament is not disputing that the United Kingdom should receive the 1,000 million ecu net in the 1985 budget. Any argument about the method of payment is likely to be resolved in favour of the Council and the United Kingdom.

3. The Minister of Agriculture, Fisheries and Food may comment on the prospects for agreement on farm prices for 1985-86 at the Agriculture Council on 2-5 May. The Presidency is expected to try for decisions at this Council. The principal difficulties remain the rigid German opposition to a reduction in cereal prices and the Italian and Greek objective, partly concealed behind the German difficulty, to get a more favourable result on Mediterranean products. The Commission is at present maintaining its proposals.

4. In addition to the Agriculture Council on 2-5 May, there are informal meetings of Health Ministers on 3-4 May and Education Ministers on 6 May, and an Internal Market Council on 7 May.

RA

ROBERT ARMSTRONG

1 May 1985

ack.



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

1 May 1985

Charles Powell Esq
10 Downing Street
LONDON
SW1

NBM

Dear Charles,

DEVELOPMENT OF THE EUROPEAN COMMUNITY

(not COP but from FCO!)

Thank you for your letter of 18 April, enclosing the Foreign Secretary's paper on this subject, which we have shown to the Chancellor.

In general, the Chancellor agrees with the strategy and tactics the Foreign Secretary proposes for the consultations with other governments before the Milan European Council. There are, however, a few points of substance on which he has asked me to send you his comments.

As regards the "internal market" (paragraph 12) the Chancellor entirely agrees that we must do whatever we can to steer the Commission away from unacceptable proposals such as tax "approximation" to which they are giving far too much prominence. The Prime Minister will be discussing this at her meeting on 1 May with Lord Cockfield. If, however, as seems possible, the Commission stick to their proposal that all tax (and other) frontiers should be removed by 1992, we will have to make it clear, if necessary at the June European Council, that this is not acceptable. In the meantime it is desirable that we should seek other Member States' support on this matter and we will now start to do so through the Finance Ministry network. This is clearly a subject on which the Treasury will need to remain in the lead both in the run-up to and, if necessary after, the Milan European Council and any developments relevant to it should be reported to us as soon as possible. We should also seek to ensure that any proposals the Commission make are remitted to the ECOFIN Council.

The Chancellor has a number of comments on the decision-taking section of the paper. He is in general content with the line to take set out in paragraph 15(a), (b) and (c). As regards paragraph 15(b), he has asked me to point out that, though ECOFIN Councils are theoretically prepared by COREPER, in practice the Council generally relies for its advice on all major economic and monetary issues on the Co-ordinating Group, the Monetary Committee, the EPC, the Committee of Central Bank Governors etc. There can be no question of COREPER usurping the functions of these Committees and the Chancellor considers it unlikely that many occasions will arise when ECOFIN business can be decided at COREPER level. As regards paragraph 15(c), the Chancellor doubts whether there will in fact be many "non-sensitive" issues on which Member States will be willing to depart from the present practice of seeking a consensus, but, subject to the restatement of the Luxembourg Compromise in the terms proposed, he can go along with the line proposed.



The Chancellor also broadly agrees with the proposal described in paragraph 14 under which Heads of Government might from time to time stipulate that Member States should not make use of the unanimity rule to frustrate the achievement of an agreed objective. He suggests, however, that it would be better to say that Member States should endeavour not to make use of the unanimity rule, since the European Council quite frequently sets objectives only in fairly general terms, while the difficulties on which we or other Member States might want to invoke the unanimity rule will arise in the subsequent discussion of detail at Council level.

The Chancellor assumes that in practice both we and other Member States would be able to find suitable pretexts to invoke the unanimity rule, notwithstanding any European Council request to the contrary, if we needed to do so. He suggests that we would in any case need to exercise some caution in selecting issues on which the European Council might invite Member States to waive the unanimity rule; it is not obvious, for example, that we would get a better outcome on the non-life insurance directive by accepting a decision by qualified majority than by waiting for the European Court to give judgement in the cases currently before it.

Finally the Chancellor agrees entirely with what is said on the European Parliament and has asked me to emphasise the importance of avoiding any concession to the Parliament on their budgetary powers.

Copies of this letter go to Private Secretaries to Members of OD(E) and Richard Hatfield.

Yours ever
Recebel

MRS R LOMAX
Principal Private Secretary

cc NO



The LPS & 2nd

Pres. that will be

very pleased. If it is very controversial - I should prefer

The Rt Hon John Biffen MP
Lord Privy Seal
Lord Privy Seal's Office
Whitehall
LONDON SW1A 2AT

reaches the beginning

can perhaps complete 2nd reading committee stage

Dear John, before writing

Prime Minister
You will wish to know how it is proposed to handle these difficult issues.
Agree to - to

30 April 1985

course suggested by Mr. Stewart i.e. primary legislation with payments under the IGA by a winter supplementary estimate? CDP 6/5

As you know, the recent March meeting of the European Council reached agreement on the substance of the new Own Resources Decision (ORD), which will provide for the Fontainebleau mechanism to abate our net contributions to the Community Budget and for the increase in the VAT ceiling to 1.4%. The formal adoption of the ORD for recommendation to Member States is expected to take place in the near future. In addition, the Budget Council has now agreed on a second Inter-governmental Agreement (IGA) to finance the 1985 Budget overrun.

We now need to decide as soon as possible on the means of securing Parliament's agreement to the ratification of the ORD and to the implementation of our payments under the second IGA.

Geoffrey Howe, Malcolm Rifkind and I have been considering the available options. For the reasons explained below we have concluded that primary legislation is necessary to ratify the ORD and we think it sensible to make provision for our payments under the IGA in the same legislation. What would be involved is a short two-clause Bill, though given the contents it will be a highly controversial one. Unfortunately there is a degree of urgency. The ORD provides for the payment of our 1000 mecu abatement in respect of 1984 on the revenue side of the 1985 budget. If there is to be any prospect of our receiving the 1000 mecu this year, we should aim to ratify the ORD by the end of November.

The purpose of this letter is to let you know my views about the Bill and its timing.

Approving the ORD

You may recall that we had contemplated obtaining approval of the ORD by an Order in Council under Section 1(3) of the

European Communities Act (ECA) 1972, designating it as a Community Treaty. (The present ORD agreed in 1970 was listed as a Community Treaty in the ECA when that was passed). We have recently been advised by the Law Officers (see Annex A below), however, that the form in which the ORD emerges from the Council means that it is not a Treaty until it has been ratified by all Member States. Designating it as a Treaty by a Section 1(3) Order in advance of ratification would therefore run the risk, in any proceedings for judicial review, of being judged ultra vires. (In last year's case brought by Mr Oliver Smedley over the IGA, it was made clear that such proceedings almost certainly would be brought if an attempt were made to use Section 1(3) for the ORD). The Law Officers also feel that this is a sufficiently important measure to fall within the "significant and substantial" category of cases where the Government undertook in 1972 not to use Section 1(3). We therefore feel that we have no option but to go for primary legislation. The actual provision in the Bill would be extremely simple, as it will only need to add the ORD to the list of Community Treaties under Section 1(2) of the ECA.

Approving the IGA

As regards the IGA there are in theory three possible options:-

- (a) an Order under Section 1(3) of the 1972 ECA - the procedure we proposed to follow last year;
- (b) a Supplementary Estimate (normal or Special) and a Consolidated Fund Bill (normal or Special) - the procedure actually used in January this year on the 1984 IGA;
- (c) primary legislation in the same bill as the ORD in one of the two ways discussed below.

The first of these options should, we think be ruled out, given the degree of controversy it provoked last year and the risk of a further court case. Given the requirement for a Bill to ratify, there would be considerable advantages in using the same Bill to seek the House's authority for making our contribution to the 1985 IGA. The IGA and ORD are in effect elements in a single package assuring the future financing of the Community and the UK's abatements in 1985 and later years. And it will be much easier to defend the IGA in the House in the context of the wider Fontainebleau package.

Moreover, this course will mean there will be no repetition of the controversy we had last year over the use of Section 1(3) for the 1984 IGA, nor will we need to take up extra Parliamentary time with a special Supplementary Estimate and Consolidated Fund Bill as we eventually did last time. I recognise that any method of primary legislation for the IGA will make it more difficult to revert (though not impossible) to an alternative method were we ever to have to seek approval for another one. I very much hope that this will never arise, but in any case I think we would have a good argument for

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primary legislation this year because of the close link between the provisions of the ORD and the IGA.

I understand that there are two methods of using primary legislation to approve payments under the IGA. The first would be to add it to the list of Community Treaties under Section 1(2) of the ECA. This would mean that the payment was charged directly on the Consolidated Fund. The other would be to provide for the Government to make the payment out of moneys provided by Parliament. This would require a Supplementary Estimate. Both would in their ways be controversial and the choice between them is finely balanced. I set out the main considerations below.

Section 1(2) method

Making the IGA a Community Treaty is likely to arouse opposition because it will mean that, although there will still be an opportunity to debate the IGA itself, the House will have no opportunity to consider an Estimate for the money - one of the reasons last year for objecting to the use of Section 1(3). Terence Higgins and the Treasury Committee would probably object strongly to this, although they would still be entitled to call for evidence from officials and even Ministers. On the other hand, this route would fit well with the Court's ruling last year that the IGA was a Community Treaty.

Supplementary Estimate

The Supplementary Estimate procedure would be less controversial, although it would raise an awkward question of timing. There is a case for presenting the Estimate with the Summer Supplementaries before the primary legislation is passed, rather than waiting until the Winter Supplementaries in November, so as to give a clear signal now that we are getting on with the IGA and not trying to establish a direct linkage with our 1000 mecu abatement. Unless we can show reasonable progress over the IGA, there is a risk that other member states might deliberately delay ratification of the ORD, thus jeopardising payment in 1985 of the 1000 mecu. A Winter Supplementary Estimate that could not be paid until December might be regarded as a delaying tactic in some quarters.

On the other hand, presentation of a Summer Supplementary before the primary legislation is approved would be irregular and controversial. In addition, given the hostility in the House to both the IGA and the ORD, I see considerable political difficulty in presenting a Supplementary in the Summer. We may still be having problems with the CAP price-fixing and the 1985 Budget; and there are likely to be substantial difficulties with the 1986 Budget too. This could make a difficult background against which to seek the approval of the House for a Summer Supplementary Estimate in advance of the enabling legislation. As for the other member states, we now know that the Germans do not propose to ratify the ORD until December; so that we face the risk of delay over the ORD anyway.

I would, therefore, prefer to present a Winter Supplementary Estimate in November, but I should be grateful for your views on this, as on the timing of the Bill generally. On the latter,

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our objective must be to secure ratification before the end of November, in order not to put at risk the payment of our 1000 mecu before the end of 1985. On the other hand we cannot introduce the Bill before the 1985 Budget containing our 1000 mecu abatement in satisfactory form is finally adopted. Assuming this condition is met, I would favour presenting the Bill before the Summer Recess, but taking it through both Houses thereafter in order to ensure we meet the end November deadline and as an earnest of our commitment to secure the passage of the ORD and IGA in good time.

I should add that there would, of course, be no question of making any payment until the ORD/IGA Bill had received Royal Assent.

Enlargement

You will recall that the FCO have already sought leave to introduce in November the necessary legislation to ratify the Accession Treaties with Spain and Portugal. It would have been convenient to include all three measures in one Bill, and we have looked into this possibility. We have had, however, to conclude that the timing precludes this. We cannot afford the further risk to our 1000 mecu that delaying the introduction of the ORD/IGA legislation until November would present. I understand also that putting all three instruments in one bill would considerably increase the potential scope for amendments. This is something we clearly wish to avoid.

Departmental Responsibility

Since the ORD was negotiated in the Foreign Affairs Council, Geoffrey Howe might wish to participate in the proceedings on the Bill if the authority of a Cabinet Minister seems necessary; but the IGA provision obviously falls to the Treasury and I think responsibility for the Bill clearly needs to be shared between FCO and Treasury Ministers.

I am sending copies of this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Michael Jopling, Grey Gowrie, John Wakeham, Michael Havers, Patrick Mayhew, Kenneth Cameron, Bertie Denham, Sir George Engle and Sir Robert Armstrong.

Yours ever

Ian

IAN STEWART

CONFIDENTIAL

3229
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

3 April 1985

Handwritten signature

NEW OWN RESOURCES DECISION: METHOD OF IMPLEMENTATION

The Attorney General, the Lord Advocate and the Solicitor General for England and Wales have considered the joint submission attached to your letters to Douglas Duncan and me. They advise strongly against the use of Section 1(3) of the European Communities Act 1972 in order to implement the new Own Resources Decision for the following reasons. First, there are serious doubts as to the legality of an Order made under Section 1(3) to implement the new Own Resources Decision. It cannot be argued with any conviction that the stage of action in the Council would amount to an "entering into" the Agreement by the UK. The only other argument to support the vires of a Section 1(3) Order in these circumstances is that developed in paragraphs 11 to 14 of the joint submission, namely that it is entirely proper for a Section 1(3) Order to look forward to the entry into a Treaty by the United Kingdom. The Law Officers are far from confident that a court, following usual canons of statutory construction, would be prepared to accord to Section 1(3) this extensive interpretation. Secondly, the Law Officers consider that the new Own Resources Decision could easily be represented as a "significant or substantial" development falling within the "assurance" given to the House in 1972 by the then Solicitor General. Finally, the Law Officers are of the opinion that, in the light of the Smedley case last year, there is a very real risk of litigation if a Section 1(3) Order is made and that it is far from certain that the Government would be successful in such litigation.

I am copying this letter to Bill Godwin, Douglas Duncan and Martin Eaton.

Handwritten signature

Handwritten signature

M L SAUNDERS



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry
PS/

30 April 1985

C R Budd Esq
Private Secretary to the
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AH

NBRM
CDP
3/4.

Dear Colin,

DEVELOPMENT OF THE EC

Thank you for sending me a copy of your letter of 18 April to Rachel Lomax. My Secretary of State has discussed its attachment with the Foreign Secretary.

2 He recognises the need to counter some of the proposals which we may expect before the Milan Council about improving the functioning of Europe by advancing practical suggestions of our own. The latest French proposal - Eureka - confirms this. We must now set about consolidating a strategy of our own rather than simply responding to other States' proposals.

3 My Secretary of State therefore welcomes the proposals in paragraph 12 of the Foreign Secretary's paper. He agrees with the comments on handling relations with the Parliament and on political co-operation. Perhaps DTI officials could be given the chance to see the proposed text on this at an early stage.

4 This leaves 'decision taking'. Mr Tebbit recognises the place this has taken in discussions in the Dooge Committee and the difficult corner which Mr Rifkind has had to fight. Paragraph 15(c) seems to be a fair summary of the Treaty's juridical and political options for Member States anxious to make progress while paying proper regard to legitimate national difficulties. It could be strengthened by reference to the desirability of using those options (including Article 148) to get maximum progress on opening up the Common Market. My Secretary of State doubts whether the presentationally different formulation in paragraph 14 will be sufficient to silence the radical Member States. And he

JH5BAN



can see it provoking interminable disputes in the European Council about the delineation of the internal market, the nature of the 'specific steps' to advance its realisation and the target dates attached to each one.

5 I am copying this letter to Private Secretaries to other members of OD(G), Richard Hatfield (Cabinet Office) and Charles Powell (No.10).

Yours sincerely

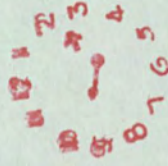
Maureen Dodsworth.

MAUREEN DODSWORTH
Private Secretary

JH5BAN

EURO. BL: Budget 1 Pt 29.

21 MAY 1985





PM/85/37

PRIME MINISTERPolitical Cooperation

1. In my minute of 15 April on the development of the European Community I said that we were preparing a draft agreement on political cooperation. I suggested that you might look at this with a view to handing it privately to Chancellor Kohl at Chequers and, subsequently perhaps, to one or two other heads of government in the run up to the Milan European Council. The aim would be to ensure that the discussions which will now be engaged anyway on the formalisation of political cooperation take place on the basis of our ideas, rather than those of others. By giving the Milan summit a substantial programme of work in this area, it could also reduce the pressure for progress on other parts of the Dooge Committee report which are less acceptable to us.

/ 2. I now attach a draft agreement together with a
/ commentary. To appeal to Chancellor Kohl, this does need to be a fairly full text covering all the major aspects of political cooperation as it has developed.

3. As you will see, the draft is essentially a codification of what is already happening. The language of virtually all the articles is based firmly on existing texts. I should however like to draw your attention to the following points.

4. This will be an agreement between the member states. The preamble is drafted in such a way as to rule out any question of Community competence (and with it any Commission right of initiative, involvement of the



European Court, etc). It would leave political cooperation in the same relationship to Community activity as at present.

5. Under Article 2 the obligation is to consult. Our record in that regard is second to none. We are not, however, committed to follow the views of others and would not be hindered in any way from acting in defence of essential British interests.

6. Agreement on Article 2.4 would make it much more difficult for any one member state (eg Greece) to have public rows with the others (such as those over the Korean airliner incident and INF deployment). Article 5.2 is intended to put pressure on our partners to take a less shaky line on the Falklands at the United Nations. Article 5.3 protects our position in the Security Council.

7. The short passages on security under Article 8 do no more than state the current practice. Article 8.1 places cooperation among the member states in this area firmly in the context of the contribution we make to the Alliance. Article 8.2 describes what is already going on in terms of cooperation between the member states in joint projects, though it would put some additional pressure on the French in relation to cooperation over the European fighter aircraft.

8. The Ten already discuss in political cooperation non-military aspects of security, in particular East-West relations and CSCE/CDE, UN disarmament issues, and economic aspects of security. The text does not change matters in this regard and,



as drafted, should not worry the Americans.

The Irish will certainly not be able to accept these references to the security cooperation between member states within the Alliance since they do not participate in it. That is their problem. It would, however, be open to them to enter into this agreement while reserving their position on this passage. The references to our existing security cooperation are indispensable for Kohl and the other member states of the Community who are also members of the Alliance.

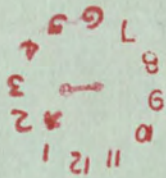
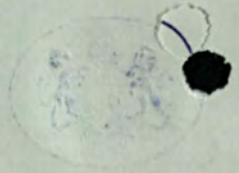
If you are content with the draft, we shall prepare a German version to be available for your talks with Kohl. I would propose to draw on the content, though not necessarily to hand over the text, when I see Dumas in Paris on 21 May.

I am sending copies of this minute and enclosures to the Secretary of State for Defence, the Attorney General and Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
26 April, 1985

Evko for
Budget



29 APR 1985

CONFIDENTIAL

DRAFT AGREEMENT
ON POLITICAL COOPERATION

THE MEMBER STATES OF THE EUROPEAN COMMUNITIES,

MINDFUL of the many agreements which already bind them,
in particular, the Treaties establishing the European
Communities,

HAVING DECIDED to confirm and strengthen the commitments
which they have undertaken in European Political
Cooperation so as to provide an effective basis for their
cooperation in joint action in world affairs,

HAVE AGREED AS FOLLOWS:

ARTICLE 1

The Member States undertake to work for the following
objectives, for which purpose they have established
European Political Cooperation:

- To ensure by means of regular consultations and

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exchanges of information a broad identity of views on the main problems of international relations;

- To ensure that their combined influence is deployed in the most effective way through the concertation of their views, the alignment of their positions and, particularly, joint action;

- Progressively, to aim towards a common external policy.

ARTICLE 2

1. Member States shall consult on all important questions of Foreign Policy, including the political and economic aspects of security.

2. Such consultations shall take place before the Member States adopt final positions on major Foreign Policy questions of interest to them all.

3. Each Member State shall take full account of the position of its partners and give due weight to the desirability of the adoption and implementation of common European positions when working out national positions and taking national action.

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4. The Member States shall make every effort to avoid action damaging to their joint reputation as a coherent force in international relations.

ARTICLE 3

The work of Political Cooperation shall be carried out under the general guidance of the European Council. The structure is set out in Annexes I and II, which may be amended by unanimous agreement.

ARTICLE 4

1. The Member States shall ensure maximum coherence between the external policies of the Communities and the policies agreed in European Political Cooperation. In particular, unless in any particular case all Member States agree to the contrary, the Commission shall be invited to all meetings of Political Cooperation.

2. The Member States shall ensure that the European Parliament is informed of developments in Political Cooperation.

3. The provisions of this agreement shall not affect the provisions of the treaties establishing the European Communities.

ARTICLE 5

1. In organs of international organisations, and at major international conferences, in which all Member States participate, they shall work for common positions in accordance with Article 2.

2. In particular a Member State shall not support a resolution in such organs or conferences which directly criticises or might gravely affect the vital interests of another Member State. The Member States shall also work to avoid a situation where one or more of them co-sponsor a resolution which another or others of them vote against.

3. In organs of international organisations and at major international conferences in which not all Member States participate, those which do participate shall take into account common positions adopted in Political Cooperation.

ARTICLE 6

1. With the aim of making their joint diplomacy effective, the Member States shall ensure that the necessary contacts are established with third countries and regional groupings of interest to them.

ARTICLE 7

1. The Member States shall work to intensify cooperation between their missions in third countries and accredited to international organisations. The aim of such cooperation shall be to enable missions to perform their functions more effectively and economically through mutual assistance, shared facilities, shared information and joint action.

2. In particular Member States shall work both to take advantage of local opportunities, and to establish general schemes, for strengthened cooperation in third countries on the matters listed in Annex III. That annex may be amended by unanimous agreement.

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ARTICLE 8

1. The Member States agree that closer European cooperation on security matters is an essential component of the effort to develop Europe's external political identity. The aim of such cooperation shall be to maximise the contribution which Member States can make to the objectives of the organisations specifically established to guarantee Western security, in particular the North Atlantic Treaty Organisation and Western European Union.

2. Member States shall also work to enhance their contribution to the objectives of the Alliance and other relevant bodies by strengthened cooperation in the design, development and production of military equipment and systems.

3. The Member States are determined to maintain the technological and industrial conditions necessary for their security. They shall work both individually and, as appropriate, through their joint institutions for this end.

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ARTICLE 9

Signature and Entry into Force

(The usual final clauses on signature entry into force
etc would be added.)

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ANNEX I: THE STRUCTURE OF POLITICAL COOPERATION

(a) The Presidency of Political Cooperation shall be held by the same Member State as holds the Presidency of the Communities.

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(b) The Presidency shall be responsible for the day to day management of Political Cooperation. It shall in particular be responsible for the timetable and other arrangements for meetings, and for the preparation of and circulation of drafts, agendas, conclusions and other necessary texts.

(c) The Foreign Ministers shall discuss Political Cooperation matters formally at least four times per year, and informally as appropriate. These discussions may take place on the same occasion as meetings of Ministers in the Community framework.

(d) The Political Directors shall meet monthly in the Political Committee in order to maintain the continuity of Political Cooperation and to prepare discussions among Ministers.

(e) The Working Groups of experts from the Foreign Ministries of Member States, whether of a continuing nature or ad hoc to deal with particular problems, shall meet as directed by the Political Committee.

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(f) The Political Committee or, if necessary, a Ministerial meeting, shall convene within 48 hours at the request of three Member States.

(g) The Presidency shall be assisted by a small Secretariat based in the main place of work of the Community. The office space and services shall be provided by arrangement with the Council Secretariat. The Head of the Secretariat shall be appointed by agreement among the Member States.

(h) The functions of the Secretariat, which shall work under the direction of the Presidency, will include those set out in Annex II. That annex may be amended by unanimous agreement.

(i) As is required by their functions the Head and Members of the Secretariat shall be free to attend ? relevant meetings held in the Community framework.

(j) Formal Political Cooperation meetings at Ministerial level may take place in the capital of the Presidency. At official level they will normally take place at the places of work of the Communities unless otherwise agreed.

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ANNEX II: FUNCTIONS OF THE POLITICAL COOPERATIONSECRETARIAT

The Secretariat shall:

- (a) Advise the Presidency as necessary on the conduct of Political Cooperation, in particular on maintaining coherence between the external policies of the Community and the policies agreed in European Political Cooperation;
- (b) provide support for Political Cooperation meetings - including as necessary the preparation and circulation of texts, keeping of records and preparation of conclusions;
- (c) assist the Presidency in the preparation of texts to be issued on behalf of the Member States including replies to European Parliament questions;
- (d) keep a Political Cooperation archive;
- (e) prepare, and update as necessary, a full codification of Political Cooperation rules and practices.

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ANNEX III: AREAS FOR COOPERATION AMONG THE MISSIONS OF
MEMBER STATES IN THIRD COUNTRIES

1. Exchange of Political and Economic Information.
2. Shared Information on Administrative Problems.
3. Mutual Assistance and Sharing of Organisational Infrastructure.
4. Cooperation on Communications.
5. Exchange of Information and Joint Planning for Local Crises.
6. Cooperation on local Security Measures.
7. Cooperation on Consular Matters.
8. Cooperation on Health Matters.
9. Cooperation on Information Matters.
10. Cooperation on Cultural Matters.
11. Cooperation on Development Aid Matters.

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DRAFT AGREEMENT ON POLITICAL COOPERATION : COMMENTARY

Preamble: The key point in this is the reference to the Community Treaties. Kohl and others will be looking for such a reference to make clear the link between Political Cooperation and the Communities. The link does indeed need to be made clear but in such a way as to ensure that Political Cooperation is not a Community activity as such. This is an agreement between the Member States. We do not wish to see the Commission play more than its present ancillary role in Political Cooperation, or the European Court involved in any way. The present text achieves these objectives.

Article 1: This is based on the objectives set out in the 1970 Luxembourg Report which originally established Political Cooperation. The second objective has been made more operational in accordance with our view that discussions among the Ten need to be more firmly

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focussed on the achievement of joint action. The third objective is from "Europe - the Future".

Article 2.1: Sets out the scope of Political Cooperation exactly as described in the Luxembourg Report as modified by the Stuttgart Declaration on European Union.

Article 2.2 and 2.3: Are the key paragraphs on the commitment to consult and take notice of partners' views. If, having consulted, we decide to go it alone this commitment in no way limits our right to do so. The wording comes from the November 1981 Ministerial agreement on Political Cooperation (the London Report) and is reiterated in the Stuttgart Declaration. It is an undertaking that we have consistently observed. It would exert additional pressure on others eg the Greks, whose record is unsatisfactory.

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Article 2.4: Is intended to render more difficult Greek behaviour of the kind displayed over the KAL airliner incident.

Article 3 is a statement of existing practice, and a peg on which to hang a description of the structure of Political Cooperation without incorporating it in the main text of the agreement.

Article 4.1: Underlines our wish to see coherence between the external policies of the Community and Political Cooperation. It confirms the already established association of the Commission with Political Cooperation, without giving the Commission any additional rights.

Article 4.2: Authorises the maintenance of the existing links (notably through parliamentary questions and regular colloquies with the President in office) between the European Parliament and Political

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Cooperation without giving the Parliament any additional role.

Article 4.3 simply ensures that this new agreement does not affect the existing treaties.

Articles 5.1 is existing practice.

Article 5.2: Is a tighter version of rules of procedure for the Ten at the UN which were approved by the Ministers of the Ten in 1977. We have always observed them. Others (eg over the Falklands) have not.

Article 5.3: Ensures that none of the above can be interpreted in a way that would affect our freedom of action in the UN Security Council.

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Article 6: Authorises the maintenance of existing means whereby the Ten in Political Cooperation maintain joint contact with a number of interested third countries (eg the US and Japan) through the Presidency and other established mechanisms. The idea is not to establish 'Community Embassies' in third countries. Neither we nor others would agree to this.

Article 7.1 and 7.2: Authorise the continuation and intensification of existing cooperation among Embassies of the Ten in third countries eg on consular matters. There is potential for economies as such cooperation grows closer.

Article 8: The Germans, and others, will certainly insist that there be a section on security in this text. This section places activity by the Ten in this field firmly in the context of contributing to the objectives of NATO. The Ten at present concert together on East/West relations, CSCE/CDE, UN disarmament subjects, economic aspects of security etc. The text would not change that or impinge on consultations in the Alliance. Paragraphs 2 and 3 restate objectives to which we are already committed.

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Paragraph 2 describes what happens already in terms of collaborative projects, but would put some additional pressure on the French in relation to the European Fighter Aircraft.

Annexes I and II: Summarise the present structure of Political Cooperation with the addition of the small political Secretariat recommended by the Dooge Committee. The passages on the Secretariat are designed to keep it small, useful and cheap.

Annex III: Lists the areas on which the Ten are already working to strengthen their cooperation in third countries.

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Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
10 Downing Street
LONDON SW1

25 April 1985

Dear Charles

ORAL STATEMENT BY THE ECONOMIC SECRETARY ON THE 23 APRIL BUDGET COUNCIL

As you are aware, it was decided this morning that it would be appropriate for the Economic Secretary to report on the Budget Council orally this afternoon, rather than by means of a written Answer. I attach a copy of his proposed statement and would be grateful for comments by 2.45pm.

I am copying this letter to Len Appleyard and Anthony Cary (FCO), Ivor Llewelyn (MAFF), David Morris (Lord Privy Seal's Office), Murdo MacLean (Governments Whips' Office) to Paul Thomas (Chancellor of the Duchy's Office), and Mr Williamson (Cabinet Office).

*Yours ever,
Adam Ellis*

A. M. ELLIS
PRIVATE SECRETARY

STATEMENT

With permission Mr Speaker I should like to report to the House on the outcome of Tuesday's Budget Council in Luxembourg.

2. The Council met a delegation from the European Parliament led by the President of the Parliament, M. Pfimlin, to hear the Parliament's views on the proposals contained in the Commission's Letter of Amendment No 3 to the 1985 Preliminary Draft Budget.

3. An essential feature of the Draft Budget from a United Kingdom viewpoint is its provision for payment of the UK's 1984 1000 mecu abatement on the revenue side of the Budget. This will take place when the Own Resources Decision has been ratified by all member states.

4. On the expenditure side the Council agreed on additional provision of 1955 mecu of agricultural expenditure. The total figure agreed for agriculture in the 1985 Budget is consistent with the Commission's price proposals for 1985.

5. The Council increased food aid appropriations by 26 mecu to compensate for changes in world grain

prices in order to ensure the fulfilment of commitments on levels of food aid made at the Dublin European Council in December. In the light of the European Council's agreement in March, provision of 70 mecu was entered into the reserve Chapter 100 for Integrated Mediterranean Programmes.

6. In response to a request from Belgium the Council agreed in conjunction with the Commission to re-examine estimates of the VAT tax base for 1985 in each Member State to verify the accuracy of the existing figures. The results will be reported to the Council in due course.

7. Consequent on decisions taken by the Budget Council the total supplementary finance required in 1985 in excess of the Community's own resources is 1981 mecu. This figure is nearly 1000 mecu lower than that originally requested by the Commission. In accordance with the Conclusions of the Foreign Affairs Council on 17-21 March the Budget Council confirmed that this supplementary finance of 1981 mecu would be made available in the form of non-reimbursable advances through an Inter-Governmental Agreement. I will place a copy of the text in the Library as soon as the definitive version is received.

8. I made it clear that payment by the United Kingdom under the IGA would be dependent upon the prior approval of Parliament. This is recorded in the text of the Agreement. Member states' contributions to the IGA will be related to their VAT rates in the Budget. Based on the estimated UK 1985 VAT share of 21.34 per cent the UK's gross contribution will be some 423 mecu. This will be partially offset by additional receipts and our remaining net contribution will qualify for the two-thirds Fontainebleau abatement.

9. The Council concluded by establishing a draft budget for 1985 and sent it to the European Parliament.

10. The agreement provides a realistic basis for the 1985 European budget and is a satisfactory outcome for the United Kingdom; the overall figures both for agricultural expenditure and for the IGA were lower than had been sought by other Member States; and the net cost to the United Kingdom will, as a result of the Fontainebleau mechanism, be significantly less than the net cost of last year's IGA.

25 APR 1985

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cc: PC

10 DOWNING STREET

From the Private Secretary

MR WILLIAMSON
CABINET OFFICE

EUROPEAN COMMUNITY: CUTTING THE BURDEN OF
COMMUNITY LEGISLATION ON BUSINESS AND ENTERPRISE

Thank you for your minute of 24 April reporting on the action in hand to follow-up the Prime Minister's initiative at the European Council on De-regulation. The Prime Minister was grateful for this and would like to be kept closely in touch with progress.

I am sending a copy of this minute to Colin Budd (Foreign and Commonwealth Office), John Mogg (Department of Trade and Industry), David Normington (Department of Employment) and to Leigh Lewis (Office of the Minister without Portfolio).

C D Powell
25 April, 1985

RJ

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Prime Minister ②

AT 24/4



Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
10 Downing Street
LONDON SW1

24 April 1985

Dear Charles

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23 APRIL BUDGET COUNCIL

This letter reports on and gives the background to the outcome of the Budget Council, which the Economic Secretary attended in Luxembourg yesterday. A detailed account is contained in UKREP telegram no. 068.

As forecast, the Council proved a difficult one, both with regard to agricultural spending and to the Intergovernmental Agreement (IGA) for supplementary finance for the 1985 Budget. The Economic Secretary had early bilateral discussions with the French and German Ministers, each of whom made it clear that they could not accept any reduction in the Commission's proposed extra provision of 1,955 mecu for FEOGA Guarantee spending (making a total of 19,955 mecu). Both indeed (along with others, notably Denmark, Greece and Ireland in the Council) argued that an even higher figure might be necessary to cover the cost of possible amendments to the Commission's price fixing proposals. The Economic Secretary replied that this approach was unacceptable to the UK. The Belgian and Dutch delegations were helpful in resisting pressures to commit the Council to go beyond 1,955 mecu for FEOGA, but lent no support to our arguments that significant reductions were possible. Nor did they argue for a reduction in the Commission's suggested figure of 2,200 mecu for the IGA. The new Budget Commissioner Christophersen was unhelpful virtually throughout.

Against this unpromising background the Italian Presidency focussed the discussion on two issues :-

- whether the size of the IGA should be reduced from the opening level of nearly 2,200 mecu by taking advantage of expected underspending on the structural funds

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- whether the Council should commit itself to provide still more finance if that was required by increases in the price-fixing.

The Presidency's first attempt at a compromise would have reduced the IGA figure by some 400 mecu to below 1,800 mecu. Unfortunately, even before it was tabled this was torpedoed by Commissioner Christophersen who said that he would denounce it to the European Parliament as wholly inadequate - the threat being that this would provoke a second rejection of the budget.

In the event the final figure agreed for the IGA was 1,981 mecu, more than 200 mecu below the figure on the table at the start of the day and nearly 1000 mecu below the Commission's opening proposal of 1 April. This reduction was achieved essentially through a series of adjustments on the revenue side of the budget. Within the revised budget, provision for FEOGA was fixed at 19,955 mecu as asked for by the Commission. The French and Germans, supported by all except Belgium and Netherlands, pressed hard for a Council declaration that more money would be provided if necessary for the price-fixing. The Economic Secretary made it clear that this was totally unacceptable to the UK and that once the IGA figure had been fixed it could not be re-opened. The French and Germans eventually dropped their demand for a Council declaration, but the Commission unhelpfully and unnecessarily volunteered a statement on their own account undertaking to propose further amendments to the budget if they consider it necessary. However, no one is under any illusions that HMG could accept a revision of the figure agreed for the IGA.

The Economic Secretary's judgement is that, though the IGA figure is somewhat higher than he would have liked, provided he could achieve a figure below 2,000 mecu the balance of advantage clearly lay in reaching an agreement yesterday. Not to have done so would have given wholly the wrong signal to the Agriculture Council, and we could have been faced with demands for an even higher figure in a few weeks time. Moreover, the settlement allows the 1985 budgetary procedure (on which our 1,000 mecu abatement depends) to restart, and it does not increase the European Parliament's margin on non-obligatory expenditure.

There could still be considerable difficulties with the European Parliament in the rest of the budgetary procedure. It is probable that the Parliament will move our 1000 mecu abatement from the revenue to the expenditure side at their first reading, but there have been indications that they may be persuaded to acquiesce in the Council's proposals on this at the budget's second reading.

The UK's gross share of the 1985 IGA will be 423 mecu. As payments in 1985 qualify for abatement under the Fontainebleau agreement the net cost of the IGA should be in the region of 66 mecu or £38 million and therefore significantly less than the 1984 IGA net contribution of about £52 million. This is a point for which we can clearly take credit, though it may be best if we can do so in terms which do not attract too much attention at this stage from the European Parliament until the budget is safely adopted.

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When agreement on the Presidency compromise was on the point of being finalised, the Council was held up for an hour by an argument over whether Belgium should be allowed to reduce its VAT contribution by 17 mecu to reflect revised estimates. The Commission and Germany argued strongly that estimates of own resources should remain the responsibility of the Commission. It was eventually decided that before September the Commission and Member States would carry out a joint review of the VAT base. It is not possible to predict yet what conclusions the review might reach either regarding total VAT revenue or Member States' shares. It cannot be excluded that further changes in the revenue base will be proposed by the Commission following that review. In the Economic Secretary's view, there can be no question of reopening the 1985 IGA for this purpose. Our aim will be to ensure that any consequential adjustments fall under 1986, as the German and UK delegations proposed at the Council.

The Economic Secretary will inform Parliament of the outcome of the Budget Council by means of an arranged PQ for answer later this week and will arrange for the text of the IGA to be deposited in the Library.

Parliamentary time will clearly be required for the approval of the IGA as well as the Own Resources Decision and Treasury and Foreign Office Ministers are currently considering the implications of this with a view to discussions with the Business Managers in the near future.

I am copying this letter to Mr Appleyard (FCO), Mr Morris (Lord Privy Seal's Office), Mr Llewelyn (MAFF) and Mr MacLean (Chief Whip's Office).

Yours ever,
Adrian Ellis

ADRIAN ELLIS
PRIVATE SECRETARY

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~~MR [unclear]~~
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MR RENWICK
MA BARTHWHITE

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24 APR 1985

<u>CABINET OFFICE</u> MR D WILLIAMSON MR G STAPLETON MISS S J LINDEN MR T J HURR MA M H JAY M. MULLER	<u>DTI</u>	<u>PLUS OGD's</u> MR P KEWT HM CUSTOMS & EXC
<u>H M TREASURY</u> MR J B URWIN MR J G LITTLE MR J E MORTIMER MR G W HOPKINSON PS/Economic Secretary M. FITCHER M. CONNELLY	<u>M A T T</u> <u>PERMANENT SECRETARY</u> ROBERTS PEARNS.	

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 TO IMMEDIATE FCO
 TELEGRAM NUMBER 068 OF 24 APRIL 1985
 AND TO IMMEDIATE UKREP BRUSSELS
 INFO BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS,
 BONN, ATHENS.

FM UKREP BRUSSELS
 BUDGET COUNCIL: 23 APRIL 1985
 1985 BUDGET

SUMMARY
 1. DRAFT FIRST READING BUDGET ESTABLISHED. IGA REDUCED TO 1981 MECUS. UNHELPFUL COMMISSION DECLARATION IN RESPONSE TO FRENCH AND GERMAN PRESSURE THAT THEY WOULD SUBMIT NEW RECTIFYING LETTER IF NECESSARY. 1985 DEFICIT AND REVISION OF 1985 OR TO BE IGNORED. TEXT OF IGA AND PAYMENT ARRANGEMENTS FOR 1000 MECU SETTLED SATISFACTORILY.

DETAIL
 2. THE ECONOMIC SECRETARY REPRESENTED THE UK. THE MEETING BEGAN WITH A BRIEF EXCHANGE ON HOW THE MEETING WITH THE DELEGATION FROM THE EUROPEAN PARLIAMENT SHOULD BE HANDLED FOCUSSED ON THE QUESTION WHETHER THE COUNCIL SHOULD START FROM ITS OCTOBER OR NOVEMBER DRAFT BUDGET AND WITH A PREVIEW OF THE MAIN POINTS TO BE MADE LATER IN THE DAY. EMMANUELLI (FRANCE) SAID THAT HE WOULD BE MAKING PROPOSALS TO ENSURE THAT ACCOUNT WAS TAKEN OF THE OUTCOME OF THE PRICE FIXING. TYGESEN (DENMARK) AGREED THAT THE RESULTS OF THE PRICE FIXING SHOULD BE TAKEN INTO ACCOUNT BY MAKING THE INTERGOVERNMENT AGREEMENT FIGURE A PROVISIONAL ONE. MR STEWART SAID THE COUNCIL WOULD HAVE TO ADOPT A RIGOROUS APPROACH TO THE FEOGA FIGURE IF NATIONAL PARLIAMENTS WERE TO APPROVE THE INTERGOVERNMENT AGREEMENT. TIETMEYER (GERMANY) THOUGHT THAT THERE WAS A MARGIN FOR MANOEUVRE IN THE FEOGA BUDGET BUT THE PRICE FIXING HAD YET TO BE AGREED AND ACCOUNT

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THOUGHT THAT THERE WAS A MARGIN FOR MANOEUVRE IN THE FEOGA BUDGET BUT THE PRICE FIXING HAD YET TO BE AGREED AND ACCOUNT WOULD HAVE TO BE TAKEN OF THIS.

3. AFTER LUNCH THE COUNCIL MET WITH THE PARLIAMENTARY DELEGATION (PFLIMLIN, COT, AIGNER, DANKERT, FICH, RYAN, BARBARELLA, SCOTT-HOPKINS, FLESCHE). COT SAID THAT THE PARLIAMENT WOULD DO ALL THEY COULD TO SPEED UP THE PROCEDURE AND WOULD NOT SEEK TO OPEN UP DISCUSSION OF ALL THE BUDGET LINES AGREED LAST AUTUMN. AS CHAIRMAN OF THE BUDGETS COMMITTEE HE WAS SEEKING TO PERSUADE THE CHAIRMEN OF ALL THE OTHER PARLIAMENTARY COMMITTEES TO ACCEPT THIS.

4. FICH, DEVELOPING COMMENTS MADE BY PFLIMLIN AND COT, SAID THAT THE PARLIAMENT DELEGATION HAD AGREED ON 5 POINTS. FIRST, THE FEOGA BUDGET SHOULD BE A 12 MONTH ONE. IF THE AGRICULTURE COUNCIL AGREED HIGHER PRICES THE COUNCIL MUST INCREASE THE BUDGETARY PROVISION. THE PARLIAMENT HAD REJECTED A 10 MONTH BUDGET AND WOULD REJECT AN 11 MONTH BUDGET. HOW WOULD THE BUDGET COUNCIL RESPOND IF THE AGRICULTURE COUNCIL TOOK ITS PRICE FIXING DECISION AFTER THE EUROPEAN PARLIAMENT'S FIRST READING? SECOND, THE PARLIAMENT ACCEPTED THE FIGURE OF 1 BECU AS THE UK REFUND BUT COULD NOT AGREE TO IT BEING PAID AS A DEDUCTION OF VAT. IT SHOULD BE PAID THROUGH REGIONAL AND SOCIAL MEASURES. THE NEW OWN RESOURCES DECISION HAD TO BE RATIFIED BY THE MEMBER STATES BEFORE IT COULD TAKE EFFECT. THIRD, THE PARLIAMENT WANTED THE COUNCIL TO TAKE DECISIONS ON IMPS AS PART OF THEIR FIRST READING. FOURTH THE PARLIAMENT ACCEPTED THE COMMISSION'S PROPOSALS ON FOOD AID. FIFTH THE IGA AMOUNT SHOULD NOT BE FIXED UNTIL THE END OF THE BUDGET PROCEDURE.

5. FRACANZANI (PRESIDENCY) SAID IT SEEMED CLEAR THAT PARLIAMENT WANTED TWO READINGS OF THE BUDGET. THE UK ABATEMENT HAD BEEN SETTLED AT THE HIGHEST LEVEL AND THERE WAS NO GOING BACK ON IT. THE FOREIGN AFFAIRS COUNCIL WOULD BE DISCUSSING THE ISSUE WITH THE PARLIAMENT ON 29 APRIL. ON IMPS, THE COUNCIL HAD TO TAKE ACCOUNT OF HOW QUICKLY THE PROGRAMME COULD BE IMPLEMENTED. HE NOTED THE PARLIAMENT'S POSITION ON THE IGA WITHOUT COMMITMENT.

6. FICH THEN MADE A VERY CONFUSED STATEMENT ABOUT THE ABATEMENT SAYING IT SHOULD BE TAKEN IN PARALLEL WITH THE STRUCTURAL FUNDS, BUT WAS CUT SHORT BY PFLIMLIN, WHO SEEMED CONCERNED TO KEEP THE TEMPERATURE DOWN. PFLIMLIN ALSO SAID THAT SCOTT-HOPKINS AND OTHER UK MEPS DID NOT SHARE THE VIEWS ON THE ABATEMENT WHICH HE, FICH AND COT HAD EXPRESSED. FRACANZANI SAID IN CONCLUSION THAT THE PARLIAMENT'S BUDGET COMMITTEE WOULD BE INFORMED AT THEIR MEETING TOMORROW OF THE OUTCOME OF THE COUNCIL. UNHELPFULLY HE SAID HE WAS SURE THE COUNCIL AGREED THAT THE AGRICULTURE FIGURE MIGHT HAVE TO BE REVISED AS A RESULT OF THE PRICE FIXING.

7. FOLLOWING THE MEETING WITH THE PARLIAMENT, CHRISTOPHERSEN
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SORRY HAD A HIT PSE START AT PARA 7.

7. FOLLOWING THE MEETING WITH THE PARLIAMENT, CHRISTOPHERSEN PRESENTED THE COMMISSION'S AMENDING LETTER. FONTAINEBLEAU HAD AGREED THE ABATEMENT AND THE MEMBER STATES HAD NOW AGREED THE METHOD OF IMPLEMENTATION. THE COMMISSION WOULD ABIDE BY THIS.

METHOD OF IMPLEMENTATION. THE COMMISSION WOULD ABIDE BY THIS. ON FEOGA, IF PRICES WERE INCREASED BEYOND THE COMMISSION PROPOSAL THEN THE ADDITIONAL EXPENDITURE WOULD HAVE TO BE COVERED.

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8. FRACANZANI SAID THE COUNCIL SHOULD FIRST TAKE A DECISION ON PROCEDURE. COT HAD ASSURED HIM THAT THE PARLIAMENT WOULD NOT TAKE ADVANTAGE OF THEIR RIGHT TO INCREASE THEIR MARGIN IF THE COUNCIL SENT THEM THEIR NOVEMBER BUDGET AS THE FIRST READING DOCUMENT. O'KEEFFE SUPPORTED THIS PROCEDURE BUT EMMANUELLI AND MR STEWART SAID THAT COT COULD NOT SPEAK FOR THE PLENARY AND THE COUNCIL SHOULD NOT RUN THE RISK ON THE MARGIN. IT WAS AGREED THAT THE COUNCIL WOULD WORK ON THE BASIS OF LAST OCTOBER'S BUDGET.

9. DISCUSSION FOCUSED FIRST ON FEOGA. MR STEWART REHEARSED OUR ARGUMENTS FOR ECONOMIES IN THE FEOGA BUDGET THROUGH BETTER MARKET MANAGEMENT, ESPECIALLY IN BEEF, WINE, OLIVE OIL AND SUGAR, AND A MORE REASONABLE VIEW ON EXCHANGE RATE. DEFINITIVE FIGURES HAD TO BE FIXED BOTH FOR FEOGA GUARANTEE AND FOR THE IGA.

10. TYGESEN SAID THE ONLY OBJECTIONABLE PROPOSAL THE PARLIAMENTARY DELEGATION HAD MADE WAS ON THE UK ABATEMENT. THE COMMISSION'S FEOGA FIGURE SHOULD BE ACCEPTED AS PROVISIONAL TO BE REVIEWED IN THE LIGHT OF THE PRICE FIXING DECISION. HE THOUGHT THAT IMPS EXPENDITURE SHOULD BE COMPULSORY. ON FOOD AID THEY COULD ACCEPT EITHER THE COMMISSION FIGURE OR THE BELGIAN COMPROMISE. THE IGA FIGURE HAD TO BE PROVISIONAL.

11. O'KEEFFE AND EMMANUELLI AGREED WITH TYGESEN THAT THE FIGURE AGREED TODAY SHOULD BE PROVISIONAL. MAYSTADT (BELGIUM) SAID THAT THE BUDGET COUNCIL SHOULD DECIDE IN FINAL, NOT PROVISIONAL FIGURES. VAN EEKELLEN AGREED. NO COMMITMENT SHOULD BE GIVEN AT THIS STAGE TO ACCOMMODATE THE OUTCOME OF THE PRICE FIXING IT WAS DANGEROUS TO LEAVE OPEN THE IGA. TIETMEYER SAID THE COMMISSION'S FEOGA FIGURE WAS ON THE SAFE SIDE; BUT IT SHOULD NOT BE CUT. THE COMMISSION HAD GIVEN ITSELF A MARGIN OF MANOEUVRE FOR OTHER DECISIONS. HE COULD ACCEPT THE COMMISSION FIGURE BUT WOULD WANT TO SEE HOW THE 1985 SURPLUS COULD BE USED TO FINANCE IT. AS FOR THE IGA, IT WOULD BE POSSIBLE TO AGREE A PROVISIONAL FIGURE WHICH COULD BE FINALISED AT SECOND READING OR TO REACH AGREEMENT NOW ON A UPPER LIMIT WHICH MIGHT NOT NECESSARILY BE THE ONE USED IN THE BUDGET. CHRISTOPHERSEN REITERATED THAT THE COMMISSION'S FIGURES WERE A MINIMUM.

12. EMMANUELLI ASKED WHETHER THE COMMISSION WAS READY TO COMMIT ITSELF TO PUT FORWARD A RECTIFYING LETTER FOR FEOGA INCREASES DUE TO CONJUNCTURAL DEVELOPMENTS OR THE PRICE FIXING. CHRISTOPHERSEN SAID HE WOULD BE PREPARED TO SEND A RECTIFYING LETTER IF NECESSARY. VAN EEKELLEN SAID THAT INCREASES BROUGHT ABOUT THROUGH THE PRICE FIXING SHOULD BE OFFSET BY REDUCTIONS IN OTHER BUDGET LINES. THE COUNCIL WOULD NEED TO DELIBERATE FURTHER BEFORE ITS SECOND READING ON HOW TO ACCOMMODATE THE PRICE FIXING. EMMANUELLI'S PROPOSED DECLARATION WAS UNNECESSARY. TIETMEYER AGREED THE COMMISSION SHOULD SEND A LETTER OF AMENDMENT IF NECESSARY AND THE COUNCIL COULD AGREE NOW THAT IF THIS HAPPENED THE DUTCH/FRENCH PROPOSAL OF A 1985 SURPLUS SHOULD BE USED TO FINANCE IT. MAYSTADT AND MR STEWART SAID THAT A PROVISIONAL FIGURE WOULD SEND THE WRONG SIGNAL TO THE AGRICULTURE COUNCIL.

13. IN A TOUR DE TABLE ON THE NON-FEOGA EXPENDITURE ITEMS, THE GREEKS REPEATED THEIR STATEMENT ON IMPS AND THE BELGIANS COMPLAINED ONCE MORE ABOUT THEIR VAT FIGURE. TIETMEYER, MR STEWART, VAN EEKELLEN AND EMMANUELLI SAID THE COUNCIL SHOULD STICK FIRMLY TO THE OCTOBER FIRST READING WITH NO CHANGES. IMPS WOULD HAVE TO BE TAKEN INTO ACCOUNT AT SECOND READING. MR STEWART ASKED WHETHER

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THE OCTOBER FIRST READING WITH NO CHANGES. IMPS WOULD HAVE TO BE TAKEN INTO ACCOUNT AT SECOND READING. MR STEWART ASKED WHETHER CHRISTOPHERSEN COULD CONFIRM THE COMMISSION'S AGREEMENT IN COREPER TO PAY THE UK'S 1,000 MECU ABATEMENT IN DECEMBER IF RATIFICATIONS WERE COMPLETED THEN. CHRISTOPHERSEN SAID THAT TO ACCOMMODATE THE UK THE COMMISSION WOULD PROPOSE A SMALL CHANGE IN THE TEXT OF THE LETTER OF AMENDMENT TO SAY PAYMENT WOULD BE MADE IMMEDIATELY AFTER THE FINAL RATIFICATION RATHER THAN ON THE FIRST OF THE FOLLOWING MONTH. TIETMEYER SAID HE COULD AGREE TO AN AMENDMENT IF IT PROVIDED THE POSSIBILITY OF SPEEDIER PAYMENT BUT COULD NOT ACCEPT IT IF IT WAS BEING MADE MANDATORY. (THE GERKANS APPEARED TO BE CONCERNED THAT THEY COULD PAY THEIR CONTRIBUTION TO THE 1000 MECU IN JANUARY 1986 WITHOUT ANY INTEREST PENALTY). CHRISTOPHERSEN RECOGNISED THAT THERE MAY BE PRACTICAL PROBLEMS FOR THE MEMBER STATES HAVING TO PAY THE ABATEMENT.

14. TYGESEN SAID THAT THE TEXT OF THE IGA SHOULD REPEAT LAST YEAR'S REFERENCE IN THE FOOTNOTE TO THE NEED FOR DOMESTIC PARLIAMENTARY APPROVAL IN CERTAIN MEMBER STATES. MR STEWART AGREED. THE COUNCIL THEN BROKE FOR THE PRESIDENCY TO PUT TOGETHER A COMPROMISE PROPOSAL.

15. THE PRESIDENCY'S FIRST EFFORTS AT A COMPROMISE INVOLVED SETTING THE IGA AT JUST UNDER 1.8 BECU, ON THE BASIS OF THE COMMISSION'S FIGURES FOR FEOGA GUARANTEE EXPENDITURE, THE 1984 DEFICIT AND THE REVISED FORECAST OF 1985 TRADITIONAL OWN RESOURCES, REDUCED BY AN ENTRY ON THE REVENUE SIDE FOR THE ASSUMED 1985 SURPLUS. BUT THIS REPORTEDLY FOUNDERED ON COMMISSION OPPOSITION TO SUCH A LARGE REDUCTION IN THEIR "REALISTIC" BUDGET. THE PRESIDENCY THEN CHANGED TACK, PROPOSED AN IGA OF 1.998 MECUS, ARRIVED AT BY DISREGARDING BOTH THE REVISED FORECAST OF THIS YEAR'S TRADITIONAL OR AND THE 417 MECU DEFICIT, AND TABLED THE COMPROMISE IN MIFT.

16. THE PRESIDENCY PROPOSALS ON FOOD AID, R AND D, THE COURT OF JUSTICE AND IMPS WERE AGREED WITH LITTLE FURTHER DISCUSSION. IT WAS ALSO AGREED THAT THE 1985 IGA SHOULD INCLUDE A FOOTNOTE ON THE LINES OF THAT FOR 1984.

17. ON THE 1000 MECU, TIETMEYER CLAIMED IT HAD BEEN AGREED AT THE FAC ON 17-20 APRIL THAT GERMANY WOULD NOT HAVE TO MAKE ITS CONTRIBUTION MECU UNTIL JANUARY 1986 AND WAS RESISTANT TO A FORM OF WORDS WHICH COULD BE TAKEN TO COMMIT THEM TO A PAYMENT DURING THE COURSE OF DECEMBER. IN THE END IT WAS AGREED THAT THE DECLARATION ON PAGE 35 OF THE RECTIFYING LETTER SHOULD BE REVISED TO SAY THAT PAYMENT WOULD BE MADE "NO LATER THAN THE FIRST WORKING DAY OF THE MONTH FOLLOWING THE ENTRY INTO FORCE OF THE NEW ORD". MR STEWART MADE CLEAR THAT WE ACCEPTED THAT THE COMMISSION, THE GERHANS AND OTHER DELEGATIONS WOULD DO THEIR BEST TO ENSURE THAT THE LETTER OF THE FONTAINEBLEAU AGREEMENT WAS HONOURED.

18. THE REMAINING POINTS CAUSED MORE DIFFICULTY, AS DID THE RELATED QUESTION OF THE STATUS AND FINALITY OF ANY AGREEMENT REACHED AT THE COUNCIL.

19. ALL DELEGATIONS OTHER THAN THE UNITED KINGDOM CONFIRMED THEIR ACCEPTANCE OF THE COMMISSION'S PROPOSAL FOR GUARANTEE EXPENDITURE, BUT TYGESEN SUPPORTED BY EMMANUELLI CONTINUED TO PRESS THE CASE THAT THE FIGURE MIGHT HAVE TO BE INCREASED TO TAKE ACCOUNT OF THE PRICE-FIXING. CHRISTOPHERSEN CIRCULATED AN UNHELPFUL DECLARATION BY THE COMMISSION (TEXT IN MY SECOND IFT) WITH WHICH TYGESEN SAID THAT THE COUNCIL SHOULD BE ASSOCIATED.

20. MR STEWART ACCEPTED WITH RELUCTANCE THAT THE PRESIDENCY PROPOSAL COULD FORM THE BASIS OF AN AGREEMENT BUT THERE MUST BE

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20. MR STEWART ACCEPTED WITH RELUCTANCE THAT THE PRESIDENCY PROPOSAL COULD FORM THE BASIS OF AN AGREEMENT. BUT THERE MUST BE NO SUGGESTION THAT THE COUNCIL WAS PREPARED TO GO HIGHER IN THE LIGHT OF THE PRICE FIXING OR BECAUSE OF OTHER FUTURE DEVELOPMENTS. IT WAS DIFFICULT TO RECONCILE CHRISTOPHERSEN'S STATEMENT WITH THE COMMISSION'S LINE IN THE PRICE-FIXING. VAN BEUGEN (NETHERLANDS) AGREED THAT THE COUNCIL SHOULD NOT BE ASSOCIATED WITH THE COMMISSION'S DECLARATION; THIS SOLUTION WAS FINALLY AGREED, THE COUNCIL SECRETARIAT CONFIRMING THAT THE MINUTES WILL NOT RECORD ANY ATTITUDE ON THE PART OF THE COUNCIL TOWARDS THE COMMISSION'S DECLARATION.

21. EMMANUELLI, SUPPORTED FOR A WHILE BY ROUMELIOTIS, OBJECTED TO THE PROPOSED UNDERSTATEMENT OF 1985 OR. PARLIAMENT WOULD OBJECT TO THE COUNCIL'S FIGURE, AMEND IT AND MAKE A CORRESPONDING INCREASE IN DNO. HE SHOUGHT COMMISSION SUPPORT FOR HIS VIEW, BUT OBTAINING ONLY EQUIVOCATION FROM CHRISTOPHERSEN, DID NOT PURSUE THE POINT.

22. HAVING ACCEPTED ALL OTHER POINTS IN THE PRESIDENCY COMPROMISE, THE COUNCIL THEN GROUND TO A HALT OVER THE BELGIAN REQUEST FOR A REDUCTION OF 17 MECY IN THEIR VAT CONTRIBUTION. AFTER AN HALF HOUR DELAY IT WAS FINALLY AGREED THAT THE COUNCIL AND COMMISSION COULD AGREE THAT BEFORE SEPTEMBER THE COMMISSION AND THE MEMBER STATES WILL CARRY OUT A REVIEW OF THE VAT BASES OF ALL THE MEMBER STATES. MEANWHILE THE BELGIAN VAT BASE WOULD REMAIN UNCHANGED, REDUCING THE ICA TO 1981 MECU.

FCO ADVANCE TO:-

FCO - WALL, BLOOMFIELD

CAB - JAY, MERCER

MAFF - ROBERTS, PERRINS

TSY - PS/ECONOMIC SECRETARY, UNWIN, FITCHEW, HOPKINSON, DONNELLY,
MORTIMER

UKREP DIST - LENNON, BOSTOCK / AGR, ECON

BHILES

NNNN

creo



Prime Minister *JPL* ②

Qz.04401

Good - thank you
keep me report on progress with your
in touch with deregulation initiative.
There is close coordination
with Lord Young & Misc 114
CDP

MR POWELL

EUROPEAN COMMUNITY: CUTTING THE BURDEN OF COMMUNITY LEGISLATION
ON BUSINESS AND ENTERPRISE 24/4

As a result of the Prime Minister's initiative at the European Council, the conclusions record specifically that the European Council laid particular stress on these fields of action:

"(a) Action to achieve a single large market by 1992, thereby creating a more favourable environment for stimulating enterprise, competition and trade: it called upon the Commission to draw up a detailed programme with a specific timetable before its next meeting;

(b) Action to encourage the creation and development of small and medium-sized undertakings, particularly by significantly reducing the administrative and legal constraints to which they are subject; it called upon the Commission to report to the Council on the problems in this sector and on the measures to be taken at national and Community level, particularly with regard to administrative simplification;

(c) Action to adjust and adapt working conditions to the new social, economic and technological circumstances in order to increase the efficiency of the labour market. It called upon the Commission to submit any proposal it might consider useful in this area;"

This minute reports the action which we have immediately taken to follow up these conclusions on deregulation and the reduction and avoidance of unnecessary burdens of Community legislation in enterprise and business.

2. First, we requested the Commission through Monsieur Delors' cabinet to take the following steps:

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(i) to instruct their officials in all relevant fields to go through existing European Community legislation to see where it imposed a burden on small and medium scale enterprises and what could be done about it;

(ii) to instruct their officials to take specific account of this aspect in the preparation of any new proposals;

(iii) to give a specific remit to someone with energy and drive to ensure that these things are done, and to act as a channel of communication with member states and representatives of business.

3. The Commission is taking the initiative seriously. An energetic and able official - Monsieur Defraigne, who has spent part of his service in Monsieur Davignon's cabinet and part in the United States - has been appointed to follow up the Council's conclusions. We have already explained to him in more detail our ideas and proposals for reducing the burden not only on small and medium scale business but on all enterprises. Monsieur Defraigne has welcomed our approach. We have also stressed to the Commission the importance of ensuring that their proposals are consistent with the European Council's conclusions on labour market flexibility.

4. Secondly, we need to keep the pressure on the Commission and to promote our own objectives in detail. Departments have been asked to provide the Cabinet Office by 2 May with a list of specific European Community directives or regulations which are open to criticism as being unjustifiably burdensome on business and enterprise. We shall aim to provide Sir Michael Butler with a consolidated list to pass to the Commission by the middle of May, in order to influence their work between now and the Milan European Council. This will be a first trawl and does not rule out further proposals at a later stage, when Departments have completed their assessments.

5. Thirdly, it is important that employers' organisations play their part in this exercise. The Department of Trade and Industry is therefore asking the CBI, the Institute of Directors, and the

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small business organisations to identify the regulations which industry finds particularly burdensome. They are also suggesting that the CBI might make contact at Community level with UNICE and with the employer organisations in other member states so that the views of industry may be fed directly into the Commission. The Enterprise Unit has already been in touch with the CBI along similar lines in the context of the work which MISC 114 is doing on deregulation, and UKREP have been in touch with the CBI's representative in Brussels. The CBI has shown positive interest.

6. Fourthly, we need to encourage other member states to impress on the Commission the importance they attach to the exercise. Appropriate briefing is being provided for meetings which the Prime Minister and other Ministers may have with Ministers of other member states and with Commissioners between now and the Milan European Council. If necessary, we shall lobby member states in capitals before the Milan Council, when the first results can be judged.

7. Our aim is not only to reduce the burden on business created by existing or proposed regulations, but to bring about a permanent change in the way the Commission thinks about the effects of regulations on businesses, and thereby to make a permanent improvement in the climate in which businesses operate. We must not therefore let our sights rest on the Milan European Council. We shall need to keep the pressure up on the Commission and on member states beyond that.

8. Finally, I should stress that in following up the Prime Minister's initiative, we are working very closely with the Enterprise Unit and with MISC 114 on deregulation, chaired by the Minister without Portfolio. A report will be made to MISC 114 shortly and any ideas arising from discussion in that Committee will be used, if appropriate, with the Commission.

9. I am sending copies to Colin Budd (FCO), John Mogg (DTI), David Normington (Dept of Employment), Leigh Lewis (Office of the Minister without Portfolio) and to Sir Robert Armstrong.

D. F. Williamson

D F WILLIAMSON

24 April 1985



Ref. A085/1171

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary may refer to the recent French proposal for a European Research Co-ordination Agency (Eureka). This would be an agency outside the Community framework, separately financed by contributions from business and Governments, which would co-ordinate research and development in a variety of fields, including space, computers, artificial intelligence and micro-electronics. One purpose of the French may be to try to encourage European research to match the advantages which United States industry will gain from the spin-off from the Strategic Defence Initiative. The proposal is not well thought out - it would, for example, overlap with a number of existing programmes - but since the French have secured some German support for their initiative, the Foreign Secretary will suggest that at this stage the United Kingdom's attitude should be a questioning one, taking no commitments and seeking to clarify what is intended.

2. The Chancellor of the Exchequer will report that the Budget Council on 23 April, at which the United Kingdom was represented by the Economic Secretary, reached agreement on the financing of the 1985 budget overrun. Led by the United Kingdom, the Council cut back the Commission's request for an additional £1.3 billion (2.3 billion ecu) to about £1.1 billion (1.9 billion ecu) which represents little more than the provisional November figure of 1.3 billion ecu plus the 1984 revenue deficit. The United Kingdom's gross share of this under the second Intergovernmental Agreement will be correspondingly reduce at around £240 million.



Since the Fontainebleau abatement system will apply this time, the net cost to the United Kingdom will be about £40 million, ie over £10 million less than the figure for 1984.

3. The Minister of Agriculture, Fisheries and Food will report that, as he forecast to Cabinet last week, the Agriculture Council on 22-23 April reached no decisions on farm prices for 1985-86. The Italian Presidency's attempt at a compromise, which was less satisfactory than the Commission's original proposals and would have upset the balance both between the arable and livestock sectors and between Northern and Mediterranean products, failed to attract support from the Commission or the majority of member states. Mr Jopling stated that in many respects it took the negotiations backwards rather than forwards. British farmers do not like the delay in settlement but it is advantageous to the British taxpayer. In particular, for milk the further cut in quotas has now come into effect automatically but the costly element (higher target price) has not been agreed and in our view cannot for physical reasons be backdated. This is important as we approach the peak period of European milk production. The next meeting of the Agriculture Council will now be on 2-5 May.

4. The informal meeting of Research Ministers on 23-25 April, at which the United Kingdom is being represented by the Minister for Information Technology, is discussing a wide range of research and development issues but is not expected to take any decisions requiring a report to Cabinet.

5. The Foreign Affairs Council meet on 29-30 April, and the Agriculture Council on 2-5 May. There will be an informal meeting of Health Ministers on 3-4 May.

ROBERT ARMSTRONG

24 April 1985

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cert.

01-936- 6229 w.e.f. 28 May 1985

01-405 7641 Ext.

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.

H Darwin Esq. CMG.
Legal Advisers
Foreign and Commonwealth Office
Downing Street
London SW1

24 April 1985

Jean Henry,

DEVELOPMENT OF THE EC

NBPN

COO

24/4

The Attorney General has seen a copy of Colin Budd's letter to Rachel Lomax of 18 April which attached a minute from your Secretary of State to the Prime Minister dated 15 April. Your Secretary of State suggested in paragraph 11 of that minute that we should aim to produce our own draft agreement on political cooperation and mentioned that he was in the process of considering a possible text. The Attorney considers that this text may be of such importance that it should be seen by him before it is put to the other Member States. I should therefore be grateful if you could provide me with the text and any necessary background material. The Attorney has also noted that the French idea of reducing the number of Treaty Articles requiring unanimity would be much more attractive to us if it were accompanied by "formalisation of the Luxembourg Compromise in the Treaty". He has asked whether consideration has been given by FCO Legal Advisers as to how this formalisation should be effected and whether you have prepared a draft Treaty amendment.

I am copying this letter only to Colin Budd and Charles Powell.

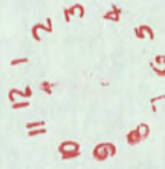
Yours sincerely,
Charles Powell

M L SAUNDERS

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EURO . POL : Budget : Pt 29.

24 APR 1985





CDP
22/4.

Treasury Chambers, Parliament Street, SW1P 3AG

22 April 1985

Charles Powell Esq
No 10 Downing Street
LONDON SW1

Dear Charles

BUDGET COUNCIL

Thank you for your letter of 19 April. The Economic Secretary will be pressing hard to get the additional finance below 2bn - but the signs are not propitious. We are without support from any other Member States in arguing for reductions in FEOGA spending, which is the main cause of the problem.

However even on the figure of 2.2 billion ecu for which the Commission are now asking, following a reduction of 100 mecu in the 1984 deficit, our net contributions would be less than under the 1984 IGA (about 70 mecu rather than 90 mecu). The arithmetic is broadly as follows, on conservative assumptions about the likely level of UK receipts:

1984

UK share of 1984 IGA of 1 billion ecu	201 mecu
Estimated UK receipts	<u>110 mecu</u>
Net costs	91 mecu

1985

UK share of 1985 IGA of 2.2 billion ecu	461 mecu
Estimated UK receipts	<u>244 mecu</u>
Net UK share	217 mecu
Less Fontainbleau abatement of 2/3	<u>145 mecu</u>
Net costs	<u>72 mecu</u>

Yours ever,
Adrian Ellis
ADRIAN ELLIS
Private Secretary

22 APR 1985

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NBAM
CDP 22/4.FCS/85/104ECONOMIC SECRETARYBudget Council att.

1. Thank you for your letter of 18 April.
2. I agree with the approach you outline. It was in our interests to see the revenue deficit of 500 mecus from 1984 pushed into this year, as our contribution to last year's over-run was not covered by the Fontainebleau mechanism. But we shall not be able to push significant amounts of expenditure into next year. We must do our utmost to reduce the Commission's forecasts for FEOGA spending, though the Commission's estimate of the likely dollar/ecu exchange rate now looks more realistic than it did at an earlier stage.
3. As you note, we can count on no effective support from the Germans or, probably, others. Nevertheless, we must seek savings and aim for agreement on the lowest figure we can. It may be that, for different reasons, others will not be ready finally to settle at this Budget Council, in which case we can press for the search for savings to go on. If a figure is settled there could of course be no question of any further supplementary finance.
4. Although the overall amount to be financed is certain to be higher than last year our own net contribution, as a result of the Fontainebleau mechanism, will be significantly smaller.

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5. I am copying this minute to the Prime Minister, the Minister of Agriculture and the Secretary to the Cabinet.

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

GEOFFREY HOWE

Foreign and Commonwealth Office
22 April, 1985

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KB
15

10 DOWNING STREET

From the Private Secretary

19 April 1985

BUDGET COUNCIL

The Prime Minister has noted the Economic Secretary's letter of 18 April to the Foreign and Commonwealth Secretary about the Commission's request for an additional 2.3 billion ecu for the 1985 Budget. Her understanding is that there is a prospect of getting the figure down to something like 1.8 million ecu; and that the United Kingdom's contribution to this would, because of the Fontainebleau mechanism, be rather less than the supplementary finance which we had to provide in 1984. Perhaps you could confirm this.


The Prime Minister has not otherwise commented.

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).

CHARLES POWELL

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

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Prime Minister CCFC (2)

The implication of this is that the Treasury think that we shall

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Geoffrey Howe
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

have to settle for
a 1985 Supplementary
Budget for the Community

18 April 1985

at 1.8 billion ecu, rather than the 1.3 originally envisaged.

But with the Fontainebleau mechanism our contribution will be "only" 60/70 million ecu, less than the extra 100 million we had to find last year. CDP/1/85

Dear Geoffrey,

BUDGET COUNCIL

As you will know, the Budget Council will next week consider the Commission's request for an additional 2.3 becu for the 1985 Budget, over and above what is available within the 1% VAT ceiling, to be provided through a second Intergovernmental Agreement (IGA).

This figure is, of course, much higher than the 1.315 becu figure envisaged at last November's Budget Council. Inevitably, the main cause of the problem is agriculture.

The Commission's request for an extra 2.3 becu certainly looks excessive. In particular, their assumptions about the dollar/ecu exchange rate seem highly questionable, even after the recent fall in the dollar, and their proposed destocking programme looks overambitious. I will therefore be pressing hard for savings under these headings. That said, the current rate of spending from FEOGA Guarantee is much higher than was foreseen at the November Budget Council. Moreover, it is clear from the official level discussions in Brussels and from our contacts with other Finance Ministries that we will have little or no help from other Member States in cutting the Commission's proposals. Our usual allies, the Germans, will not support us because of their current preoccupation with their farm sector. For all these reasons, I am afraid there is no prospect of getting back to the November 1.315 becu figure or even very close to it.

Reductions in non-obligatory expenditure will also be difficult. In the first place I think that the general posture should be to maintain the figures agreed with the Council last November - ruling out upward movements. On the other hand, we now have the revenue deficit of over 500 mecu from 1984 to accommodate, though unused appropriations of about 1000 mecu were also carried forward and some partial offset may be negotiable. I do not

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believe that we should attempt, artificially, to manipulate the 1985 revenue figures, as we did for 1984 in order to throw the cost forward so that it would qualify for Fontainebleau abatement. I intend, however, to press for savings on account of the prospective underspending in the Structural Funds, which, as last year, looks likely to be substantial. In doing that I shall, of course, have to bear in mind that we are net beneficiaries from the Social and Regional Funds and that any substantial reductions could be to our overall disadvantage.

All in all, my aim is to get agreement to something below 2 billion ecu for additional finance, in other words, little if any more than the provisional figure of 1.3 becu plus the 1984 revenue deficit. If I can achieve that I would be prepared to settle at this Council. If no movement is offered by anyone else to get below 2 billion ecu I shall have to consider very seriously whether I should not insist on a prolongation of the search for savings - running on to another Council if need be. But that can only be decided in the tactical circumstances of the time.

If the Budget Council reaches agreement on the budgetary figures it can also proceed to deal with the IGA. As you know, we are proposing to insert in the draft produced by the FAC an appropriate safeguard for the position of national Parliaments.

Copies of this letter go to the Prime Minister, Michael Jopling, and Sir Robert Armstrong.

Yours

Ian

IAN STEWART



Comments given to
Mr. Deminck.

GO.
[Pol. Coop. in the EC].

1. This is the present state of the draft on political cooperation.
2. The preamble makes clear that the Community as such could have no competence in the matter, i.e. it is an agreement between the member states. There could be no jurisdiction for the Court or other Community institutions.
3. Except for paragraphs 19 and 20, all the language is in existing agreed documents.
4. All the agreement does, therefore, is codify existing practice. But the provisions in paragraphs 4 and 6 and 10 to 13 could give us additional help on some issues, e.g. the Falklands, and put more pressure on the Greeks.
5. Paragraphs 17 and 18 are essential for Kohl. The Irish may have to enter reservations about them, but that is their problem. Paragraph 19 is desirable. It is what we want and would put more pressure on the French over the European Fighter Aircraft.
6. Grateful for any personal thoughts before this is submitted here.

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DRAFT AGREEMENT ON POLITICAL COOPERATIONI) Introduction

1. The Member States of the European Community, mindful of the many agreements which already bind them, notably the Treaties of Rome and Paris, have decided to confirm and strengthen the commitments they have undertaken in European Political Cooperation so as to ^{enable them} ~~provide a secure~~ ^{to act jointly more open & more effectively} ~~and lasting basis for joint action~~ in world affairs.

II) Objectives

2. The Member States undertake to work for the following objectives, for which purpose they have established European Political Cooperation:

- To ^{develop} ~~ensure~~ by means of regular consultations and exchanges of information ^{to broad similarity views} ~~mutual understanding~~ as regards the main problems of international relations.
- To ensure that their combined influence is deployed in the most effective way through the ^{coordination} ~~harmonisation~~ of their views, the alignment of their positions and, particularly, joint action.

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- Progressively, to aim towards a common external policy.

III) Basic Principles

3. Member States will consult on all important questions of Foreign Policy, including the political and economic aspects of security.

4. Such consultations will ^{as a rule} take place before Member States adopt final positions on major Foreign Policy questions of interest to them all.

5. Each Member State will take full account of the position of its partners and give due weight to the desirability of the adoption and implementation of common European positions when working out national positions and taking national action.

6. Member States will avoid action likely to damage their joint reputation as a coherent force in international relations.

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IV) Structure

7. The instruments of Political Cooperation will operate under the general guidance of the European Council. The structure is set out in Annex I, which may be amended by unanimous agreement.

V) Relations with the Institutions of the European
Communities

8. Member States will ensure maximum coherence between the external policies of the Community and the policies agreed in European Political Cooperation. To this end the Commission will be fully associated with Political Cooperation. In particular, unless in any particular case all Member States agree to the contrary, the Commission will be invited to all meetings of Political Cooperation.

9. Member States will ensure that the European Parliament is informed of developments in Political Cooperation.

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VI) The Ten in International Organisations

10. Member States will work for common positions in international organisations and at major international conferences attended by one or more of them and covering questions dealt with in Political Cooperation.

11. Paras 4 and 5 above will apply to actions by Member States in such organisations on questions involving all Member States.

12. Para 6 above will also apply in such organisations.

13. In particular a Member State will not support a resolution in such organisations which directly criticises, or might gravely affect the vital interests of, another Member State. Member States will also avoid a situation where one or more of them co-sponsor a resolution which another or others of them intend to oppose.

VII) Contacts with Third Countries

14. With the aim of making their joint diplomacy effective, the Member States will ensure that Political

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Cooperation establishes the necessary contacts with third countries and regional groupings of interest to the Ten.

VIII) Missions of Member States

15. The Member States will work to intensify cooperation between their missions in third countries and in international organisations. The aim of such cooperation will be to enable missions to perform their functions more effectively and economically through mutual assistance, shared facilities, shared information and joint action.

16. In particular Member States will work both to take advantage of local opportunities, and to establish general schemes, for strengthened cooperation in third countries on the matters listed in Annex III, which may be amended by unanimous agreement.

IX) Security

17. The Member States agree that closer European cooperation on security matters is an essential component of the effort to develop Europe's external political identity. The aim of such cooperation will be to

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maximise the contribution Member States can make to the objectives of the organisations specifically established to guarantee Western security, in particular the Atlantic Alliance and the Western European Union.

18. The Member States will develop and strengthen consultation on security problems in European Political Cooperation. They will in particular exchange information and views on the effect on their security interests of international developments. They will work to concert their position on the major problems posed by the preservation of peace in Europe.

19. Member States will also work to enhance their contribution to the objectives of the Alliance and other relevant bodies by strengthened cooperation in the joint design, development and production of military equipment and systems.

20. The Member States are determined to maintain the technological and industrial conditions necessary for their security. They will work both individually and, as appropriate, through their joint institutions for this end.

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ANNEX I: THE STRUCTURE OF POLITICAL COOPERATION

(a) The Presidency of Political Cooperation will be held by the same Member State as holds the Presidency of the Communities.

(b) The Presidency will be responsible for the day to day management of Political Cooperation. It will in particular be responsible for the timetable and other arrangements for meetings, and for the preparation of and circulation of drafts, agendas, conclusions and other necessary texts.

(c) Foreign Ministers will discuss Political Cooperation matters formally at least four times per year, and informally as appropriate. These discussions may take place on the same occasion as meetings of Ministers in the Community framework.

(d) Political Directors will meet monthly in the Political Committee in order to maintain the continuity of Political Cooperation and to prepare discussions among Ministers.

(e) Working Groups of experts from Member States' Foreign Ministries, whether of a continuing nature or ad hoc to deal with particular problems, will meet as directed by the Political Committee.

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(f) The Political Committee or, if necessary, a Ministerial meeting, will convene within 48 hours at the request of three Member States.

(g) The Presidency will be assisted by a small Secretariat based in the main place of work of the Community. The office space and services will be provided by the Council Secretariat. The Head of the Secretariat will be appointed by agreement among the Member States.

(h) The functions of the Secretariat, which will work under the direction of the Presidency, will include those set out in Annex II, which may be amended by unanimous agreement.

(i) As is required by their functions the Head and Members of the Secretariat will be free to attend relevant meetings held in the Community framework.

(j) Formal Political Cooperation meetings at Ministerial level may take place in the capital of the Presidency. At official level they will normally take place at the Community's places of work unless otherwise agreed.

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ANNEX II: FUNCTIONS OF THE POLITICAL COOPERATIONSECRETARIAT

The Secretariat will:

- (a) Advise the Presidency as necessary on the conduct of Political Cooperation, in particular in maintaining coherence between the external policies of the Community and the policies agreed in European Political Cooperation.
- (b) Provide support for Political Cooperation meetings - including as necessary the preparation and circulation of texts, keeping of records and preparation of conclusions.
- (c) Assist the Presidency in the preparation of texts to be issued on behalf of the Member States including replies to European Parliament questions.
- (d) Keep a Political Cooperation archive.
- (e) Prepare, and to update as necessary, a full codification of Political Cooperation rules and practices.

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ANNEX III: AREAS FOR COOPERATION AMONG MEMBER STATES'
MISSIONS IN THIRD COUNTRIES

1. Exchange of Political and Economic Information.
2. Shared Information on Administrative Problems.
3. Mutual Assistance and Sharing of Organisational Infrastructure.
4. Cooperation on Communications.
5. Exchange of Information and Joint Planning for Local Crises.
6. Cooperation on local Security Measures.
7. Cooperation on Consular Matters.
8. Cooperation on Health Matters.
9. Cooperation on Information Matters.
10. Cooperation on Cultural Matters.
11. Cooperation on Development Aid Matters.

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German Views
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EUROPEAN UNION: GERMAN VIEWS

SUMMARY

STUTT GART AND FONTAINEBLEU HAD CLEARED THE WAY FOR PROGRESS TOWARDS EUROPEAN UNION. 1985 OFFERED AN HISTORIC OPPORTUNITY. DOOGE COMMITTEE HAD IDENTIFIED KEY ISSUES. FRANCE AND FRG KEEN TO GO AHEAD. BENELUX AND ITALY PROBABLY TOO. BRITAIN ALSO. BUT HOW FAR, NOT CLEAR. POINTS FRG WANTED OUT OF DOOGE. BRITISH ATTITUDES EVOLVING. THAT ENCOURAGING. PROSPECTS FOR PROGRESS NOT TOO BAD. UNANIMITY IMPORTANT BUT THE SLOWEST SHIP MUST NOT HOLD UP THE CONVOY. CONCEPTS OF 'CORE EUROPE' EXAMINED.

1. YESTERDAY AT A SEMINAR IN BONN, TELTSCHIK, THE FEDERAL CHANCELLOR'S PRINCIPAL FOREIGN AFFAIRS ADVISER, DELIVERED AN ADDRESS ENTITLED 'THE FUTURE OF THE EUROPEAN COMMUNITY'.

2. TELTSCHIK SPOKE AS FOLLOWS. EUROPEAN STATESMEN HAD TO DEAL WITH DIFFICULT DAY TO DAY PROBLEMS AND THE FURTHER DEVELOPMENT OF THE COMMUNITY. WITHOUT A COMMITMENT TO THE LATTER, THE COMMUNITY COULD NOT PROGRESS. MUCH HAD BEEN ACHIEVED AT STUTT GART AND FONTAINEBLEAU. THAT RANGE OF PROBLEMS SOLVED, IMPORTANT TASKS WERE WAITING. DID THE CONDITIONS EXIST FOR A NEW STEP IN THE DIRECTION OF:

- ECONOMIC AND MONETARY UNION,
- A COMMON FOREIGN AND SECURITY POLICY,
- A POLITICAL UNION AND THE ESTABLISHMENT AND DEVELOPMENT OF COMMON INSTITUTIONS.

3. TELTSCHICK BELIEVED THAT 1985 OFFERED AN HISTORIC OPPORTUNITY. IT WOULD BE UP TO THREE GOVERNMENTS - THE FRENCH, THE GERMAN AND THE BRITISH. 1985 OFFERED THE FOLLOWING ADVANTAGES. THERE WAS WIDE RANGING AGREEMENT BETWEEN THE THREE GOVERNMENTS ON KEY FOREIGN AND SECURITY POLICY ISSUES AND, IN GROWING MEASURE, ON ECONOMIC ISSUES TOO. IN ALL EUROPEAN COUNTRIES THERE WAS RECOGNITION THAT MANY PROBLEMS EG OF INDUSTRIAL POLICY, UNEMPLOYMENT, R AND D AND ENVIRONMENT COULD NO LONGER BE SATISFACTORY DEALT WITH AT THE NATIONAL LEVEL ALONE. ALL THREE HEADS OF GOVERNMENT HAD SPOKEN OUT FOR THE STRENGTHENING OF THE COMMUNITY, IN PARTICULAR

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IN THE FOREIGN, SECURITY AND ECONOMIC SPHERES. BETWEEN THE THREE HEADS OF GOVERNMENT, A CLOSE PERSONAL CONFIDENCE EXISTED. FINALLY, THE THREE GOVERNMENTS HAD IN FRONT OF THEM AN ELECTION FREE YEAR.

4. TELTSCHIK NOTED THAT THE DOOGE COMMITTEE REPORT IDENTIFIED THREE ITEMS AS KEY COMPONENTS OF A EUROPEAN UNION - THE GOAL OF COMMON FOREIGN POLICY, THE DEVELOPMENT OF A COMMON SECURITY POLICY AND THE FURTHER DEVELOPMENT OF ECONOMIC INTEGRATION. IN JUNE THE QUESTION WHETHER THERE WAS A CONSENSUS TO TAKE A QUALITATIVE STEP FORWARD, WOULD ARISE. KOHL AND MITTERAND WERE FIRMLY DETERMINED TO GO IN THE DIRECTION OF EUROPEAN UNION. ITALY AND THE BENELUX WOULD PROBABLY JOIN IN. THE BRITISH GOVERNMENT WAS PREPARED TO GO AS FAR AS POSSIBLE IN THE SAME DIRECTION: HOW FAR, WAS NOT CLEAR. OTHER GOVERNMENTS WERE LIKELY TO BE MORE HESITANT. TURNING TO METAPHOR, TELTSCHIK SAID THAT SIX OR SEVEN GOVERNMENTS WOULD BE PREPARED TO GO A 100 METRES, ONE OR TWO ONLY 40, TWO OR THREE PROBABLY ONLY 10. SHOULD THE DECISION BE FOR 100 OR 40? NO WAY SHOULD IT BE FOR 10. IF OTHERS WOULD JOIN IN, MITTERAND AND KOHL WOULD GO FOR THE FURTHEST REACHING PROPOSAL. BUT THE FEDERAL GOVERNMENT WOULD DO EVERYTHING TO FIND A CONSENSUS WHICH BRITAIN COULD JOIN. IN ANY CASE, THE DOOR WOULD NOT BE CLOSED ON THOSE NOT YET READY.

5. THE FEDERAL GOVERNMENT WOULD WORK TO RETURN TO THE RULES OF MAJORITY VOTING IN THE TREATY. THE DOOGE COMMITTEE OFFERED TWO OPTIONS. THE GERMAN GOVERNMENT ALSO WANTED TO STRENGTHEN THE ROLE OF THE COMMISSION. A FURTHER AIM OF THE FEDERAL GOVERNMENT WAS TO STRENGTHEN THE EUROPEAN PARLIAMENT WHICH SHOULD HAVE A SAY IN THE FORMATION OF COMMUNITY POLICY AND GRADUALLY DEVELOP INTO A REAL LEGISLATURE. TELTSCHIK NOTED THAT THE SOLEMN DECLARATION REFERRED TO THE TRANSFORMATION OF THE TOTALITY OF RELATIONS BETWEEN MEMBER STATES INTO A EUROPEAN UNION AS A GOAL. PROGRESS WOULD BE REVIEWED IN 1988 TO SEE WHETHER WHAT HAD BEEN ACHIEVED COULD BE PUT INTO A TREATY ON EUROPEAN UNION.

6. TURNING TO THE QUESTION OF HOW REAL THIS PROSPECT WAS FOR A TWELVE MEMBER COMMUNITY, TELTSCHIK SAID THAT THE FEDERAL GOVERNMENT WAS CONVINCED THAT REAL PROGRESS COULD ONLY BE ACHIEVED IF IT WERE TREATY BASED. FRANCE SEEMED SIMILARLY MINDED. AS FOR THE BRITISH, THEIR POSITION WAS EVOLVING. TELTSCHIK QUOTED FROM 'EUROPE - THE FUTURE' AND, MORE EXTENSIVELY FROM YOUR ARTICLE IN HANDELSBLATT ON 31 DECEMBER. ENCOURAGED BY THESE REFERENCES, TELTSCHIK SUGGESTED THAT IF BENELUX, ITALY AND IRELAND WERE ALSO READY, THE CHANCES FOR A TREATY BASED EUROPEAN UNION WERE NOT TOO BAD.

7. TELTSCHIK THEN ADDRESSED THE QUESTION OF WHETHER PROGRESS COULD IN FACT BE ACHIEVED IF ALL MEMBERS OF THE COMMUNITY WERE NOT READY TO GO FORWARD. HE REFERRED TO THE CONCEPT OF A CORE EUROPE WITHIN THE COMMUNITY THAT TRIED TO HANDLE MATTERS ALREADY PART OF THE ACQUIS, POCO MATTERS AND OTHERS OUTSIDE THE TREATY, SUCH AS CULTURE. SUCH AN APPROACH WOULD REQUIRE THE AGREEMENT OF ALL, THOSE

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NOT READY TO JOIN IMMEDIATELY COULD DO SO LATER. A FURTHER POSSIBILITY WOULD BE A 'CORE EUROPE' THAT CONCENTRATED ON AREAS OUTSIDE THE TREATY OF ROME AND WAS ESTABLISHED WITHOUT THE ACQUISITIO COMMUNITATIS. SUCH A UNION WOULD BE A PROVISIONAL STRUCTURE, SUI GENERIS, OUTSIDE THE COMMUNITY. THAT COULD BE, BUT DID NOT HAVE TO BE, DANGEROUSLY DIVISIVE IE PROVIDED IT DID NOT EXCLUDE FURTHER PROGRESS WITHIN THE COMMUNITY AND WAS OPEN TO PARTICIPATION BY OTHER MEMBER STATES AT DIFFERENT LEVELS.

COMMENT

B. TELTSCHIKS ADDRESS COVERS FAMILIAR GROUND. BUT IN DOING SO OFFERS A HANDY ACCOUNT, IN EXTENSO, OF GERMAN ASPIRATIONS. HIS PRESENTATION IS REASONABLE, UNPOLEMICAL AND FREE OF EXTRAVAGANT FLIGHTS OF FANCY. NOTEWORTHY ARE HIS QUOTATIONS FROM BRITISH SOURCES AND HIS EXPLICIT RECOGNITION OF BRITAIN'S CENTRAL ROLE. (FULL TEXT FOLLOWS BY BAG).

FCO PLEASE ADVANCE TO:

NO 10 - POWELL

FCO - BRAITHWAITE, RENWICK, FAIRWEATHER

CAB OFF - WILLIAMSON, JAY

~~ADVANCED~~ AS REQUESTED

BULLARD

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Foreign and Commonwealth Office

London SW1A 2AH

18 April, 1985

NBM
CB

Dear Rachel,

Development of the EC

I attach a copy of a minute on this subject which the Foreign Secretary sent to the Prime Minister on 15 April.

The Prime Minister has said that she is content with the guidelines set out in the above minute, but would like before giving her final agreement to know whether the other Ministers concerned are also content. I should be grateful for any comments.

I am copying this letter to Private Secretaries to other members of OD(E), Richard Hatfield and Charles Powell (No 10).

Yours Sincerely,

Colin Budd

(C R Budd)
Private Secretary

Mrs Rachel Lomax
HM Treasury

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PM/85/31

PRIME MINISTER

Development of the European Community

1. At the European Council it was agreed that the Dooge Committee should be wound up, and that there should now be consultations between governments before the substantive discussion at the Milan European Council in June.

2. We have, therefore, secured our objective here, as we have been able to do with the commitments to Budget discipline and to completion of the internal market, the change in direction in the CAP, and the Fontainebleau settlement itself.

3. We have succeeded in this way because we have - as Delors acknowledged at a Community meeting the other day - clearer ideas than most about where we want the Community to go. By pursuing these consistently, in bilateral contacts and at Brussels, we have been able successfully to influence the Community's agenda. We



need now to consider the next phase, for the run-up and follow-up to the Milan June Summit.

THE FRENCH AND GERMANS

4. It is my strong impression that the German Government want to try to work out something to which we can agree. In the end they took a sensible line at Brussels on an inter-governmental conference. We have urged them to aim for practical results from the June European Council. I hope this will have an increasing effect on their approach; but it is likely to remain irritatingly erratic.
5. We have both been wondering about Mitterrand's promised "surprise" initiative. Mitterrand's staff tell us that he has not yet decided what precise form this will take. The options include proposals for an extension of majority voting (ie a reduction in the number of Treaty articles requiring unanimity); completion of the internal market; an agreement on political cooperation; some largely cosmetic measures vis-a-vis the European Parliament; and increased cooperation in areas not covered by the Treaties - health, education, culture, internal security, etc. Mitterrand may propose that some more formal status might be given to the European Council. The French talk as



though they would be prepared to consider putting some or all of the above in a new agreement or Treaty. But as you know, I do not believe that the French would really be prepared to go much further than we can on most of the issues - whether majority voting, the powers of the Parliament or the formalisation of political cooperation.

Mitterrand may calculate that he can rely on us to block anything which gives the French real difficulty.

6. Many of the ideas being aired by the French, including a new Treaty, appeal, at least emotionally, to others of the original Six. They know, however, that anything which amended the existing Treaties could not be implemented without our agreement. This reinforces the desire which all of them, particularly Dumas, have expressed to work out something which we could agree.

7. Against this characteristically uncertain background, our handling of these issues will be very important to the outcome in June and thereafter. Much will depend on the Franco-German relationship. Despite the public display of cooperation, the French have been finding as much difficulty as we have in their dealings with the Germans, and for the same reasons. They will persevere: not only because they share our interest in keeping the Germans firmly tied into the west European system, but



also because it suits them well to claim that Franco-German cooperation is the key to the development of the Community.

8. Things have, however, moved on a good deal from earlier doctrinal arguments. No one now seriously suggests that a federalist structure is appropriate for a Community of Twelve. Some far-fetched ideas have, of course, been put forward. But thanks to Malcolm Rifkind's efforts in the Dooge Committee and our bilateral contacts with other member governments, we have been able to let much of the air out of this balloon and to get matters moving in a direction we could accept.

9. There is an element of theatre in Mitterrand's approach. But both he and Kohl want something to come of all this because of their genuine concern about the functioning of the enlarged Community. As we saw round the Council table in Brussels, neither is yet fully committed to the idea of a conference, though Mitterrand may still be leaning in that direction.

10. This is something we would prefer to avoid. It would quickly turn into a propaganda exercise with others trying to demonstrate how "European" they can be when it comes to the rhetoric, though not in other more practical



respects. We should insist that these questions should be decided on by the heads of government themselves. We have found some response in both Paris and Bonn to our proposal that the Milan European Council should itself proceed to take decisions on a package of measures which would be seen as a practical development of what has so far been achieved. If further decisions are required thereafter, they should be taken at the December European Council. We should continue to press this line - particularly with the Italians, who may be persuaded that it is likely to be the best way for them to be able to take some of the credit for the next steps.

POLITICAL COOPERATION

11. Our success with this approach will depend to a large extent on the shape of the package which is on offer at Milan. What might this be? There is no doubt that Kohl attaches great importance to the formalisation of political cooperation in a new agreement. The French will certainly go along with that. We have always played a leading role in political cooperation and can accept a formal agreement, though it must of course be drafted in such a way as not to tie our hands if we should need to take action ourselves. Others will accept this and the French certainly would not agree to anything that would tie their hands. I suggest that we should aim to produce



our own draft agreement on political cooperation. First, because I believe this would make a very considerable impression on Chancellor Kohl. Second, because whoever puts forward their own ideas will be able to oblige the others to work on that basis. I am in the process of considering a possible text, which I will in due course pass on to you. If you are content with it, you might give it privately to Chancellor Kohl at Chequers. This would help to head him in the direction we want. Depending on his reactions, our draft might subsequently be passed privately to one or two of the other heads of government. It should then form a central part of whatever agreement is reached in June. This would be an intergovernmental agreement. There is no question of bringing political cooperation under the Treaty of Rome, though there should of course be a preambular reference to the cooperation of the participating countries on other matters under the Treaty.

INTERNAL MARKET

12. We must also work between now and the Milan Summit to advance our objectives on the internal market. As you know, Delors is strongly committed to progress. To give effect to the Brussels European Council conclusions on the need to achieve a common market by 1992, he will be producing a detailed timetable for action, probably in



June. This will no doubt include some proposals which could give us difficulty. We must therefore aim to influence the Commission's thinking at the drafting stage by steering them towards what is politically feasible over the next few years, and away from issues like tax approximation which are not going to be agreed. Since the Dutch and ourselves will have to carry this forward during our Presidencies next year, the Commission should have an interest in producing a programme with which we can broadly agree. But we will still need to be ready once the Commission's programme has been produced to counter with our own ideas for priorities and targets, covering not only our traditional concerns, but also the outcome of further work on our long term objectives in the internal market, on which Norman Tebbit is currently engaged. We will need to pull these elements together in our own timetable. Another priority will be to carry forward your initiative on deregulation, both in bilateral contacts with our Community partners over the next few months, and at the Milan European Council itself. I shall raise these issues with Delors at Chevening on 13 May. You will want to use your talk with Kohl to get a firmer German commitment to real progress on the internal market.



DECISION TAKING

13. There will be concern on the part of the others also to reach agreement on decision taking. Here too we should aim to achieve something positive which would not only protect but advance our interests. We share the genuine concern that is felt throughout the Community about the inordinate delays, with the attendant risks of undesirable trade-offs, which could arise in a Community of Twelve if the Council continues to seek consensus on every issue, however trivial. There is also a recognition, whatever others like at times to pretend, that no member state is really prepared to see itself voted down on a vitally important matter. The French idea is that the number of articles of the Treaty requiring unanimity might be reduced, though - and this is the crucial point - this would always be subject to the right to invoke a vital national interest. This idea would have much greater attractions for us if it were accompanied by formalisation of the Luxembourg compromise in the Treaty, since we would be getting the Luxembourg Compromise not just maintained but reinforced. By giving us juridical certainty, this would be a major prize. I am sceptical, however, as to whether it could be secured, even though the Dutch and Germans have said they might be prepared to consider it.



14. We should bear in mind, however, the possibility of using the abstention procedure (article 148 of the Treaty) to get progress on the internal market. If the European Council were to lay down that certain specific steps, eg in relation to the liberalisation of transport policy, insurance, etc, were to be taken by given dates as part of the process of completing the common market by 1992, the heads of government might consider stipulating that, since the objective had been set, Member States should not make use of the unanimity rule to impede implementation of what the European Council had already decided. This would be a political understanding, along the lines of the suggestion which you made in Dublin. It would not require Treaty amendment, and would leave the juridical position intact.

15. On decision taking generally, I consider that we should continue to take the following line:

(a) The European Council should not have to deal with matters that can be disposed of by the Council of Ministers. The Italian Presidency insisted that enlargement issues had to be resolved in the Foreign Affairs Council. Their success shows that this can be done. The European Council must be left free to



debate the larger issues and give a strategic direction to the Community's activities.

(b) The Council of Ministers must not deal with matters that can be dealt with by COREPER. Just as the Council can be directed by the European Council, so COREPER should be directed by the Council of Ministers. We must get other Member States to give the kind of delegated authority to their permanent representatives which we are prepared to give to ours.

(c) We should aim for a statement from the European Council that there can be more majority voting within the existing provisions of the Treaty on non-sensitive issues. It must remain for the Presidency to decide when votes are to be taken. Once again there would be no need for Treaty amendment. Use can also be made of the abstention procedure. It must remain open to any Member State to insist on discussion continuing until unanimous agreement is reached when very important national interests genuinely are at stake. To prevent abuse any Member State insisting that the discussion continue should be required through a special



procedure of the Council formally to explain why very important interests are in fact at stake. The purpose of this is to prevent the sort of abuses we have witnessed from the Greeks and Danes, and in those cases to oblige foreign ministers to account for the actions of their colleagues in the specialist councils. Once again we might consider giving Kohl a paper setting out what conclusions of the European Council we could accept on decision taking. I shall be letting you have a draft that we can consider.

THE EUROPEAN PARLIAMENT

16. Others will continue to profess enthusiasm for giving some greater power to the Parliament. The French, however, do not want any real increase in the Parliament's powers. We should point out that the expansion of the Parliament's budgetary powers in 1975, far from reducing, has markedly increased friction with the Council. What is required is for the Parliament to make a more effective contribution through the use of the powers it already enjoys. This should be done by improvement and extension of the conciliation procedure, and in particular by more effective consultation between the Council and the Parliament at earlier stages of the



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consideration of proposals. The Parliament should make more use of its right to put forward proposals for consideration by the Council. Once again this can be done within the existing Treaty powers; there can be no question of extending these. I suspect that when other governments come to consider - as we have done - the realities of this subject, our line will gather increasing support.

17. Some of the others will start by wanting to go further than this, or at least by pretending that they want to do so. I think it most important that we should not sit back and let them come to us with their ideas. We should use the period ahead to steer them in the direction we want. I believe that we shall best be able to do this by retaining the initiative, and developing our own ideas on the lines I have described.

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

Foreign and Commonwealth Office

15 April 1985

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18 APR 1985





Ref. A085/1099

PRIME MINISTER

Cabinet: Community Affairs

Since Cabinet on 28 March there have been three Council meetings: the successful European Council on 29-30 March; an inconclusive Agriculture Council on 1-2 April which pursued its consideration of the 1985-86 price-fixing; and an informal meeting of Finance Ministers on 13-14 April which discussed methods of improving economic and monetary co-operation.

2. The European Council marked the conclusion of a period of important decisions in the Community:

a. Agreement on the entry of Spain and Portugal on terms which achieved all the United Kingdom's negotiating objectives including:

accelerated cuts in Spanish industrial tariffs (down by 52½ per cent in 3 years);

improved access for British car exports;

maintenance of every significant fishing opportunity for British fishermen. There will be no access for Spanish fishing vessels to the North Sea until 2002, subject to review in 1993. France bears the brunt of the Spanish fishing effort in the Bay of Biscay;

transitional financing arrangements which are highly favourable to the United Kingdom (probably no net budget cost at all to the United Kingdom for Spanish accession in the early years);



- b. Agreement on the text of the revised Own Resources Decision implementing the budgetary arrangements for the United Kingdom negotiated at Fontainebleau. This provides for automatic abatement by the United Kingdom each year of its payments to the Community by 66 per cent of the VAT share/expenditure share gap. The text also makes provision for our 1000 million ecu (£600 million) ad hoc abatement for 1984 to be made in 1985 as soon as the new Own Resources Decision has been ratified by all member states, with the increased own resources as a whole coming into effect on 1 January 1986.
- c. Agreement on the Integrated Mediterranean Programmes (IMPs) which cut back the Commission's original proposal of 6.6 billion ecu over six years to 1.6 billion ecu over seven years. The operation of the Fontainebleau mechanism means that the United Kingdom's net contribution will be about 7 per cent, compared with 33 per cent for Germany and 17 per cent for France.
- d. The launching of your initiative - now reflected in the Council's conclusions - to underline the key role of business in generating wealth and employment and to reduce the burden of Community legislation, particularly on small and medium-sized businesses. The Council has set a target date of 1992 for completing the internal market.
- e. Approval of the workmanlike first report of the Citizens' Europe Committee and avoidance of a premature decision on the final report of the Dooge Committee, which is to be further considered by the Milan European Council in June.
3. The Chancellor of the Exchequer may report on the informal meeting of Finance Ministers on 13-14 April, which reached broad agreement on the need for increased co-operation between the



World Bank and the International Monetary Fund and for a more vigorous policing role for the Fund over individual countries' economic policies. The Ministers also approved a package of measures worked out by Community central banks to encourage the official use of the ecu: central banks outside the Community will be able to use the ecu as part of their reserve; central banks within the European Monetary System will be able to intervene on foreign exchange markets for stabilisation purposes, even when currencies are not at their EMS floor or ceiling; and the official ecu interest rate will be determined on the basis of market interest rates and not on the basket of EMS currencies.

4. The Agriculture Council meets on 22-23 April but will probably not come to the point of decision on agricultural prices, particularly as there has been a recent change of Minister in France where Monsieur Nallet has replaced Monsieur Rocard. The Budget Council meets on 23 April, when it will examine the 1985 budget overrun. An informal meeting of Research Ministers will be held on 23-25 April.

RTA

ROBERT ARMSTRONG

17 April 1985



Parliamentary Under
Secretary of State

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213...6620/6690.....
Switchboard 01-213 3000

S H F Hickey Esq
Private Secretary to
The Rt Hon Norman Fowler MP
Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
LONDON SE1 6BY

NBPM
CDR
17/4
17th. April 1985

Dear Stephen,

PAYMENT OF SUPPLEMENTARY BENEFIT TO EC NATIONALS

Thank you for copying here your letter of 25 March to Charles Powell at No 10. I have also seen his response of 28 March outlining the Prime Minister's preference.

I should make it clear that the administrative arrangements proposed by my Minister, Alan Clark have now been cleared by appropriate Departments and instructions are to be issued to Unemployment Benefit Offices within the next few weeks. However these do not have legal backing and this Department will continue to press for a legislative solution. Our deterrent measures may help but they are clumsy. There is always the risk that further Press publicity could centre on their failures rather than successes and leave Ministers here somewhat exposed to the likely Press follow up of their 1984 stories.

Although strongly in favour of legislation we are not yet clear how a one year residence test would operate. I note that there will be flexibility of discretion through the social aid provisions of the reformed scheme but we feel some disquiet about the effect on certain categories of people returning to this country, for example ex-servicemen. It is doubtful if a long test has any advantage over a short one in stopping the sort of abuse publicised last year. Officials here need to know much more about the reformed scheme before the likely effects can be properly assessed.

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A copy of this letter goes to Len Appleyard (FCO), Nigel Pantling (HO), Elizabeth Hodgkinson (DES), Richard Stoate (LCD), Richard Hatfield (Cabinet Office) and Charles Powell at No. 10.

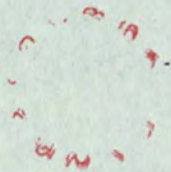
Yours sincerely,

Les Philpott

L PHILPOTT
Private Secretary

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EURO POL: Budget; Pt 29.



17
1985



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bc PC

10 DOWNING STREET

From the Private Secretary

16 April 1985

Development of the European Community

The Prime Minister has considered the Foreign Secretary's minute PM/85/31 of 15 April about the handling of discussions of the future of the European Community between now and the European Council in June. She is content with the guidelines set out in it. I notice that the Foreign Secretary's minute was not copied elsewhere. The Prime Minister would want to be sure that her colleagues most closely concerned were also content with the Foreign Secretary's proposals before finally agreeing them.

I am copying this letter to David Williamson in the Cabinet Office.

(Charles Powell)

CST

C R Budd Esq
Foreign and Commonwealth Office

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Prime Minister

This is intended to set guidelines for our discussions of the future of the European Community between now and the June European Council.

PM/85/31

PRIME MINISTER

You have agreed most of the points in it when considering earlier submissions. But you will want to consider carefully the passage on decision-making (para. 13-15): now far more modest than earlier FCO proposals. You may also like to discuss with Development of the European Community Sir G. Howe.

1. At the European Council it was agreed that the Dooge Committee should be wound up, and that there should now be consultations between governments before the substantive discussion at the Milan European Council in June.

Agree the outline guidelines?
CDP
16/4

2. We have, therefore, secured our objective here, as we have been able to do with the commitments to Budget discipline and to completion of the internal market, the change in direction in the CAP, and the Fontainebleau settlement itself.

Yes
no

3. We have succeeded in this way because we have - as Delors acknowledged at a Community meeting the other day - clearer ideas than most about where we want the Community to go. By pursuing these consistently, in bilateral contacts and at Brussels, we have been able successfully to influence the Community's agenda. We

CONFIDENTIAL



need now to consider the next phase, for the run-up and follow-up to the Milan June Summit.

THE FRENCH AND GERMANS

4. It is my strong impression that the German Government want to try to work out something to which we can agree. In the end they took a sensible line at Brussels on an inter-governmental conference. We have urged them to aim for practical results from the June European Council. I hope this will have an increasing effect on their approach; but it is likely to remain irritatingly erratic.

5. We have both been wondering about Mitterrand's promised "surprise" initiative. Mitterrand's staff tell us that he has not yet decided what precise form this will take. The options include proposals for an extension of majority voting (ie a reduction in the number of Treaty articles requiring unanimity); completion of the internal market; an agreement on political cooperation; some largely cosmetic measures vis-a-vis the European Parliament; and increased cooperation in areas not covered by the Treaties - health, education, culture, internal security, etc. Mitterrand may propose that some more formal status might be given to the European Council. The French talk as



though they would be prepared to consider putting some or all of the above in a new agreement or Treaty. But as you know, I do not believe that the French would really be prepared to go much further than we can on most of the issues - whether majority voting, the powers of the Parliament or the formalisation of political cooperation.

Mitterrand may calculate that he can rely on us to block anything which gives the French real difficulty.

6. Many of the ideas being aired by the French, including a new Treaty, appeal, at least emotionally, to others of the original Six. They know, however, that anything which amended the existing Treaties could not be implemented without our agreement. This reinforces the desire which all of them, particularly Dumas, have expressed to work out something which we could agree.

7. Against this characteristically uncertain background, our handling of these issues will be very important to the outcome in June and thereafter. Much will depend on the Franco-German relationship. Despite the public display of cooperation, the French have been finding as much difficulty as we have in their dealings with the Germans, and for the same reasons. They will persevere: not only because they share our interest in keeping the Germans firmly tied into the west European system, but



also because it suits them well to claim that Franco-German cooperation is the key to the development of the Community.

8. Things have, however, moved on a good deal from earlier doctrinal arguments. No one now seriously suggests that a federalist structure is appropriate for a Community of Twelve. Some far-fetched ideas have, of course, been put forward. But thanks to Malcolm Rifkind's efforts in the Dooge Committee and our bilateral contacts with other member governments, we have been able to let much of the air out of this balloon and to get matters moving in a direction we could accept.

9. There is an element of theatre in Mitterrand's approach. But both he and Kohl want something to come of all this because of their genuine concern about the functioning of the enlarged Community. As we saw round the Council table in Brussels, neither is yet fully committed to the idea of a conference, though Mitterrand may still be leaning in that direction.

10. This is something we would prefer to avoid. It would quickly turn into a propaganda exercise with others trying to demonstrate how "European" they can be when it comes to the rhetoric, though not in other more practical



respects. We should insist that these questions should be decided on by the heads of government themselves. We have found some response in both Paris and Bonn to our proposal that the Milan European Council should itself proceed to take decisions on a package of measures which would be seen as a practical development of what has so far been achieved. If further decisions are required thereafter, they should be taken at the December European Council. We should continue to press this line - particularly with the Italians, who may be persuaded that it is likely to be the best way for them to be able to take some of the credit for the next steps.

POLITICAL COOPERATION

11. Our success with this approach will depend to a large extent on the shape of the package which is on offer at Milan. What might this be? There is no doubt that Kohl attaches great importance to the formalisation of political cooperation in a new agreement. The French will certainly go along with that. We have always played a leading role in political cooperation and can accept a formal agreement, though it must of course be drafted in such a way as not to tie our hands if we should need to take action ourselves. Others will accept this and the French certainly would not agree to anything that would tie their hands. I suggest that we should aim to produce



our own draft agreement on political cooperation. First, because I believe this would make a very considerable impression on Chancellor Kohl. Second, because whoever puts forward their own ideas will be able to oblige the others to work on that basis. I am in the process of considering a possible text, which I will in due course pass on to you. If you are content with it, you might give it privately to Chancellor Kohl at Chequers. This would help to head him in the direction we want. Depending on his reactions, our draft might subsequently be passed privately to one or two of the other heads of government. It should then form a central part of whatever agreement is reached in June. This would be an intergovernmental agreement. There is no question of bringing political cooperation under the Treaty of Rome, though there should of course be a preambular reference to the cooperation of the participating countries on other matters under the Treaty.

INTERNAL MARKET

12. We must also work between now and the Milan Summit to advance our objectives on the internal market. As you know, Delors is strongly committed to progress. To give effect to the Brussels European Council conclusions on the need to achieve a common market by 1992, he will be producing a detailed timetable for action, probably in



June. This will no doubt include some proposals which could give us difficulty. We must therefore aim to influence the Commission's thinking at the drafting stage by steering them towards what is politically feasible over the next few years, and away from issues like tax approximation which are not going to be agreed. Since the Dutch and ourselves will have to carry this forward during our Presidencies next year, the Commission should have an interest in producing a programme with which we can broadly agree. But we will still need to be ready once the Commission's programme has been produced to counter with our own ideas for priorities and targets, covering not only our traditional concerns, but also the outcome of further work on our long term objectives in the internal market, on which Norman Tebbit is currently engaged. We will need to pull these elements together in our own timetable. Another priority will be to carry forward your initiative on deregulation, both in bilateral contacts with our Community partners over the next few months, and at the Milan European Council itself. I shall raise these issues with Delors at Chevening on 13 May. You will want to use your talk with Kohl to get a firmer German commitment to real progress on the internal market.

DECISION TAKING

13. There will be concern on the part of the others also to reach agreement on decision taking. Here too we should aim to achieve something positive which would not only protect but advance our interests. We share the genuine concern that is felt throughout the Community about the inordinate delays, with the attendant risks of undesirable trade-offs, which could arise in a Community of Twelve if the Council continues to seek consensus on every issue, however trivial. There is also a recognition, whatever others like at times to pretend, that no member state is really prepared to see itself voted down on a vitally important matter. The French idea is that the number of articles of the Treaty requiring unanimity might be reduced, though - and this is the crucial point - this would always be subject to the right to invoke a vital national interest. This idea would have much greater attractions for us if it were accompanied by formalisation of the Luxembourg compromise in the Treaty, since we would be getting the Luxembourg Compromise not just maintained but reinforced. By giving us juridical certainty, this would be a major prize. I am sceptical, however, as to whether it could be secured, even though the Dutch and Germans have said they might be prepared to consider it.



14. We should bear in mind, however, the possibility of using the abstention procedure (article 148 of the Treaty) to get progress on the internal market. If the European Council were to lay down that certain specific steps, eg in relation to the liberalisation of transport policy, insurance, etc, were to be taken by given dates as part of the process of completing the common market by 1992, the heads of government might consider stipulating that, since the objective had been set, Member States should not make use of the unanimity rule to impede implementation of what the European Council had already decided. This would be a political understanding, along the lines of the suggestion which you made in Dublin. It would not require Treaty amendment, and would leave the juridical position intact.

15. On decision taking generally, I consider that we should continue to take the following line:

(a) The European Council should not have to deal with matters that can be disposed of by the Council of Ministers. The Italian Presidency insisted that enlargement issues had to be resolved in the Foreign Affairs Council. Their success shows that this can be done. The European Council must be left free to



debate the larger issues and give a strategic direction to the Community's activities.

(b) The Council of Ministers must not deal with matters that can be dealt with by COREPER. Just as the Council can be directed by the European Council, so COREPER should be directed by the Council of Ministers. We must get other Member States to give the kind of delegated authority to their permanent representatives which we are prepared to give to ours.

(c) We should aim for a statement from the European Council that there can be more majority voting within the existing provisions of the Treaty on non-sensitive issues. It must remain for the Presidency to decide when votes are to be taken. Once again there would be no need for Treaty amendment. Use can also be made of the abstention procedure. It must remain open to any Member State to insist on discussion continuing until unanimous agreement is reached when very important national interests genuinely are at stake. To prevent abuse any Member State insisting that the discussion continue should be required through a special



procedure of the Council formally to explain why very important interests are in fact at stake. The purpose of this is to prevent the sort of abuses we have witnessed from the Greeks and Danes, and in those cases to oblige foreign ministers to account for the actions of their colleagues in the specialist councils. Once again we might consider giving Kohl a paper setting out what conclusions of the European Council we could accept on decision taking. I shall be letting you have a draft that we can consider.

THE EUROPEAN PARLIAMENT

16. Others will continue to profess enthusiasm for giving some greater power to the Parliament. The French, however, do not want any real increase in the Parliament's powers. We should point out that the expansion of the Parliament's budgetary powers in 1975, far from reducing, has markedly increased friction with the Council. What is required is for the Parliament to make a more effective contribution through the use of the powers it already enjoys. This should be done by improvement and extension of the conciliation procedure, and in particular by more effective consultation between the Council and the Parliament at earlier stages of the



CONFIDENTIAL

consideration of proposals. The Parliament should make more use of its right to put forward proposals for consideration by the Council. Once again this can be done within the existing Treaty powers; there can be no question of extending these. I suspect that when other governments come to consider - as we have done - the realities of this subject, our line will gather increasing support.

17. Some of the others will start by wanting to go further than this, or at least by pretending that they want to do so. I think it most important that we should not sit back and let them come to us with their ideas.

We should use the period ahead to steer them in the direction we want. I believe that we shall best be able to do this by retaining the initiative, and developing our own ideas on the lines I have described.

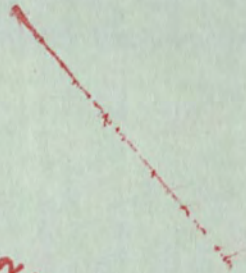
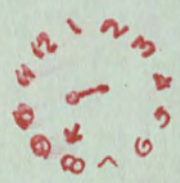
Foreign and Commonwealth Office

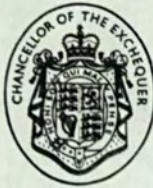
15 April 1985

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15 APR 1985





cc Mr Burgner
Mr Mortimer
Mr Hopkinson
Mr MacAuslan
Mr Fitchew
Mr Shaw

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

The Rt Hon Tom King MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1H 9NA

9 April 1985

A handwritten signature in cursive, appearing to read 'Tom King'.

EUROPEAN SOCIAL FUND: PART-TIME WORK SUBSIDIES

Thank you for your letter of 18 March. I agree with your recommendation that this issue should be taken up with the European Court. But I also agree with Geoffrey Howe's suggestion, in his minute of 22 March, that once our case has been deposited with the European Court, we should bear in mind the possibility of taking it up again with Commissioner Sutherland, with a view to resolving it satisfactorily without having to go through the whole legal procedure.

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

NIGEL LAWSON

A handwritten signature in cursive, appearing to read 'Nigel Lawson'.

112 APR 1965

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CCDW

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Foreign and Commonwealth Office

London SW1A 2AH

9 April 1985

Dear Charles,

NBPM

Payment of Supplementary Benefit to EC Nationals

The Foreign Secretary ^{with HEA} has seen Stephen Hickey's letter to you of 25 March and your reply.

He agrees that Mr Fowler's proposal for primary legislation to introduce a presence test for claimants of supplementary benefit is the most effective means to combat the current problem of abuse by EC nationals. Care will need to be taken to present this in such a way as to minimise the possibility of a successful challenge to the European Court on grounds of discrimination. He thinks that the Law Officers should be asked to advise on this aspect at an early stage.

Sir Geoffrey Howe welcomes the fact that the Department of Employment and Department of Health and Social Security are continuing to look at the possibility of introducing further administrative measures to deter claimants intending to abuse the system in the interim period before legislation could be introduced. It is most important that these abuses should be dealt with.

I am copying this letter to Stephen Hickey (DHSS), David Normington (Department of Employment), Nigel Pantling (Home Office), Elizabeth Hodgkinson (DES), Richard Stoate (Lord Chancellor's Office) and Richard Hatfield (Cabinet Office) as well as to Henry Steel (Law Officers' Department) and Norman Adamson (Legal Secretary to the Lord Advocate).

Yours,

(P F Ricketts)
Private Secretary

Peter Ricketts

C D Powell Esq
10 Downing Street

Cur for 1129

Budget

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10 DOWNING STREET

From the Private Secretary

4 April 1985

Dear Sir,

Community Budget

Thank you for your letter of 3 April enclosing some draft instructions to Sir Julian Bullard urging the German Government to take action with German CDU members of the European Parliament not to tamper with the United Kingdom's abatement.

The Prime Minister has approved these instructions which may now be despatched.

I am copying this letter to Rachel Lomax (HM Treasury).

yours sincerely
Charles Powell
Charles Powell

Colin Budd Esq
Foreign and Commonwealth Office.

CONFIDENTIAL



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

3 April 1985

C D Powell Esq
10 Downing Street
LONDON
SW1

Dear Charles,

COMMUNITY BUDGET

The Chancellor has seen the draft telegram to Bonn with Colin Budd's letter to you of 3 April.

The Chancellor is content with the terms of the draft provided that the Foreign Secretary is satisfied that there is no risk that lobbying CDU MEPs may prove counterproductive. Treasury Ministers will, of course, be considering tactics for the Budget Council, which the Economic Secretary will attend later this month, in the light of the Commission's increased request for additional finance. Treasury officials will be in touch with the Foreign and Commonwealth Office and other Departments about this.

I am copying this letter to Colin Budd at the FCO.

Yours sincerely,

Philip Wynn Owen

P WYNN OWEN
Assistant Private Secretary

EURO POL: Budget: PE 29



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① *etc*



Foreign and Commonwealth Office

London SW1A 2AH

3 April 1985

Dear Charles,

Yes

*Prime Minister
Agree proposed
instructions to
Sir Julian Bullard?
CDP 3/4*

Community Budget

Following the agreement reached in the European Council, the draft of the new own resources decision will be discussed with representatives of the European Parliament on 28 April. Although they will no doubt criticise, as they have before, the Fontainebleau agreement, they cannot change the text of the decision, which should be formally adopted by the Foreign Affairs Council on the following day.

The Budget Council will meet around the end of April to determine the size of the inter-governmental agreement to finance the 1985 overrun and establish the 1985 budget. That will then be sent to the Parliament, including provision for our 1000 mecus correction to be made by a call-up of VAT from the other Member States as soon as the new own resources decision has been ratified. The Parliament have already indicated that they will try to transfer our 1000 mecus from the revenue to the expenditure side. This is not acceptable to us or to other members of the Council.

We shall be lobbying all Member States on this matter and asking them to use their influence with their MEPs to ensure that the Parliament behaves responsibly and does not seek to upset what has been agreed. There would be no tolerance in the Council for the Parliament's actions if it sought to do so. M. Cot, Chairman of the Budget Committee, has already been lobbied by Sir Michael Butler. Cot and the British MEPs think that the Parliament may well try to put our 1000 mecus on the expenditure side on the first reading but, if the Germans and other governments use their influence, should give way when the budget is sent back by the Council. Cot has warned, however, that the German CDU MEPs have been particularly difficult on this issue.

I attach, therefore, a telegram we should like to send, with the Prime Minister's authority, to Sir Julian Bullard in Bonn. Herr Ruhfus has already promised to take action with the German CDU MEPs. It is important, however, that they should also be given a message direct from the Chancellery that there should be no interference with what has been agreed in the European Council. We are also taking action with M. Pflimlin.

/I am

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I am sending a copy of this letter, with the enclosure,
to Rachel Lomax in the Treasury.

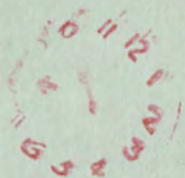
*Yours ever,
Colin Budd*

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

3 APR 1985



OUT TELEGRAM

	↓	Classification and Caveats CONFIDENTIAL	Precedence/Deskby IMMEDIATE
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ZCZC
GRS
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TEL NO

1	ZCZC
2	GRS
3	CONFIDENTIAL
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6	FM FCO
7	TO IMMEDIATE BONN
8	TELEGRAM NUMBER
9	REPEATED TO (FOR INFORMATION) IMMEDIATE UKREP BRUSSELS
10	REPEATED TO (FOR INFORMATION) PRIORITY OTHER EC POSTS
11	EUROPEAN COMMUNITY
12	1. The Prime Minister would be grateful if you would approach
13	the Chancellery and make the following points. In doing so you
14	should make clear that you are speaking on her behalf.
15	2. The Prime Minister was glad that we were able to work so
16	closely with Chancellor Kohl and the German delegation in
17	bringing the enlargement negotiations to a successful
18	conclusion, in settling the new own resources decision and in
19	dealing with the question of IMPs in an acceptable way at the
20	European Council.
21	3. Now that this overall agreement has been reached, the
22	Community should be able to devote its attention to the future.
23	The Prime Minister will be discussing this with Chancellor Kohl
24	during his visit to Chequers in May.
25	4. It is very important, however, that what has now been agreed

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NNNN ends telegram	BLANK	Catchword should
File number	Dept	Distribution FRANC ECONOMIC
Drafted by (Block capitals)		
Mr Renwick		
Telephone number		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

	Classification and Caveats CONFIDENTIAL	Page 2
	IMMEDIATE	

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1 <<<<
2 should not be upset by actions of the European Parliament.
3 5. The 1,000 mecu correction for the United Kingdom agreed at
4 Fontainebleau and incorporated in the new own resources decision
5 will be included in the 1985 budget as a correction on the
6 revenue side. The Budget Committee of the Parliament have
7 already said that they will try to transfer our correction to the
8 expenditure side. That is not in accordance with Fontainebleau,
9 and the other Member States have made clear in the Council that
10 they will not agree to finance it in that way.
11 6. We are in touch with the governments of the other Member
12 States, all of whom will be concerned to ensure that there is no
13 interference with what has now been agreed. It will be
14 particularly important, however, that the Chancellery should take
15 action with the key CDU members of the Parliament and in
16 particular of the Budget Committee - Klepsch, Langes and Pfennig
17 - who have been making difficulty on this point.
18 7. We hope the Chancellery will be prepared to make the point
19 that, once the amount of the inter-governmental agreement has
20 been decided in the Budget Council, the Parliament will be asked
21 to approve a budget covering the Community's expenditure for the
22 whole of 1985. The new own resources decision (which cannot be
23 changed by the Parliament anyway) will cover the Community's
24 financing needs thereafter. It has taken a very long time to
25 reach agreement on this basis. It will not be possible for the
26 Council to change what has been agreed. It is important that the
27 Parliament will act responsibly. It would be self defeating for
28 it now to create problems in relation to the implementation of
29 this agreement.
30 8. You should add that Sir Michael Butler spoke to Ruhfus about
31 this in Brussels. Ruhfus undertook to use his influence with the
32 CDU MEPs. We are grateful for this and you will wish to keep in
33 close touch with him. It is important, however, that they should
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NNNN ends telegram	BLANK	Catchword also
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OUT TELEGRAM (CONT)

Classification and Caveats

CONFIDENTIAL

Page

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2 also hear direct from the Chancellory.

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4 HOWE

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Catchword

- 3 APR 1985

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Consequences of Spanish Accession

UK IS PAYING TOO MUCH THROUGH

- (1) INTEGRATED MEDITERRANEAN PROGRAMMES
 - (2) COST OF SPANISH/PORTUGUESE ACCESSION
 - (3) BUDGET OVERRUN FOR 1985
- (1) European Council agreed to 1.6 billion ecu for integrated Mediterranean programmes over 7 years but cost to UK will be less than £10 million a year. Compare this with commitment to UK in 1984 of £371 million from the Regional Fund and £353 million from the Social Fund. Low cost of integrated Mediterranean programmes to UK direct consequence of Fontainebleau agreement, on which this European Council agreed the implementing text. UK financing share 7%, Germany 33%, France 27%.
- (2) Of course, some costs in later years as a result of enlargement and strengthening of democracy in Western Europe. But transitional financing arrangements for Spain intended to keep Spain in broad balance. Otherwise Spain would have been large net contributor in early years.
- (3) No new own resources before 1986 (but UK's 1000 million ecu abatement decoupled and available immediately on ratification of new Own Resources decision). European Council did not discuss 1985 budget overrun: to be discussed and agreed in Budget Council before any intergovernmental agreement put to House.

D. B.

File please
CDP
29/3

POSSIBLE OPTIONAL TEXT FOR DOOGE COMMITTEE REPORT:
EUROPEAN PARLIAMENT

Others considered that the Parliament elected by universal suffrage could make a more effective contribution to Community decision-making within its existing powers. This should be achieved by:

- encouraging the Parliament to make constructive use of its right to make specific proposals for Community action for consideration by the Commission and, with the agreement of the Commission, by the Council.
- ensuring that the Council fulfils its commitment to follow up resolutions passed by the Parliament. Where the Council decides not to act on a parliamentary opinion it should be ready if the Parliament so requests to explain its reasons.
- as envisaged in the conclusions of the Council on budgetary discipline, consultation between the European Parliament and the Council should take place when the ceiling for annual budget expenditure in the framework of multi-annual programming is fixed.
- improvement and extension of the conciliation procedures, in particular by better communication between the Council and Parliament in the early stages of consideration by both institutions of Commission proposals.

POSSIBLE OPTIONAL TEXT FOR DOOGE COMMITTEE REPORT:
DECISION TAKING

Others considered that the provisions of the Treaties should be more strictly respected.

- consideration should be given to more ^{consistent resort to} ~~use of~~ the majority voting provisions of the Treaty. In particular, once a reasonable time had been devoted to the search for consensus, the Presidency should call for a vote.
- member states should identify cases where not insisting on the unanimity requirement under the Treaties could be advantageous. They should make greater use of the possibility of abstention in accordance with Articles 148(3) EEC, 118 EEC and 28 ECSC. A start should be made with the establishment of standards for high technology products under Article 100.
- a member state insisting that discussion should continue until unanimity was reached should be ready objectively to justify why it considered its very important interests to be at stake.

POSSIBLE OPTIONAL TEXT FOR DOOGE COMMITTEE REPORT:
INTERGOVERNMENTAL CONFERENCE

Others consider that the recommendations in this report should be the subject of consultations between governments before the June European Council, so that decisions can be taken by the Heads of Government at that meeting.



JR
(SS)

4 be PC

10 DOWNING STREET

From the Private Secretary

28 March 1985

PAYMENT OF SUPPLEMENTARY BENEFIT TO EC NATIONALS

Thank you for your letter of 25 March conveying your Secretary of State's recommendations about steps which would restrict the ability of EC nationals to claim supplementary benefit when there is no real justification for it. The Prime Minister is in general content with the proposals in your letter. She has commented that the period of residence to establish eligibility should be a long one. Her preference would be for one year. She does not see why this would be more likely to attract EC legal challenge since the test would apply equally to UK nationals returning from abroad.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), David Normington (Department of Employment), Nigel Pantling (Home Office), Elizabeth Hodgkinson (Department of Education and Science), Richard Stoate (Lord Chancellor's Office) and Richard Hatfield (Cabinet Office).

(C. D. POWELL)

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



Ref. A085/918

PRIME MINISTER

Cabinet: Community Affairs

The Minister of State, Foreign and Commonwealth Office (Lady Young) will report on the outcome of the Foreign Affairs Council on 17 to 21 March. The Foreign and Commonwealth Secretary reported to Cabinet last week that there was a reasonable chance that this long Council, then still in progress, might reach agreement on the main points still outstanding on the negotiations on the accession of Spain and Portugal to the Community. In the event, despite considerable progress particularly on the difficult Spanish issues, negotiations were not completed. This was mainly because of French reserves on fish (and in particular the number of Spanish vessels that should be allowed to fish in Community waters) and wine (the amount Spain would be allowed to produce before compulsory distillation). The Spanish press is stating clearly that it was the French who prevented an agreement. A number of less controversial Portuguese issues also remain to be settled. The Foreign Affairs Council will resume on 28 March, with the Minister of State, Foreign and Commonwealth Office (Mr Rifkind) representing the United Kingdom. The Italian Presidency will make a strong effort to settle the outstanding issues at this resumed Foreign Affairs Council and not to refer them to the European Council of 29-30 March.

2. The Foreign Affairs Council also agreed the text of the new own resources decision, including provision for the United Kingdom's 1,000 million ecu abatement in respect of 1984, and implementation of the Fontainebleau mechanism for United Kingdom abatements in future. The only reserve is a Greek one, blatantly related to the integrated Mediterranean programmes.



Subject to ratification of the accession treaty, increased own resources for all other purposes would become available from 1 January 1986. Meanwhile, the Community's budgetary overrun in 1985 should be met through intergovernmental agreement.

3. The Secretary of State for Trade and Industry will report the outcome of the Industry Council on 26 March at which the Minister of State, Department of Trade and Industry (Mr Lamont) represented the United Kingdom. The main issue, on which satisfactory agreement was reached, subject to a Greek waiting reserve, concerned amendments to the steel aids code in order:

a. To extend the December 1984 deadline for payment of operating aid to December 1985. We supported because the British Steel Corporation requires such payments.

b. To permit member states to increase total aid to their steel industries by December 1985 beyond the levels agreed by the Commission in June 1983. This amendment is of particular concern to the French and Italians. We argued, together with the Germans and Dutch, that any such increased payments should be conditional on capacity cuts going beyond those required by the Commission in June 1983.

The terms of the agreed amendments were considered satisfactory for the United Kingdom. The French finally accepted wording which should allow them to delay further capacity cuts until after their Parliamentary elections next year - but not to avoid them completely.

4. The Minister of Agriculture, Fisheries and Food will report on the outcome of the Agriculture Council's first detailed consideration of the Commission's 1985-86 price-fixing proposals at its meeting on 25 to 27 March. Negotiations on the main elements of the package have been deferred until the Agriculture Council resumes next week, but the Presidency held a series of



bilateral meetings with member states in order to identify the main points of difficulty. The Minister of Agriculture, Fisheries and Food stressed the importance of an outcome to the negotiations which built on and reinforced the difficult decisions taken the previous year. The Germans were not prepared to relax their demands on cereals and Chancellor Kohl may pursue this in the European Council with the aim of weakening the Commission's proposal for a 3.6 per cent price reduction. Meanwhile the Presidency and the Commission will prepare a paper which will serve as the basis for discussion in the resumed session of the Agriculture Council next week.

5. You will be attending the European Council on 29-30 March, when the main business will be the integrated Mediterranean programmes and the report of the Dooge Committee. The resumed Agriculture Council will be meeting in Luxembourg from 1 to 4 April.

A handwritten signature in dark ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

ROBERT ARMSTRONG

27 March 1985

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SECRET

PRIME MINISTER

PAYMENT OF SUPPLEMENTARY BENEFIT TO EC NATIONALS

Here at long last is the outcome of the investigation into what we can do to stop "spaghetti scroungers".

The answer is that, as a result of the changes to SB decided last week, we can set a residence eligibility test for the main SB scheme. This should help, provided the European Court don't discover it and rule it out.

The only other resort for the "spaghetti scroungers" would be social aid. Since this would be cash limited, local managers would have an incentive to weed them out.

Policy Unit advice is attached. They recommend accepting the DHSS proposal.

Agree to include a presence test in the legislation reforming the SB scheme?

Yes. I think it should
be at least a year's residence

C.D.P.

mb

27 March 1985

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27 March 1985

MR POWELL

PAYMENT OF SUPPLEMENTARY BENEFIT TO EC NATIONALS

We need to end the blatant abuse whereby our Supplementary Benefit finances foreigners' holidays in the UK. The changes to SB agreed at MISC 111 last week offer a way out.

As the DHSS explain in their letter, we can now set a residence test for eligibility to the main SB scheme. Foreigners wanting benefit would have to fall back on the cash-limited social aid scheme, and local managers running it would be suitably hostile to the "spaghetti scroungers".

The DHSS fear that eventually the European Court will find our new arrangements discriminatory. This may be too pessimistic, as the new scheme will be much closer to the local discretionary schemes run on the Continent. If the Court of Justice did find against the new scheme, then UK holidaymakers ought to be able to get benefits from local schemes in France or Italy.

I recommend that you agree with the DHSS proposals.

David Willetts

DAVID WILLETTS

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1 CC DW.

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

25 March 1985

Dear Charles

PAYMENT OF SUPPLEMENTARY BENEFIT TO EC NATIONALS

I am now able to follow up our earlier correspondence about the Prime Minister's request for a note on a residence test for supplementary benefit in order to combat abuse of the scheme from EC nationals. I attach a detailed note from officials. *see PA 28 att.*

My Secretary of State has concluded that a lasting solution will require legislative changes. These could most sensibly be introduced as part of the wider legislation for reforming supplementary benefit which is planned for next session.

As you will know, under the proposals being considered by Ministers, the present supplementary benefit scheme, which is handled on a legal entitlement basis, will be replaced by one in two parts: income support to provide regular weekly benefit to claimants and social aid to handle real hardship on a discretionary basis. This framework would open up new possibilities for tackling the problem of abuse by EC nationals.

First, a presence test could be introduced into the main income support scheme. This would operate on the basis that all claimants would have had to be in the country for a set period - a matter of months - as a condition of receiving benefit: we would have to settle later what the most effective rule would be. This change would exclude recently arrived EC nationals but at the price also of excluding certain British subjects, such as someone returning from an extended visit to their children in New Zealand. Second, we would attempt to handle such problems through social aid. The flexibility of discretion in this area could be used, so far as possible, to separate out those who had an alternative option to state support, such as returning home.

None of this is risk-free. In all our arrangements - both income support and social aid - we would be under an obligation not to discriminate against EC nationals. The European Court has a long record of reaching judgements which in practice extend the rights of people from one EC country to get help in another. In particular, there is a strong possibility that a presence test itself would be ruled discriminatory. At the most, in that event, we would have bought time. And it would be necessary to operate social aid in a way that does not too specifically create "rules" for EC claimants to lessen the risk of successful legal challenge.

E.R.

Although there are problems with any course of action, this approach seems to DHSS Ministers the best way of resolving the current difficulties. Before legislation can be introduced administrative measures would have to be used to discourage inappropriate claims. For example, the Home Office could curtail the stay of a persistent claimant once his six months' leave of entry had expired (on the grounds that he had not established his residence as a worker) or continue to operate the present system for claimants (pending any further legal challenge). Either can be combined with Mr Alan Clark's idea of initial warnings. We are separately considering ways of reducing students' access to supplementary benefit which could have some impact on the problem insofar as some EC claimants profess to be students. However my Ministers accept that such measures would not provide a total solution although they would make it easier for Department of Employment officials to deal with the worst abuses by EC claimants.

To conclude, my Ministers would propose to keep up the momentum so far as possible on immediate administrative measures to discourage abuse; and providing there are no insuperable legal difficulties, to work up the option of a presence test for inclusion in legislation reforming the supplementary benefit scheme.

A copy of this letter goes to Len Appleyard (FCO), David Normington (DE), Nigel Pantling (HO), Elizabeth Hodgkinson (DES), Richard Stoate (LCD) and Richard Hatfield (Cabinet Office).

*Yours sincerely,
Stephen*

S H F HICKEY
Private Secretary

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RESIDENCE TEST FOR SUPPLEMENTARY BENEFIT

As requested by the Prime Minister, this note discusses the possibility of taking powers to impose residence tests for the receipt of supplementary benefit, and also touches on other ways of achieving her stated objective of "restricting this help to British nationals".

Background

2. International agreements over the past 30 years (Annex A) have given the right to nationals of various other countries to claim supplementary benefit on the same terms as British nationals. These are, basically, that the claimant's resources fall short of his needs, and he is not in a position to help himself. British nationals have reciprocal rights in those countries.
3. Some 2,000 EC nationals are identified by DHSS local offices as claiming for 2 weeks or more each year (in 1984, this would have amounted to 0.03% of all claims handled). The extent of overseas claiming by British nationals is not known.
4. During 1984, the Daily Mail ran a campaign protesting about claims by students from EC countries who had no intention of finding work, but were simply holidaying at the British taxpayer's expense. The circumstances of these students were no different from those of many British people successfully claiming benefit, and they could not therefore be denied it.
5. The Prime Minister called for a report (Annex B). This set out administrative measures being taken by HO to curtail overseas claimants' stay and by DE to warn them in advance of this risk. Since then legal developments (Annex C) have caused the Home Office to doubt their powers of curtailment, thus depriving DE of the weapon they had intended to use. The possibility of retrieving this situation is discussed in para 21 below. But, in any case, the Prime Minister's request for a further note predated these difficulties.

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Nationality discrimination

6. The Prime Minister's aim, "restricting [Supp B] to British nationals", cannot be pursued directly without abrogating various international agreements (para 2 above). Discrimination on the ground of nationality, whether overt or covert, would be contrary to our legal obligations. A solution has to be found, therefore, which avoids this problem.

Residence test

7. A residence test, which applies to all irrespective of nationality, is an obvious possibility to explore, although as the precedents quoted in Annex A indicate, a lengthy test period would undoubtedly be unacceptable to the European Court of Justice. However, whether a short test period would be unacceptable is not clear from present case law.

8. Whatever the period, the effectiveness of a residence test will be limited in the case of someone who has Treaty rights as a "worker", if supplementary benefit is, in due course, declared a non-contributory "mixed-type" benefit (see Annex A para 5), because a period of residence in another Member State would have to be taken into account in satisfying the residence test.

What kind of residence test?

9. Whilst it could be argued that a test of normal residence would be appropriate for a benefit which expresses community solidarity, experience with other social security benefits suggests that such tests are burdensome to administer, creating endless problems of legal definition and resulting in complex and expensive appeals.

10. Administratively preferable, and sufficient to weed out the headline grabbing "spaghetti scroungers", would be a presence test relating to an immediate past period. It would be prudent to make this brief in view of the ECJ's apparently greater tolerance of short residence conditions. To

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avoid confusion, the test to adopt should ideally be the same as an existing one. The child benefit requirement of 26 weeks' presence in the last 52 weeks is closest of the present tests to what is needed; if shorter tests are introduced for this and other benefits, as is being contemplated at present, it would make sense to do the same with Supp B. 8-12 weeks would be the minimum test period needed to make it pointless for a student to stay in the UK long enough to qualify himself for benefit before resuming his studies at home. It would be necessary to express this as, say, 8 weeks within the last 12, so as to avoid inadvertently disempowering UK nationals returning from short trips abroad.

11. The Supp B claim form would need to be adapted to ask about presence and also about membership of any exempt categories (see para 13 below). The claimant's statement on these points might simply be accepted. Some would lie; but there would be far smaller administrative costs than with the alternative: to instruct local offices to ask for supporting evidence where it appeared to them that a claimant might have given misleading information. Doing so would run a high risk of provoking, or seeming to be, ethnic discrimination and would, on those grounds, be likely to cause industrial relations and other trouble for DHSS. There would also be difficult judgements to be exercised on what constituted adequate evidence of presence. Overseas claimants who had kept them, could be asked to produce as evidence the forms given to them on entry. Although these show only the date of entry without identifying particulars, the scope for fraud could be limited by date-stamping forms presented in support of a claim. Claimants who had mislaid their forms would, however, have to be asked to demonstrate in some other way that they had been present as stated. This would open up scope for argument and appeals. There would be particular problems in relation to Irish citizens.

Easements and exemptions

12. People who failed the residence test and could not or did not want to leave the country would have to find some way of supporting themselves in this country for whatever period the test covered. (After that, they would qualify.) While this is the object of the exercise for "spaghetti scroungers", it would also affect others whose needs were more likely to command sympathy. Some exemptions and easements would be necessary in order to minimise such difficulties.

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13. Certain classes of case are normally exempted from residence tests. For example, the Northern Ireland scheme's exemptions included armed forces personnel, seamen and refugees. It would make sense to follow suit, and exempt from the application of a residence test where possible groups which Ministers wish from the outset to treat in the same way as residents.

14. The one group which cannot be exempted in this way without letting in fellow Europeans is, of course, UK nationals returning from abroad. Among this group - or, conceivably, among foreigners who had suffered genuine misfortune - there would inevitably be hard cases which attracted publicity. The longer the period for which benefit was withheld, the greater the risk of criticism. The people concerned will, by definition, be without means of their own, and may have dependent children.

15. A mitigating factor which applies in Northern Ireland and which will apply in Great Britain unless specifically excluded, is the availability of "urgent needs payments" (UNPs), in defined circumstances, under the "fall-back" arrangements provided for in the Supplementary Benefit (Urgent Cases) Regulations. UNPs, which are at a lower rate than normal Supp B for the first two weeks and at the same rate thereafter, are available, inter alia, when serious damage or risk to health and safety would otherwise be incurred.

16. Without some provision for UNPs for those failing a residence test, there would be a large hole in the "safety net" and inevitable pressure to repair it. (Publicity surrounding a single case of an Asian woman abandoned in this country was the main reason, for example, for the extension of UNPs in 1984 to all people who, while subject to a direction for their removal, have had their removal deferred.)

17. Yet, as the rules stand, "spaghetti scroungers" with no money for food or shelter can fairly readily qualify for UNPs. At the price of further costs for DHSS local offices, the rules for UNPs could be made tougher for those failing a residence test. For example, eligibility for UNPs in those circumstances might be restricted to people who are not required to be available for work (eg because they are incapacitated, elderly or in sole charge of a child) and to those with

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dependent children. Able-bodied people of working age without dependent children, including "spaghetti scroungers", would have to find their own salvation. This seems more defensible than restrictions which would affect all those failing a residence test, such as retaining the lower rate of UNPs payable in the first two weeks throughout the period of the claim.

Residence test: summary

18. A residence test would effectively exclude many short-stay claimants from overseas from normal Supp B, at the price of excluding also some UK nationals for a certain period. The recommended form, in order to minimise the chances of EC legal challenge, is a short recent presence test (para 10): this also has the advantage of limiting the period of exclusion from benefit to one which would block overseas students' claims without depriving other claimants for longer than necessary. The legislation could also restrict the availability of urgent needs payments to those who failed the test, perhaps by denying eligibility to young fit "non-residents" without dependent children (para 17).

19. The benefit saving cannot be quantified but would be likely to be insignificant. There would be disproportionate administrative costs, arising from applying to all the 6.2 million claims new procedures which were designed to affect at very most 0.05% of that number.

20. There is a danger that this will be overruled by the European Court of Justice or limited in its effect within a year or so of introduction (paras 7-8).

Other options

21. Officials have looked at possible "non-tariff barriers" within the law, considering first what might be done to restore the arrangements set out in Annex B in the light of the difficulties described in Annex C. The underlying primary legislation has not changed; its interpretation has done so, as a result of a judgement in a relatively junior court. It would, in principle, be possible for the Home Office to continue to operate curtailment procedures until challenged

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and, if overruled, to appeal to higher courts. Unless the 1984 change in the regulations were revised, UNPs would continue to be available to appellants and to those awaiting removal. But, with curtailment still a real possibility, DE could proceed with their original plans for discouraging claims at the outset.

22. Alternatively, there might be scope for building on the Home Office's fresh proposals in Annex C for telling EC claimants, once their 6 months' leave of entry has expired, that they no longer have leave to remain and should leave the country. There is no right of appeal in these circumstances but deportation action is not being taken; removal directions will not have been given and in the circumstances there may be no obligation to continue UNPs. However, the obvious response by an individual affected would be to seek an extension of stay, denial of which does carry a right of appeal. In those circumstances, UNPs would have to be reinstated. Nevertheless, the existence of such arrangements could be prayed in aid by DE in alerting claimants at the outset to the risks for them in claiming benefit.

23. Various options for direct action by DHSS have been examined but found in discussion in EQ0 to be expensive, unworkable and/or ineffective. The front-running option for DHSS action would be, by regulation, to limit the number of offices at which overseas residents were permitted to claim, say, to one in each of the major conurbations. Claimants might be required to present themselves in person and to undergo a grilling by a specialist member of staff. While not preventing really determined claimants this could deter casual misusers of the system.

24. It would, however, be open to legal challenge as discriminating against EC nationals and could also give rise to racial discrimination problems, industrial relations snags and heavy administrative costs. There could also be trouble with the legislative requirements that any claim for benefit must be submitted forthwith to an adjudication officer for determination. It would not be easy to maintain that someone who had gone to a designated office was just an enquirer, not a claimant.

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Other options: summary

25. Legal and practical considerations heavily limit the scope for inhibiting claims from "spaghetti scroungers" by administrative action. The Home Office could revert to earlier practice on curtailment, subject to legal challenge (para 21). Alternatively it could tell overseas claimants to leave at 6 months (para 22). Either of these options would give DE scope to threaten claimants from the outset with loss of the right to remain in the country. But claimants could get the better of all these devices simply by persisting in their demands to stay, appealing when necessary and claiming UNPs.

26. DHSS could seek to channel overseas claimants through a limited number of offices (para 23). But this would give rise to as many (or more) difficulties as a presence test, without being nearly as effective.

Conclusion

27. Although there is little evidence on the extent of overseas claiming, such indications as we have suggest it is relatively small in scale. The benefit loss from the absence of measures to prevent it is therefore in all probability correspondingly small. This paper has discussed the possibility of introducing a residence test and of various other actions short of that. The most effective of the options discussed would be a short recent presence test, particularly if backed up by limitations on access to UNPs. Although it would be troublesome and expensive to administer and there would unavoidably be some hard cases, the same is true of any option with real teeth. This therefore looks the front runner. But it could well be overruled by the ECJ, or overtaken by a change in the status of Supp B in EC terms, within the next couple of years.

28. If a presence test is introduced, it might be desirable to inform other EC Governments of the reasons, through diplomatic channels.

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Legal and international considerations

1. Introducing a residence test for Supp B in Great Britain would require primary legislation. There has already been a 5-year residence test in the Northern Ireland scheme for many years, in recognition of the particular political and geographical circumstances, but its legality under European law is increasingly being called into question. There are also residence or recent presence conditions for some other British benefits, though none are maintenance benefits.

2. In order to comply with our international obligations it would be necessary to frame the provision for a residence test for Supp B so that it gave equal treatment with our own nationals to nationals of EC countries and of other signatories of the 1953 Council of Europe Convention on Social and Medical Assistance. The European Social Charter of 1961 involves a similar commitment. In addition, comparable treatment would need to be given to refugees under the Geneva Convention of 23 July 1951 and to stateless persons under that of 28 September 1954.

3. In one recent case (McMahon v DES 1982 3WLR 1129) the High Court took the view that a 3-year "ordinarily resident" test imposed on applicants for student grants constituted unlawful discrimination under EC regulations. A similar point is currently before the European Court of Justice in relation to the 5-year residence test imposed under the Belgian public assistance scheme on non-Belgian nationals (the case of Hoeckx). Following inter-departmental discussions, DES decided to replace the 3-year ordinarily resident test, for EC nationals, by a "9 months in the last year" employment test. The hope is that this will be accepted as non-discriminatory. The EC Commission may take a less severe view of a short residence test. They ruled, in reply to an EPQ in 1977 on the Luxembourg birth grant, that a one-year residence test was not discriminatory. However, the Luxembourg one-year test was a relaxation of the previous condition. A worsening of the existing position might well be less favourably regarded by the Commission, especially when it affects a benefit of last resort.

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4. It seems virtually certain, against this background, that introducing a residence test for Supp B would be frowned upon by the Commission and probable that, if we were taken to the European Court, the test would be ruled illegal. There are residence tests for Supp B analogues in several EC countries, usually based on normal residence, sometimes accompanied or replaced by a condition as to presence in the country over a stated recent period. But this would not necessarily shield us from proceedings taken either by the Commission or in an individual case and we could, within 12 months, find that our residence test had been overruled. The consequences of such a decision would have to be accepted.

5. A further risk is that drawing Supp B to the attention of the European Court could highlight the question whether the benefit is, in EC terms, "social security" rather than "social assistance". The outcome is by no means a foregone conclusion and, if Supp B were ruled to be "social security", benefit would, under present arrangements, be exportable in certain circumstances. If, as seems likely, the UK in future declares Supp B to be a "mixed" benefit which is non-exportable, this would simply present a different problem; periods of residence in other Member States would count as being in the UK.

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Annex B

DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

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

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,
Stephen

S H F Hickey
Private Secretary

THE HOME OFFICE

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In the face of growing numbers of EC nationals claiming Supplementary Benefit the Home Office agreed in 1979 to curtail the stay of EC claimants on the understanding that although it was not practicable to enforce their departure by deportation, DHSS would be able to cut off benefit once it was established that a claimant no longer had leave to remain. It was considered that once benefit ceased an EC national was likely either to leave the country or bring himself within the scope of the Treaty of Rome by taking a job.

However, the 1980 European Court judgement in the case of Pieck cast doubt on our ability to grant "leave to enter" (in the sense of permission) to EC nationals exercising free movement of labour rights under the Treaty of Rome. The full implication of this for curtailing the stay of EC claimants did not become clear until the Immigration Appeal Tribunal began to take the view, in 1983, that an EC national exercising Treaty rights could not be "granted" leave to enter at the port and consequently could not have that leave "curtailed" regardless of the fact that he had lived on public funds. This obliged the Home Office to revise its assumption that curtailing the stay of EC claimants under the Immigration Act 1971 was an appropriate way to proceed. The fact that DHSS now proposed to continue public funds payments to all foreign nationals until they actually leave the country reinforced the view that the procedure established in 1979 had outlived its usefulness. The Home Office also took account of the fact that the curtailment procedure, from DHSS notification to the hearing of an appeal, invariably took longer than the six month period for which the EC national had been admitted to the country and concluded that in the general run of cases, the same effect could be achieved simply by requiring a persistent claimant to leave the country six months after his date of entry on the grounds that he had failed to establish a right of residence under the Treaty of Rome. It would then be for DHSS to decide what action, if any, to take in the matter of subsequent benefit payments.

The new six month "end of stay" system is itself open to further review in 1985 since the Home Office remains of the view that Immigration Act procedures are not an appropriate way to put public funds out of the reach of EC nationals. Drawing Supplementary Benefit to which one is entitled under DHSS Regulations is not grounds for deportation under the Act which leaves us with no practicable means of enforcing the agreement recorded by Member States in Council Declaration 1451/68 (ie that work seekers could be asked to leave if they became a charge on public funds within three months of entering a Member State).

The Pieck judgement in effect makes it extremely difficult for the Home Office to maintain the commitment given by the then DHSS Minister, Lynda Chalker, (on 21 November 1980 Col 3) that EC nationals who came here with the deliberate intention of relying on the Supplementary Benefit scheme for support could be asked to leave. However, in view of Ministerial concern about abuse of the system by EC holiday-makers, the Home Office would be prepared to explore the possibility of enforcing the departure of EC nationals who could be shown to have come here with the sole intention of abusing the system, since such people could have no claim to remain under EC law. Unfortunately however, success would depend on the view taken by the Immigration Appeal Tribunal who would have to be satisfied that the conduct of the potential deportee was "not conducive to the public good" in the terms of the 1971 Act. This is likely to be difficult to establish and open to challenge, and in the Home Office's view, no substitute for limiting access to public funds at source."

11 FEBRUARY 1985

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ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

NOAM

CDP 25/3

Secretary of State for Employment,
Department of Employment,
Caxton House,
Tothill Street,
LONDON, SW1H 9NF.

22 March 1985

Dear Tom.

EUROPEAN SOCIAL FUND - PART-TIME WORK SUBSIDIES

Thank you for the copy of your letter of 18th March 1985 to the Secretary of State for Foreign and Commonwealth Affairs.

As you say, I have been consulted about proceedings being brought under Article 173 EEC. The Lord Advocate was also consulted and our view was that, in principle, there was no objection to proceedings being commenced. We also considered that the United Kingdom had strong arguments in support of its application to have the provisions relating to part-time work declared void but we requested that the question of whether this would result in repayment to the United Kingdom of the monies concerned be looked at by Counsel. This has now been done and I understand that in his view there is a reasonable prospect of success in establishing an entitlement to the money withheld. Thus whilst I agree that our case does have good prospects of success, it cannot be assumed that the repayment of the monies will follow automatically. Clearly, Counsel will seek to put the case in such a way that repayment will automatically follow from a successful judgment but that outcome depends upon the judgment eventually given by the European Court and the way in which the Commission interpret it.

In short, I am satisfied that it is quite proper to bring proceedings in this case but I cannot guarantee the repayment of the monies even if the United Kingdom is successful.

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Copies of this letter go to the Prime Minister, to members of OD(E), to the Lord Advocate and to Sir Robert Armstrong.

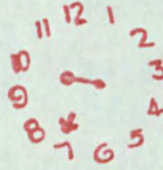
Yours v.s.,
Michael

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MR POWELL

FOREIGN AFFAIRS COUNCIL, 17-21 MARCH

The following is a very cryptic summary of the position at the conclusion of this Council:

(i) enlargement. The Council is meeting again on 28 March to try to settle the remaining points. In our view it is likely to do so. The dominant feature was a number of disagreements between France and Spain.

The critical points for Britain have been broadly settled in a very satisfactory way. In particular, in the fisheries sector the application of restrictive arrangements to Spain for 17 years, no access for Spanish fishing vessels to the North Sea and no reductions in any British quotas anywhere is a very good result. Agreement has also been reached on social affairs in a way which deals satisfactorily with the Gibraltar point. At present no-one is challenging the treatment of the transitional financing arrangements for Spain and Portugal on the Greek model which will give us the protection of the Fontainebleau mechanism.

The main outstanding points are in the fisheries sector; the number of Spanish boats on the basic and periodic list (big problem for France), the date at which the Irish Box will be opened to some Spanish fishing and the division of a part of the hake quota between areas (a question of interest to France and Britain) but limited in importance because the greater part of the Spanish hake will in any event be taken in the Bay of Biscay). There is also a substantial disagreement between the Community and Spain on wine (primarily a French point);

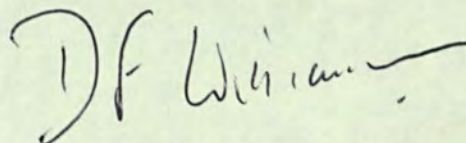
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(ii) own resources and the budget. The result is good and should be presented as good. It is the so-called "mixed solution". There is agreement in the Community on the text of the revised own resources decision (Greek waiting reserve and one minor technical point to be settled). This, subject to the agreement of all national parliaments, will now implement the Fontainebleau agreement.

The revised own resources decision (the 1.4% VAT ceiling) will make available new own resources after ratification of the accession treaties. The United Kingdom's 1000 million ecu abatement for 1984, however, will be available immediately on ratification of the own resources decision itself.

The United Kingdom has also agreed that the 1985 overrun should be financed by an intergovernmental agreement, subject, of course, to the agreement of national parliaments. The size of the budget overrun will be determined by the Budget Council in the normal way.

I am sending copies to Colin Budd (FCO), Rachel Lomax (Treasury) and to Sir Robert Armstrong.



D F WILLIAMSON

22 March 1985

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EEPC
NBPM
CDP
2243

FCS/85/70

SECRETARY OF STATE FOR EMPLOYMENT

European Social Fund: Part-Time Work Subsidies

1. Thank you for your letter of 18 March.
2. I had understood that, while the Attorney General was satisfied that there was a good case for bringing the action, he wished you to be satisfied that the consequences of a successful Article 173 challenge would, in fact, be the payment of the monies in question to the United Kingdom.
3. If, on the advice you have received, you are satisfied, not only that we have a good chance of winning the case, but that the result of that is likely to be that the Commission is obliged to pay us our £13 million (which will be subject to the Fontainebleau mechanism as it will come under allocated expenditure) then I agree that we should take the issue to the European Court. While it is relatively rare for Member States to take the Commission to the Court, when such actions have been successfully prosecuted, the effect on the Commission has been salutary. I agree that legal action would not adversely affect our relations with the Commission or our broader Community interests and could contribute to the Social Fund being administered more strictly in accordance with its rules.
4. If we do take the matter to the Court I think we should bear in mind the possibility, once our case has been deposited with the European Court, of taking the case up once again

.../with

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with Commissioner Sutherland, with a view to resolving it satisfactorily without having to go through the whole legal procedure.

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

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

GEOFFREY HOWE

Foreign and Commonwealth Office
22 March 1985

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Budget : FURCO POL. 1+29.



Ad Hoc
Budget

PRIME MINISTER'S QUESTION TIME: 21 MARCH 1985

General

1. Report of the Ad Hoc Committee on Institutions (Dooge Committee) finalised on 15 March. To be submitted to the March European Council. Only brief discussion then. Intergovernmental consultations in coming weeks. Full discussion at June European Council.

Status of Report

2. The report is the work of personal representatives of heads of government, not all of whom were actually members of national governments. In some respects therefore, the report does not reflect the positions of Member States, eg: the general understanding in the Community that no Member State should be voted down on an issue where a very important national interest is at stake.

3. Availability: Expect European Council will make text available after next week's meeting. I shall be pressing for this.

[As necessary]

4. Substance: There is much in the report which reflects the UK's priorities:

- emphasis on the need to create a genuine internal market by the end of the decade;
- measures to improve political cooperation;
- sensible proposals on defence and security;
- endorsement of the UK's suggestion of a smaller and more effective Commission;
- emphasis on the strategic role of the European Council.

More Powers for the European Parliament?

4. UK does not believe that the relationship between the institutions laid down in the Treaty of Rome needs to be changed. What is required are better working relations between the European Parliament and the Council of Ministers and we have put forward a number of proposals.

Two tier Community?

5. The attitudes of member governments on many of the issues raised in the report are not far apart. We all agree that, in the enlarged Community greater use will need to be made of the existing majority voting provisions of the Treaty if decisions are not to be delayed. We all agree on the priority of completing the internal market. We all want to see greater action in political cooperation. We believe that governments will wish to focus on practical measures capable of immediate implementation by all Member States.

UK Reservations

6. United Kingdom representative reserved the UK's position, and put forward alternative proposals in three areas:

- decision taking;
- powers of the European Parliament;
- selection of EC Commissioners (UK believes the choice of Commissioners must be for national governments albeit after consultation with the President Designate).

Scrutiny by the House of Commons

7. It will be up to Heads of Governments to decide on follow up to the report. If Heads of Government recommended action which required Community legislation proposals would be put forward by the Commission and these would come before the House. There will of course in any case be opportunities for the House to debate Community issues in the usual way.

Background

1. The final meeting of the Dooge Committee was held on 15 March. There has been extensive (and largely accurate) press coverage of the contents of the report, highlighting the sections on majority voting and the powers of the European Parliament.

2. Although the contents of the report has already been widely publicised, the text is still "in confidence" until the European Council decides whether or not to publish it (as in the case of the interim report). We should not promise to deposit the text in Parliament until that decision is taken. The Commons Scrutiny Committee have already pressed that the report be deposited soon.



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Qz.04298

PRIME MINISTER

Cabinet: Community Affairs

I should report these developments which are later than the Cabinet brief submitted yesterday -

(i) vehicle emissions. The Environment Council has reached agreement on vehicle emissions on lines satisfactory to the United Kingdom. It has been agreed that the European standards to be set for the medium cars must be capable of being met by lean burn technology;

(ii) enlargement of the Community. The Foreign Affairs Council which began last Sunday is still continuing and the negotiations with Spain and Portugal are grinding on. It is probable that all the major issues in the negotiations will be brought to a conclusion this week. I can confirm that the very satisfactory fisheries settlement, which does not provide for any Spanish access to the North Sea and no reductions in any United Kingdom quotas, is on course: we have negotiated in such a way that the French will be carrying the main burden of any adjustment. The principal problem at the moment is a dispute between Spain and Portugal about Portuguese waters. There are substantial unresolved questions in the agriculture sector, eg the tough Community proposals on fruit and vegetables, but the United Kingdom appears to be protected on all sensitive points;

(iii) own resources. The members of the Council will be so tired after the successful conclusion of the enlargement negotiations, if this is reached, that it will be

/difficult

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difficult to obtain a final agreement on the text of the own resources decision. Nonetheless, we are quite confident that a breakthrough has been made, as a result of our bilateral contacts with Germany and France, and we believe that we shall get this text very shortly even if we do not get it this week.

I am sending a copy to Sir Robert Armstrong.

Df Williamson

D F WILLIAMSON

21 March 1985

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Ref. A085/851

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council called for 17 to 20 March at which he and the Minister of State, Foreign and Commonwealth Office (Mr Rifkind), represented the United Kingdom. The main task of this long Council, which may in fact go in to a fifth day, is to reach agreement on a compromise package to put to Spain and Portugal on the outstanding enlargement issues - agriculture, fisheries and social affairs. The bulk of the discussions have been devoted to fish, and several points favourable to the United Kingdom appear already to be settled:

- a. a Spanish quota of 18,000 tonnes for hake, well below the 25,000 tonnes to which we feared the Community might have to go;
- b. no provision for any Spanish access to the North Sea;
- c. no United Kingdom quotas cut back in any areas.

The negotiations with Spain have, however, been taking place in a rather difficult atmosphere, and on the evening of 19 March they unexpectedly presented a number of additional Spanish demands. Even so, there does seem a better than evens chance that the Council will succeed in reaching agreement on the main elements of the negotiations with Spain. If that does happen, the Council is expected also to reach agreement on the text of the new own resources decision, the Germans having now agreed to decouple our 1000 million ecu abatement and to make it available in 1985, a very satisfactory development for the United Kingdom.



2. The Foreign and Commonwealth Secretary may also report that the Dooge Committee reached agreement at its meeting on 13-14 March on its final report to the European Council. Its main features from our point of view are:

- a. useful conclusions on the internal market and high technology;
- b. positive elements in the text on political co-operation and defence;
- c. acceptable texts on the European Monetary System, convergence and budget;
- d. no United Kingdom commitment to Treaty amendment or to an intergovernmental conference;
- e. alternative texts with equal status on majority voting and the Luxembourg Compromise;
- f. fewer reservations from the United Kingdom than from other countries.

3. The Secretary of State for the Environment will report on the Environment Council on 20 March, at which the United Kingdom is being represented by the Parliamentary Under Secretary of State (Mr Waldegrave). The Council has been called primarily to reach a conclusion on vehicle emissions, the previous discussion on 7 March having come to an impasse in which the United Kingdom refused to accede to German insistence that after two years medium-sized cars should be treated in the same way as large cars - ie United States standards requiring three-way catalysts. The United Kingdom's aim at this week's Council is to bring the Germans to accept standards for medium-range cars which will not be capable of being met only by three-way catalysts and which will not impose serious financial burdens on the British



industry and car purchasers. Contacts before the Council with the French and the Commission showed agreement that the Germans would have to be persuaded to modify their position, both on this point and on the timing of their proposed fiscal incentives. If the Germans remain obdurate and it proves impossible to reach agreement within the terms of the conclusions of E(A), the United Kingdom's objective will be to leave adequate room for manoeuvre at the European Council. The Italian Presidency is also expected to press for agreement to a Directive on beverage containers; this has been much watered down and now would be unlikely to cause problems for the United Kingdom, but we have been making it clear that we would still prefer a Recommendation.

4. There was an Energy Council on 15 March, at which the United Kingdom was represented by the Parliamentary Under Secretary of State, Department of Energy (Mr Goodlad). This reached no decisions requiring a report to Cabinet.

5. The Agriculture Council meets on 25 to 27 March to continue its consideration on the Commission's 1985-86 price-fixing proposals, and the Industry Council on 26 March, when the major item will be steel. You will be attending the European Council on 29-30 March.

ROBERT ARMSTRONG

20 March 1985

CONFIDENTIAL



PL
 PL. resubmit
 on 21 March

Treasury Chambers, Parliament Street, SW1P 3AG

C Powell Esq
 10 Downing Street
 LONDON SW1

18 March 1985

NBPM
 DP
 25/3

Dear Charles,

**EUROPEAN COMMUNITY BUDGET 1985, THE REVISED OWN RESOURCES DECISION
 AND THE UNITED KINGDOM'S 1000 MILLION ECU ABATEMENT**

The Economic Secretary has seen Mr Williamson's minute to you of 15 March on this subject and has asked me to say that he supports the recommendation in paragraph 4 that if it is not possible to secure a satisfactory "mixed solution" at the current Foreign Affairs Council we should press forthwith for the "double IGA" as a practicable solution. Although neither the "mixed solution" nor the "double IGA" can by themselves guarantee receipt of our 1000 million ecu abatement before the end of 1985, the Economic Secretary believes that on balance the "double IGA" offers the better prospect of so doing. It would also strengthen the Government's position in the House of Commons since there would presumably be no question of asking Parliament to ratify the new Own Resources decision until our 1000 million ecu had actually been received.

I am copying this letter to Colin Budd at the FCO, Sir Robert Armstrong and Mr Williamson.

Yours ever,
 Adrian Ellis

ADRIAN ELLIS
 Private Secretary

ENVO PR: Budget A 29



ROYAUME DE BELGIQUE - MINISTRE DE LA MAISON ROYALE

119 MAR 1985

ROYAUME DE BELGIQUE
MINISTRE DE LA MAISON ROYALE

11900

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Caxton House Tothill Street London SW1H 9NF
 Telephone Direct Line 01-213 6400
 Switchboard 01-213 3000

Rt Hon Sir Geoffrey Howe, QC, MP
 Secretary of State for Foreign and
 Commonwealth affairs
 Downing St
 London SW1A 2AL

18th March 1985

Dear Geoffrey,

EUROPEAN SOCIAL FUND - PART TIME WORK SUBSIDIES

Last year, the European Commission decided to reduce the amounts allocated by the European Social Fund to job creation schemes where part-time work is involved. Previously the Fund had matched the contribution of public authorities in Member States within an overall ceiling, expressed as an amount per person per week. Last year, the Commission decided that the ceiling should depend on the number of hours worked by people on the schemes concerned. This decision was taken late in the Fund's annual cycle, just before the Commission's decisions on 1984 applications were due to be announced, and without consultation.

We believe that the decision was unlawful and leaves the Commission open to challenge in the European Court. However, despite the efforts of officials and myself, the Commission confirmed its attitude just before Christmas when it made its final Decision on all 1984 applications for Social Fund assistance. The Attorney General and Counsel have been consulted, and their view is that a case would have good prospects of success, and that a successful case would lead to our getting our money back.

The amount at stake is about £13 million, all but £50,000 of which represents a direct loss to the Exchequer as it was money which would have been allocated to the Manpower Services Commission's Community Programme. The £50,000 is money which has been docked from the support given to three small employment schemes run by local authorities.

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If the budgetary mechanism agreed at Fontainebleau were to operate, the net benefit to the UK of a successful action in the European Court would be about £3-4½ million; if not it would be between £9 million and £13 million.

Although the amount at stake is relatively small compared to the UK's total allocation from the Fund of £353 million last year, I am firmly of the view that we should take action against the Commission in the European Court, both in order to recover the money and to demonstrate to the Commission that they cannot get away with administering the Social Fund unlawfully.

The decision to make reductions for part-time work was imposed on the Social Fund Directorate in DGV by DGXX (financial control). A decision by the UK to take legal action will not come as a shock to the Commission, and I do not believe that taking legal action will adversely affect our normally good relationships with DGV. Taking action would also be consistent with the firm line I take with the Commission on social affairs issues. I do not consider that a decision to take legal action against the Commission would affect our broader Community interests, as I find it hard to imagine that President Delors and his colleagues would see the issue as being of great political significance. As the Commission has few inhibitions about taking legal action against Member States, we should not be too reluctant to reverse the process. I mentioned the matter to Commissioner Sutherland last week, and he expressed some sympathy for our position, making the point that he himself wants to see the Fund managed more effectively.

Other Member States, which with one or two exceptions are jealous of the UK's large share of the Fund in recent years, cannot be expected to give us open support. However, all Member States are concerned about the way in which the Commission administers the Fund and would be likely to be pleased to see the Commission lose a case in the European Court.

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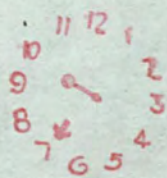
Under Article 173 of the Treaty, the proceedings need to be instituted by the end of the month. Counsel must prepare our case before then, so I would be grateful for a very early reply.

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

2 m
[Signature]

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118 MAR 1980



GRS 220

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RESTRICTED

FM PARIS 151130Z MAR 85

TO IMMEDIATE F C O

TELEGRAM NUMBER 209 OF 15 MARCH

INFO PRIORITY UKREP BRUSSELS

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

YOUR TELNO 108 TO BONN: IMPS

SUMMARY

1. THE FRENCH MAY BE RECEPTIVE TO OUR VIEW ON NON-TILTING OF
STRUCTURAL FUNDS TOWARDS THE MEDITERRANEAN, BUT SOME SIGNS OF
READINESS TO ACCEPT ADDITIONAL FUNDING OF THE ORDER PROPOSED BY THE
COMMISSION.

DETAIL

2. BLANCHEMAISON (SGCI) OFFERED THE FOLLOWING VIEWS ON THE
COMMISSION PROPOSALS ON IMPS. THE FRENCH HAD NOT YET DECIDED THEIR
LINE ON THE PROPOSED 2 BILLION ECU ADDITIONAL FUNDING. THE UK AND
GERMANY MIGHT WISH TO SEE THAT FIGURE SUBSTANTIALLY REDUCED, BUT
SUCH A SUM WOULD NOT GO FAR ONCE CLAIMS WERE MADE BY GREECE (WHO
WOULD HAVE TO BE ACCORDED THE MAJOR SHARE), ITALY AND FRANCE. IN
VIEW OF POLITICAL COMMITMENTS TO FRENCH PRODUCERS IN THE SOUTH, IT
WAS ESSENTIAL THAT FRANCE SHOULD RECEIVE A RESPECTABLE SHARE, SO A
FIGURE NOT FAR REMOVED FROM 2 BILLION ECU WOULD PROBABLY BE NEEDED
TO SATISFY ALL CONCERNED.

3. ON THE PROPOSED TILT TOWARDS THE MEDITERRANEAN, BLANCHEMAISON
SHOWED SYMPATHY WITH THE UK LINE THAT THIS WAS UNACCEPTABLE IN THE
PRINCIPLE. IF THE BIAS WERE MAINTAINED, THIS WOULD HEIGHTEN THE RISK
OF THE SPANISH AND PORTUGUESE, ONCE MEMBERS, THEMSELVES SEEKING TO
STAKE A CLAIM ON THE IMP FUNDS, WHICH WOULD MAKE A NONSENSE OF THE
PURPOSE WHICH IMPS WERE INTENDED TO SERVE.

F C O PLEASE PASS SAVINGS

FRETWELL

FRAME STRUCTURAL

ECB(1)

[REPEATED AS REQUESTED]

RESTRICTED

GR 330
UNCLASSIFIED [FRANC BURNAL]
FM ATHENS 150600Z MAR 85
TO PRIORITY FCO
TELEGRAM NUMBER 154 OF 15 MARCH 1985
INFO ROUTINE UKREP BRUSSELS
INFO SAVING OTHER EC POSTS

GREECE: IMPS.

SUMMARY

1. AT A PRESS CONFERENCE PANGALOS REPEATED GREECE'S KNOWN POSITION ON IMPS AND ATTACKED BRITISH OPPOSITION TO A SETTLEMENT.

DETAIL

2. AT A PRESS CONFERENCE ON 14 MARCH PANGALOS (DEPUTY FOREIGN MINISTER FOR EC AFFAIRS) REITERATED GREECE'S DEMAND FOR A SETTLEMENT ON IMPS CLOSE TO THE ORIGINAL COMMISSION PROPOSAL (38.5 PER CENT OF 6.6 BILLION ECU). HE ARGUED THAT THIS FIGURE HAD BEEN CAREFULLY CALCULATED BY THE COMMISSION AS REPRESENTING WHAT GREECE NEEDED IN ORDER TO COPE WITH ENLARGEMENT AND THAT THE COMMISSION HAD CONSIDERED CAREFULLY GREECE'S CAPACITY TO ABSORB THIS FUNDING. FOUR PILOT PROJECTS ON IMPS HAD BEEN UNDER WAY IN GREECE SINCE THE BEGINNING OF THE YEAR AND WERE WORKING SATISFACTORILY. THE INCREASE IN OWN RESOURCES WOULD FINANCE IMPS. THUS THERE WAS NO QUESTION OF ADDITIONAL FINANCING BEING REQUIRED. PANGALOS DID NOT, HOWEVER, EXPLICITLY ARGUE THAT IMPS SHOULD BE UNDER A SEPARATE BUDGET LINE AS OPPOSED TO BEING FINANCED FROM THE STRUCTURAL FUNDS.

3. PANGALOS WENT OUT OF HIS WAY TO ATTACK BRITAIN'S POSITION AND THE BRITISH PRIME MINISTER PERSONALLY, CLAIMING THAT MRS THATCHER HAD NOT BEEN PROPERLY BRIEFED ON IMPS. HE ALSO ATTACKED UNSPECIFIED EC COUNTRIES FOR THEIR DEMANDS FOR CLOSER POLITICAL UNITY WHILE REFUSING EXPENDITURE TO SUPPORT THE LESS DEVELOPED. HE REJECTED THE CONCEPT OF SOME EC COUNTRIES WHO SAW THE COMMUNITY AS SIMPLY A MEANS TO A FREE MARKET IN GOODS AND SERVICES. GREECE WAS NOT INTERESTED IN THIS SORT OF FREE MARKET.

ENLARGEMENT

4. PANGALOS AVOIDED QUESTIONS WHICH TRIED TO PIN DOWN THE POSITION OF THE GREEK GOVERNMENT WITH REGARD TO A VETO ON ENLARGEMENT IF THEY WERE NOT SATISFIED ON IMPS, MERELY CLAIMING THAT ENLARGEMENT NEGOTIATIONS WITH SPAIN AND PORTUGAL HAD SOME WAY TO GO. IN THIS CONTEXT HE ATTACKED THE POSITION OF THE FIVE ON FISHING AS BEING 'COLONIALIST' AND AS BEING AN EXCESSIVE DEMAND ON THE SPANISH GOVERNMENT.

/CRAXI'S

[altogether too well briefed for his liking!]

CRAXII'S VISIT

5. IN REPLY TO A QUESTION, PANGALOS SAID THAT PAPANDREOU HAD BRIEFED THE ITALIAN PRIME MINISTER, CRAXII, ON ALL GREEK EC POSITIONS, BUT WOULD NOT BE DRAWN ON ANY SUBSTANCE OF THE DISCUSSIONS.

FCO PLEASE PASS SAVING ADDRESSEES.

R H O D E S

(REPEATED AS REQUESTED)

FRAME EXTERNAL
ECD(E)



CONFIDENTIAL

cc81

Prime Minister ②

A useful summary.

No decision required

yet. But unless the Germans lift their linkage of introduction of new own resources to enlargement by the end of March we shall have no practical alternative

Qz.04275

MR POWELL

mf

EUROPEAN COMMUNITY BUDGET 1985, THE REVISED OWN RESOURCES DECISION AND THE UNITED KINGDOM'S 1000 MILLION ECU ABATEMENT

but to go for a double IGA. CDP 15/5

1. Since this point is under discussion in the run-up to the European Council, it may be helpful to summarise the state of the various proposals for establishing a 1985 Community budget, launching the ratification of the revised own resources decision and implementing the United Kingdom's 1000 million ecu abatement in 1985. The Fontainebleau agreement states that the ad hoc lump sum of 1000 million ecu for 1984 "will be deducted from the United Kingdom's normal VAT share in the budget year following the one in respect of which the correction is granted".

The proposals are:

(i) a limited amount of new own resources in 1985. This would provide the means of financing the 1985 budget overrun (and thus make possible the establishment of a 1985 budget) and of implementing the United Kingdom's 1000 million ecu abatement. It would be the simplest solution, consistent with Fontainebleau and acceptable to Nine member states. Against: Germany which will not agree to any increase in own resources before 1 January 1986 (linked with enlargement). This solution will not run but still has some tactical value in isolating the Germans;

(ii) the "mixed solution" (ie own resources to be increased from 1 January 1986 through the revised own resources decision, with the United Kingdom's 1000 million ecu abatement implemented in 1985 on ratification: the 1985 budget overrun to be financed by an intergovernmental agreement). The Foreign and Commonwealth Office considers that this is the safer route to obtaining our full 1000 million ecu abatement. Nine member states could probably accept this. Against: Germany (but German objections relate partly to an extra

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element imported but now withdrawn by the Presidency, namely the possibility of bringing forward by unanimous decision the new own resources into 1985);

(iii) the "double IGA" (ie the 1985 budget overrun and the United Kingdom's 1000 million ecu abatement to be financed through an intergovernmental agreement; new own resources from 1 January 1986 through the revised own resources decision). This could meet our objectives. It would give us our 1000 million ecu in 1985 and would introduce the durable mechanism of abatements from 1 January 1986. The Treasury sees advantage in this route. France, Belgium and Italy see difficulties in putting to their Parliaments an arrangement which specifically provides money for the United Kingdom (ie it is not precisely the Fontainebleau text because we would receive the 1000 million ecu in 1985 by payments under the intergovernmental agreement and not by an abatement of our normal VAT share) and we do, of course, need their agreement;

(iv) "mixed solution" with German addition. The Germans have now proposed that the "mixed solution" should be adopted with an article holding up introduction of new own resources until the enlargement treaties have been ratified. There is Franco/German disagreement on the interpretation of this text and opposition from some other member states (eg Belgium, Italy) because it could hold up the increase in own resources. In its present form it is not acceptable to us since it would almost certainly shift not only the increase in own resources but also our abatement into 1986.

2. At present it is still feasible for the United Kingdom to make clear that it could accept either the "mixed solution" or the "double IGA". As indicated by the Chancellor of the Exchequer at Cabinet, it will become increasingly unrealistic to base ourselves on the "mixed solution" as time goes by and the available period for completing the ratification in all national Parliaments in 1985 becomes less and less sufficient.

3. The risks of the various solutions and our recommendation on tactics are as follows:-

(i) the "mixed solution" has the advantage that it includes our ad hoc 1000 million ecu in the revised own resources decision and thereby provides the legal basis for the abatement of our contribution if everything goes right. In the view of the Cabinet Office (although not yet confirmed by the Law Officers) it would also give a good basis for unilaterally abating our contribution if some new obstruction (eg by the European Parliament) were to arise. The disadvantages are, first, that the revised own resources decision has to be ratified by all national parliaments and this process ought to start soon if it is to be completed in 1985. Secondly, the European Parliament might shift the United Kingdom abatement on to the expenditure side of the 1985 budget. This would be un-Fontainebleau and unjustified. We should have to respond either by holding up the ratification of the own resources decision or by ratifying that decision but abating our contribution by the 1000 million ecu in implementation of that decision as soon as it has been ratified by all member states.

We have taken the view that the pressure on most member states and on the European Parliament to get the new own resources will be such as to make the "mixed solution" a reasonable option which will not lead to any anti-British blockages. Whether it will be obtained probably depends on the willingness of the Germans to downgrade their link with the ratification of the accession treaties. If the enlargement negotiations are in all practical respects (except possibly the Greek link with integrated Mediterranean programmes) finished at the Foreign Affairs Council on 17-20 March the Germans may change their position sufficiently to make the "mixed solution" a runner. If, however, agreement is not reached at the Foreign Affairs Council, the "mixed solution" may have to be ruled out on timing considerations;

(ii)

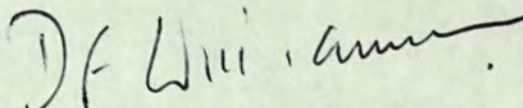
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(ii) the "double IGA" has the advantage that it might be agreed more quickly than the ratification of the own resources decision. Thus we might start to abate our contribution earlier. Potential difficulties with the European Parliament might be less, because payment would be outside the budget. A disadvantage, however, is that other national parliaments may object to funding the United Kingdom's abatement through an intergovernmental agreement, arguing that this method was not agreed at Fontainebleau. In general, of course, the United Kingdom stance is that we are in favour of the Fontainebleau agreement to the letter. We have also to keep in mind the risk that others might propose that part of our abatement should be effected by no United Kingdom contribution to the intergovernmental agreement but that the rest of our abatement should be pushed into 1986.

We should make clear that, if all member states commit themselves to adopt the "double IGA" solution, we would also be in favour of it. The Community has both to honour its obligation to the United Kingdom on the 1000 million ecu and to settle the 1985 budget financing arrangements.

4. The conclusion is that we should insist at the Foreign Affairs Council on 17-20 March that this argument has gone on long enough and that the other member states must now decide which method they intend to adopt. If, however, the Germans are not prepared at the Foreign Affairs Council to accept the "mixed solution" without linking our 1000 million ecu abatement to the ratification of the enlargement Treaties, we should press for the "double IGA" as a practicable solution.

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



D F WILLIAMSON

15 March 1985

European Community (Agricultural Prices)

The following questions stood upon the Order Paper:

2. **Mr. Gavin Strang** (Edinburgh, East): To ask the Minister of Agriculture, Fisheries and Food what is Her Majesty's Government's policy towards the European Commission's latest agricultural price proposals and package; and if he will make a statement on the progress made to date by the Council of Agriculture Ministers in considering those proposals.

5. **Mr. Michael Latham** (Rutland and Melton): To ask the Minister of Agriculture, Fisheries and Food what is the latest position regarding the progress of the Common Market price negotiations.

The Minister of Agriculture, Fisheries and Food (Mr. Michael Jopling): I refer the hon. Members to the reply I gave yesterday to my hon. Friend the Member for Torridge and Devon, West (Sir P. Mills) on the outcome of the meeting of the Council of Agriculture Ministers earlier this week.

Mr. Strang: Is the right hon. Gentleman aware that the announcement that the Council is prepared to fund the conservation of wildlife in our rural areas is welcome in principle? Can we have an assurance that we shall have an end to the payments under management agreement that involve paying out large sums of money to landowners, on some occasions indefinitely, not to plough up land or do something else to it that they have no intention of doing anyway? Will he give us an assurance that money is not being used for that purpose?

Mr. Jopling: The intention of this power, which we have been given with the blessing of the Council of Ministers and the Commission, is to ensure that where traditional forms of agriculture are endangered they can be preserved. I do not know what the hon. Gentleman is going on about. I remember that, at the end of the time when the Labour Government were in power, they attempted to take legislative steps to do the same thing on Exmoor.

Mr. Latham: Why did yesterday's long answer contain no suggestion that Ministers intend to press for the total abolition of the milk co-responsibility levy? Has not this impost long since lost all meaning with the new quota regime?

Mr. Jopling: I have always made it very clear to the Council of Ministers and the House that I believe that if it is the intention to help dairy farmers a much better way to do so is by reducing the co-responsibility levy — which is ineffective — rather with giving them price increases.

Dr. David Clark (South Shields): With regard to the environmental aspect of the Minister's statement, as we shall have to enact legislation to obtain EC money, and as the Parliamentary Secretary to the Ministry of Agriculture, Fisheries and Food and her colleagues defeated clause 4 of my private Member's Bill, which would have permitted that, will the Minister accept my invitation to reinstate clause 4 on Report?

Mr. Jopling: I understand that the Committee, for what I believe are extremely good reasons, decided to

delete a clause from the hon. Gentleman's private Member's Bill and it is not intended to reinstate it. He is mistaken, because the provision that was agreed on Tuesday in Brussels does not envisage, at this stage, Community money being available for these projects, although the Commission has agreed to examine within the coming months the ways in which this scheme can be brought more broadly within the Community system.

Mr. Douglas Hogg (Grantham): Does my right hon. Friend agree that we are clearly moving away from the policy objectives of the past 20 years, aimed at maximising production? Would it not be helpful to the farming community if my right hon. Friend could state, within the context of the CAP negotiations, what exactly are his policy objectives and those of his Department and farming generally in this country?

Mr. Jopling: I have made the Government's policy objectives on the current price-fixing clear. I hope that I shall have another opportunity to explain them soon. We shall hear what my right hon. Friend the Leader of the House says shortly. My hon. Friend is right; we are no longer looking for maximum production. We have major, damaging and expensive surpluses. The Government want a new sense of realism in the CAP so that the growth of those surpluses can be controlled properly.

Mr. Nigel Spearing (Newham, South): In respect of that realism, does the Minister agree that the first possible date for evaluating the effect of the disciplinary system on agricultural prices cannot be before March 1987, because the first crop year to which it will apply is 1986-87?

Mr. Jopling: The hon. Gentleman is right to mention the new feature of our negotiation, which is covered by the budgetary discipline and financial guidelines agreed at Fontainebleau. Those powers and constraints became effective for the first time on Tuesday in Brussels with regard to the new structures directive. We were given guidance by the ECOFIN Council to keep within 5.25 billion ecu. We succeeded.

Mr. Tony Marlow (Northampton, North): Would my right hon. Friend like to take this opportunity to tell his partners in the Community that he will not accept the package of measures, which alter significantly the nature or the level of the beef variable premium scheme? If he is not prepared to do that, does he realise that many farmers will be deeply worried?

Mr. Jopling: My hon. Friend has heard me say outside the Chamber in the past 24 hours that we shall do everything possible to attain the continuance of the beef variable premium scheme.

Mr. Robert MacIennan (Caithness and Sutherland): What additional resources will be put into the British hills and upland sector as a result of the structures package?

Mr. Jopling: The new structures package gives a scheme which runs another five years after the previous five-year scheme. It is business as usual for assistance that can be drawn on for hills and uplands.

Mr. Kenneth Carlisle (Lincoln): Is my right hon. Friend aware that his efforts to win CAP money for the conservation of the countryside and its protection merit praise? Will he persevere in those efforts and carry them through to success?

taxation rates up to 98 per cent. That is confiscation. It is a tax on enterprise and initiative and it will not help the country, jobs or industry to recover.

Q5. Mr. Marshall asked the Prime Minister if she will list her official engagements for Thursday 14 March.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Marshall: Further to the question of the right hon. Member for Western Isles (Mr. Stewart), is the Prime Minister completely unaware of the outrage felt in Scotland about revaluation? Will she now instruct the Secretary of State for Scotland to postpone the revaluation either until he carries out his promise to reform the rating system or until revaluation takes place in the rest of Britain?

The Prime Minister: The difficulty that arises from revaluation is the variation between the amounts raised from industrial and commercial ratepayers and those raised from domestic ratepayers. That is only a small part of the problem. The real problem is the high rate of expenditure and the comparatively few domestic ratepayers. That means that rates are not a proper tax on the accountability of the local authority.

Q6. Mr. Colvin asked the Prime Minister if she will list her official engagements for Thursday 14 March.

The Prime Minister: I refer my hon. Friend to the reply that I gave some moments ago.

Mr. Colvin: Will my right hon. Friend find time today to confirm that teachers' pay has increased by 9 per cent. ahead of prices since 1979, and that if we wish to improve what is currently on offer to individual teachers the way to do so is to reward merit, which would not involve paying any more to those teachers who deny children examination opportunities and who also threaten schools for the handicapped, 10 of which are under serious threat?

The Prime Minister: I agree with my hon. Friend that teachers' pay should be restructured to take into account performance and success in teaching children, which, after all, is the fundamental job. I agree also in condemning some of the strikes that there will be this week and next week that affect special schools. That is one of the most despicable and disgraceful things that a teacher can do. For example, this week teachers are on strike at a boarding school for 300 partially sighted children, among others. That is disgraceful.

Mr. Jopling: I am grateful for my hon. Friend's kind words. It is our continuing objective to get Community money as part of these schemes. At the moment, the arrangement is that they can be funded only nationally. I assure my hon. Friend that we shall continue in our endeavours.

Mr. D. N. Campbell-Savours (Workington): Does the right hon. Gentleman agree that clause 4 of the Wildlife and Countryside (Amendment) Bill introduced by my hon. Friend the Member for South Shields (Dr. Clark) is indistinguishable from the stance that the right hon. Gentleman has negotiated in the Community? If he agrees, why does he not accept clause 4? By rejecting it, he is merely undermining the agreement that he has negotiated and which the public relations people in his Department have spent the past 24 hours advocating as a great win for the British Government.

Mr. Jopling: The hon. Gentleman might not think that this is a successful move, but many conservation bodies throughout the country have applauded it warmly and welcomed what we have achieved. As for the clause that the hon. Gentleman mentioned, I invite him to go away and read what my hon. Friend the Minister said on Second Reading, and the rest of the debate. He will see that there are two quite separate issues here and that the reasons for voting out the clause were extremely good.

Mr. Robert Adley (Christchurch): Following the supplementary question of my hon. Friend the Member for Grantham (Mr. Hogg), may I ask whether my right hon. Friend is aware that there is considerable anxiety about people in Israeli-occupied territories, such as the citrus growers of Gaza, being denied access to the EEC for their produce while Israel, which goes rampaging around the middle east, appears to enjoy favourable terms? Will my right hon. Friend examine that matter personally?

Mr. Jopling: As my hon. Friend will know, the conduct of the negotiations for the enlargement of the Community is not my direct ministerial responsibility, but I shall draw his remarks to the attention of my right hon. and learned Friend the Foreign Secretary.

Mr. Eric Deakins (Walthamstow): Is the Minister prepared to use his veto in the Council of Agriculture Ministers, if, as seems highly likely, that Council, by a

majority, decides to increase agriculture prices in the coming year far in excess of those recommended by the European Commission, and in defiance of the financial guidelines that have been recommended in the House?

Mr. Jopling: I have made my position clear, which is that I believe that there should be price restraint at this time. I have given general support to the Commission's proposals and, indeed, I have said that in some cases price reductions should be even more stringent. With regard to talking about vetoes, I am not prepared to conduct negotiations with the hon. Gentleman in the Chamber.

Mr. Brynmor John (Pontypridd): Reverting to the structures agreement, the principles of which we agree, does the right hon. Gentleman accept that only when we see how much money is spent can we judge whether the welcome that was given overnight is justified? Is it true that we shall need primary legislation even for the national power that we now have to deal with the environment and farming? If that is true, what legislative vehicle will the right hon. Gentleman use? He has told my hon. Friend the Member for South Shields (Dr. Clark) that he will not use my hon. Friend's Bill. What legislation will he bring forward, and when will it be brought forward, so that we may have some actual results? How much money will the right hon. Gentleman spend on that national initiative? May I finally ask him about the Community examination? Has the Community now agreed in principle—and, in particular, has the Commission agreed—that Community money should be expended on the environment, or is it merely a cursory examination, to be rejected at the end of the year?

Mr. Jopling: With regard to the money available for the structures directive, the hon. Gentleman might like to know that the Commission's original proposals were that it would cost over 8 billion ecu and we have now fitted those provisions within a budget of 5.25 billion ecu. Therefore, that is a move towards realism. We believe that it is likely that we shall need primary legislation to bring about the environmental provisions. We are not yet able to do so, and, of course, it will ultimately depend on the views of the House, in dealing with legislation, as to how much money will need to be available. With regard to the environmental schemes, the hon. Gentleman will realise that we are already using part of the funds from my Department in an experimental scheme in the Broads.

Luton Football Match (Crowd Violence)

3.42 pm

Mr. Graham Bright (Luton, South) (*by private notice*) asked the Secretary of State for the Environment if he will make a statement on the crowd violence and rioting in Luton yesterday which coincided with the football match between Luton and Millwall.

The Parliamentary Under Secretary of State for the Environment (Mr. Neil Macfarlane): I have already discussed last night's violence with the chief executives of the two clubs concerned. We need to establish all the facts. There is to be an inquiry by the Football Association, and my right hon. and learned Friend the Home Secretary has asked the chief constable of Bedfordshire for a report. It would be wrong for me to prejudice those reports. As a separate matter, at the request of my right hon. Friend the Prime Minister, I am calling for a report from the Football Association within a week on what action it intends to take to deal with those clubs, some of whose followers have a history of violence. When that report is available, my right hon. Friend the Prime Minister intends to meet the officers of the Football Association.

Mr. Bright: Does my hon. Friend agree that when clubs have a track record of violence, which is the case with Millwall, adequate provision should be made to forestall trouble, preferably by means of ticket only matches, which unfortunately was not the case yesterday? Does my hon. Friend further agree that there should be much more co-operation, in that clubs should give information of the number of supporters who are likely to go to away matches? I understand that in this case there was some under-estimation. Will my hon. Friend do whatever he can to urge magistrates to dish out some jolly good punishments to those who were arrested yesterday, and will he join me in offering condolences to all those policemen who were severely injured?

Mr. Macfarlane: I certainly wish to associate myself and my hon. Friends with the sentiments expressed in the latter part of my hon. Friend's question. Sentencing procedures are a matter for individual courts, and my hon. Friend will not expect me to be drawn on that point.

My hon. Friend's point about the importance of appraisal before each match was graphically illustrated in my letter of 3 February 1983 to all 92 professional league football club chairmen. I said that this would require "careful and detailed preparation and planning, especially with the police. This will involve a rigorous on-site assessment by both clubs well in advance of all matches involving sides with a history of violence by a minority of their supporters."

I must now establish the facts, together with my right hon. and learned Friend, to find out exactly what went wrong with that pre-match planning because it seems to me to be the most important element in all these types of activities.

Mr. John Carlisle (Luton, North): Is my hon. Friend aware that last night I attended the Luton-Millwall match and that consequently I was prevented from returning to the House to vote on a three-line Whip? I witnessed scenes which can only be described as terrifying. Is my hon. Friend aware that my constituents are very angry about the

destruction of their homes, their shops, their town and their football club? They demand nothing less than revenge on those who inflicted that damage.

Is my hon. Friend aware that urgent consultations must take place between him and the Home Secretary—I am sorry that the Home Secretary is not in his place this afternoon—on the question of harsher and stiffer penalties? Is he also aware that the only way to deal with these hooligans is to inflict upon them the physical pain which they last night so readily inflicted upon others? Does my hon. Friend appreciate that the time for talking, commissions and inquiries is over and that we must take action?

Mr. Macfarlane: I must point out that my hon. Friend the Minister of State, Home Office, who is responsible for the police force, is sitting with me on the Front Bench. I am grateful for that. I believe that my hon. Friend the Member for Luton, North (Mr. Carlisle) has underlined the anxieties which many people in many cities now feel as a result of the activities of a minority of so-called football followers.

As for individual assessment by the courts, my hon. Friend must not expect me, from my Department, to be responsible for the conduct of those sentencing policies. They are very much a matter for the magistrates. But his comments will no doubt be noted outside the House. I well understand my hon. Friend's anxieties. That is why I am not conducting another inquiry. During the past few years there have been many inquiries and conferences. I am conducting an urgent appraisal of what went wrong yesterday evening and am endeavouring to find out what took place.

Mr. Joseph Ashton (Bassetlaw): Why was it that the National Coal Board did not have to pay for the police on the picket lines, while football clubs have to pay for policing inside football grounds? Is the Minister aware that this problem will not be overcome until there is proper crowd control and proper segregation, for which most clubs cannot afford to pay? The Chancellor of the Exchequer takes 42p in every pound by means of the football pools betting duty, which brings £200 million a year into the Exchequer. When will the Government use some of that money to enforce law and order inside football grounds and protect the spectators?

Mr. Macfarlane: Money from that source is used to enforce law and order inside football grounds and protect spectators. In recent years there has frequently been a subsidy to cover the cost of policing inside football grounds. I hope that the Football Trust, which has presented the better part of £20 million to football over the last 10 years, can play its part. I welcome what it has done so far.

The hon. Gentleman referred to police duties both outside and inside football grounds. I must remind him that the cost of policing is a matter for the football authorities and the individual clubs to decide with the local police force.

Mr. Rob Hayward (Kingswood): Is my hon. Friend aware that the last city which Millwall supporters broke up was Bristol, particularly causing severe damage to the Bristol, South constituency, represented by the Opposition's Chief Whip, and that the general view now held in Bristol is that it is about time the Government took



PC

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Secretary of State for Trade and Industry

13 March 1985

The Rt Hon Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

ABBPM

2002 1413

D. Scoffey

CO-OPERATION WITH THE DUTCH ON THE INTERNAL MARKET

Your minute of ^{attached} 27 February sought my views on the possibility of joint Anglo-Dutch efforts to achieve progress on the Community internal market during our respective Presidencies in 1986. I note that you have already discussed the possibility with the Dutch Minister for Foreign Affairs.

2 I agree that we should be talking seriously to the Dutch about an internal market programme for our respective Presidencies in 1986. The Dutch should be our natural allies on a whole range of issues. Indeed I suspect that in the field of services - and financial services in particular - they may be our only effective allies. But we must avoid two potential dangers. The first is that of expecting too much from such co-operation. The second is that we should not pursue co-operation with the Dutch to the point where it prejudices efforts to form a common position with other, perhaps less tractable, Member States. These are points that officials should be invited to consider in addition to those proposed in your minute.

3 I also agree with your suggestion for a group of officials, chaired by the Cabinet Office, to prepare the detailed groundwork and that our respective officials should be in touch to draw up a programme of priority objectives.

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

[Signature]
NORMAN TEBBIT

JH5ASG

14 MAR 1988

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Ref. A085/765

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary may report on the preparations for the important Foreign Affairs Council on 17 to 20 March, which will attempt to settle outstanding points on enlargement and to deal with the handling of the revised own resources decision and the 1985 budget overrun. This meeting will largely determine which issues come to the European Council on 29-30 March. There is a reasonable chance of settling on satisfactory terms the various negotiating issues on enlargement, although the integrated Mediterranean programmes will certainly come to the European Council. On the budgetary issues two approaches remain on the table:

- a. the "mixed solution" (own resources to be increased from 1 January 1986 through the revised own resources decision, with the United Kingdom's 1000 million ecu abatement implemented in 1985 on ratification: the 1985 budget overrun to be financed by an intergovernmental agreement). This is blocked by Germany but they are having second thoughts;
- b. the "double IGA" (the 1985 budget overrun and the United Kingdom's 1000 million ecu abatement to be financed through an intergovernmental agreement; new own resources from 1 January 1986 through the revised own resources decision). This is blocked by France (and possibly Belgium and Italy), because they do not want to ask their national Parliaments to provide for the United Kingdom's abatement by an intergovernmental agreement, ie outside the Community mechanism.



It is still possible for either method to deliver our abatement in 1985 and it is recommended that, at least during March, we should keep up the pressure for either solution. We have an unequivocal commitment from Fontainebleau on the 1000 million ecu abatement and no-one has challenged it. Almost all member states are under much greater pressure than we are to settle the financing of the 1985 budget.

2. The Secretary of State for the Environment will report on the difficult Environment Council on 7-8 March, at which the United Kingdom was represented by the Parliamentary Under Secretaries of State in the Departments of the Environment and Trade and Industry (Mr Waldegrave and Mr Butcher). This agreed the Environmental Impact Assessment Directive, which had been blocked by Denmark for over a year. On a United Kingdom initiative there was a helpful discussion on the integration of agriculture and the environment. The main debate, lasting 19 hours, however was on vehicle emissions, which the Germans consider (apart from enlargement) to be the most important current Community issue. There was agreement that a substantial reduction in harmful emissions should be sought within a reasonable period, the longer term objective being the introduction of European standards, adjusted to each category of vehicle, which would have an impact on the environment in Europe comparable to that achieved by United States' standards. It was also agreed - in line with United Kingdom instructions - that the dividing lines should be at 1400 cc and 2000 cc; this is a step forward. Although no agreement was reached on any figures for any size of vehicle, in practice there was a wide measure of agreement that the emission figures to be set for the large cars (over 2000 cc) would be such that three-way catalysts would normally be required and that the emission figures to be set for the small cars (under 1400 cc) could be met by lean burn cars. The disagreement centred, as expected, on medium cars. This was contentious, principally because the Germans refused to move at all and because the suggested date (1990) for new limits was too



early. The United Kingdom Ministers have wisely not used all the authority given by E(A) and, if the Germans are prepared to make some move next time, it may be possible to settle on figures within option 2 and on a time scale which Ford at least considers that it can meet with lean burn. The United Kingdom has made quite clear that the dates for medium cars will have to be put back, that the definition of European standards will have to recognise the differing problems of each category and that the position on the Germans' proposed fiscal incentives will have to be clarified. So far the French and Belgians have stayed broadly alongside the British position. There is another Environment Council on 20 March. The Commission are in London for a preparatory meeting on 15 March.

3. The Chancellor of the Exchequer will report on the Finance Council on 11 March at which the Economic Secretary represented the United Kingdom. This reached a majority decision to give an opinion to the Agriculture Council that the new ceiling for 1985-89 expenditure on the financing of agricultural structures should be 5.25 billion ecu to cover all elements in the Commission's structures proposals - ie within the position agreed by OD(E). The Economic Secretary made clear our view that reimbursement rates would have to be adjusted as necessary to ensure that the ceiling was respected. The decision of the Finance Council has been widely recognised in the Community as a victory for the new budget discipline arrangements.

4. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 11-12 March. This had an initial discussion of the Commission's 1985-86 price fixing proposals. It also succeeded, after lengthy discussion, in reaching agreement on the agricultural structures measures by the Finance Council. The final package does, however, include the provision for which the United Kingdom has been pressing which would enable member states to give grants to farmers in environmentally sensitive areas.



5. The Energy Council will meet on 15 March and the Foreign Affairs Council on 17 to 20 March. There may also be a Fisheries Council on 18 March. The Environment Council meets on 20 March.

REA

ROBERT ARMSTRONG

13 March 1985

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CONFIDENTIAL
FRAME GENERAL
FM UKREP BRUSSELS 111925Z MAR 85
TO IMMEDIATE FCO

CONFIDENTIAL

TELEGRAM NUMBER 913 OF 11 MARCH 1985
INFO PRIORITY COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN,
LUXEMBOURG, ATHENS, LISBON, MADRID, INFO SAVING BRUSSELS.

COMMISSION PROGRAMME FOR 1985

1. MY IMMEDIATELY FOLLOWING TELEGRAMS SUMMARISE THE KEY PROPOSALS IN THIS SUBSTANTIAL DOCUMENT AND OFFER A FEW IMMEDIATE COMMENTS. IT BEARS DELORS' STAMP IN MANY PLACES. HE HAS DEVOTED A GREAT DEAL OF TIME TO IT AND HAS LARGELY GOT HIS WAY. IT IS A MUCH MORE PRAGMATIC DOCUMENT THAN WE WOULD HAVE HAD FROM THE THORN COMMISSION. IN READING IT WE HAVE TO BEAR IN MIND THAT IT IS ADDRESSED PRIMARILY TO THE EUROPEAN PARLIAMENT. (THIS HELPS TO EXPLAIN THE CONSPICUOUS ABSENCE OF ANY REFERENCE TO BUDGET DISCIPLINE).

2. IN A NUMBER OF WAYS, DELORS' GENERAL STANCE SEEMS LIKELY TO CAUSE US PROBLEMS. HIS APPROACH TO THE STRUCTURAL FUNDS (INCLUDING IMPS) AND HIS ENTHUSIASM FOR A COMMUNITY CULTURAL POLICY ARE OBVIOUS EXAMPLES. THE EMPHASIS HE PLACES ON DIALOGUE BETWEEN THE 'SOCIAL PARTNERS' IS DIFFERENT FROM OUR OWN (THOUGH WHAT HE WANTS TO GET ACROSS IN THE DIALOGUE IS OFTEN SENSIBLE, EG: THAT REAL LABOUR COSTS WILL HAVE TO LAG BEHIND PRODUCTIVITY GAINS FOR A TIME IF JOB-CREATING GROWTH IS TO BE ACHIEVED (PAGE 41) AND THE NEED TO SCRUTINISE SUBSIDIES AND TAX RELIEF WITH GREAT CARE (PAGE 40)). THE IDEA THAT MEMBER STATES SHOULD EXAMINE TOGETHER THE ROOM FOR MANOEUVRE EACH POSSESSES, 'NOTABLY FOR ENCOURAGING PRIVATE AND PUBLIC INVESTMENT', WILL CERTAINLY GIVE RISE TO ARGUMENT ABOUT THE RELATIVE MERITS OF TAX CUTS AND PUBLIC INVESTMENT AS WELL AS THE DEGREE OF 'ROOM FOR MANOEUVRE'. SOME OF THE WELCOME IDEAS ON THE COMMISSION'S ECONOMIC ANALYSIS FOR THE DUBLIN EUROPEAN COUNCIL HAS LARGELY DISAPPEARED: NOTABLY THE NEED TO REDUCE THE BURDEN OF REGULATION ON EUROPEAN BUSINESSES.

3. A SIGNIFICANT DEVELOPMENT IS THAT THE COMMISSION ARE FIRMLY CONVINCED THAT THE COMPLETION OF THE INTERNAL MARKET BY 1992 REQUIRES AGREEMENT ON A PROGRAMME OF HARMONISATION OF VAT AND EXCISE RATES. COCKFIELD, WHO HAS PUT HIS NAME TO THIS, TELLS ME THAT DELORS WILL PRESS IT HARD. WE SHALL NEED TO THINK HARD ABOUT OUR LINE TO TAKE ON THIS POINT.

4. THERE IS HOWEVER MUCH IN THE PAPER THAT IS SENSIBLE, FOR EXAMPLE:

- (I) THE EMPHASIS ON PRICE STABILITY:
- (II) THE STRESS ON THE NEED TO REFORM THE CAP: -
- (III) THE PRIORITY FOR THE INTERNAL MARKET:
- (IV) THE COMMITMENT TO A MORE OPEN TRANSPORT SYSTEM, AND THE PHASING OUT OF LORRY QUOTAS:
- (V) MOST OF THE SUBSTANTIAL CHAPTER ON EXTERNAL RELATIONS.

-1-CONFIDENTIAL

/S. Now.

CONFIDENTIAL

5. NOW THAT DELORS HAS GOT THIS PROGRAMME OUT HE WILL HAVE RATHER MORE TIME FOR DISCUSSIONS WITH MEMBER GOVERNMENTS. I RECOMMEND THAT YOU INVITE HIM OVER FOR A THOROUGH DISCUSSION AT A FAIRLY EARLY DATE.

FCO ADVANCE TO:-

FCO - PS, PS/MR RIFKIND, BRAITHWAITE, RENWICK, SHEPHERD, FAIRWEATHER
R
CAB - WILLIAMSON
DTI - LACKEY
MAFF - ANDREWS
TSY - UNWIN

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COPIES TO

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TO IMMEDIATE FCO

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TELEGRAM NUMBER 922 OF 11 MARCH 1985
INFO COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN, LUXEMBOURG,
ATHENS, LISBON, MADRID, INFO SAVING BRUSSELS.

COMMISSION PROGRAMME FOR 1985
EMPLOYMENT AND SOCIAL AFFAIRS

SUMMARY

1. NO MAJOR SURPRISES. EXPECTED EMPHASIS ON FIGHTING UNEMPLOYMENT WITH TARGET OF TURNING THE TIDE OF UNEMPLOYMENT WITHIN TWO YEARS. ORGANISATION OF WORK AND THE INTRODUCTION OF NEW TECHNOLOGIES IDENTIFIED AS MAIN PRIORITIES FOR DISCUSSION BETWEEN SOCIAL PARTNERS. FIRM STATEMENT AGAINST REDUCING SOCIAL BENEFITS ('SOCIAL DUMPING') TO GAIN COMPETITIVE ADVANTAGE. AREAS OF INDUSTRIAL RESTRUCTURING IDENTIFIED ALONG WITH AREAS OF HIGH UNEMPLOYMENT AS MAIN TARGETS FOR NEW SOCIAL FUND GUIDELINES.

DETAIL

2. ON UNEMPLOYMENT THE OBJECTIVE IS TO TURN THE TIDE OF UNEMPLOYMENT WITHIN 2 YEARS. WAYS OF STIMULATING EXTRA GROWTH THROUGH EMPLOYMENT-RELATED PUBLIC INVESTMENT ARE TO BE EXAMINED, AND THE COMMISSION WANT TO DISCUSS WITH BOTH SIDES OF INDUSTRY AS WELL AS GOVERNMENTS WAYS OF IMPROVING THE LABOUR MARKET. THERE ARE FAMILIAR THEMES SUCH AS THE PROMISE OF A COMMUNICATION ON THE ADAPTATION OF WORKING TIME WITHOUT INCREASING THE COSTS ON EMPLOYERS. THE AIM OF REVIVING THE SOCIAL DIALOGUE 'AT ALL LEVELS' IS ALSO SET, THE TWO PRIORITY AREAS BEING THE ORGANISATION AND DISTRIBUTION OF WORK AND THE INTRODUCTION OF NEW TECHNOLOGIES. ACTION IS ALSO PROMISED ON A NEW PROGRAMME TO PROMOTE EQUAL OPPORTUNITIES, AND A SECOND HEALTH AND SAFETY AT WORK PROGRAMME. THERE ARE TO BE COMMUNICATIONS ON SYSTEMS OF SOCIAL SECURITY, AND ON AN INTEGRATED YOUTH POLICY, AIMED PARTICULARLY AT THE MOST VULNERABLE GROUPS.

3. AS EXPECTED, REFERENCES TO THE SOCIAL FUND GUIDELINES FOR 1986-88 FOCUS ON GREATER CLARITY, STRICTER CRITERIA AND BETTER COORDINATION WITH THE OTHER STRUCTURAL FUNDS. BUT REFERENCE IS ALSO MADE TO TIGHTENING THE LINK BETWEEN THE SOCIAL FUND AND COMMUNITY OBJECTIVES, SUCH AS NEW TECHNOLOGY, AND AREAS EXPERIENCING INDUSTRIAL RESTRUCTURING ARE MENTIONED ON AN EQUAL FOOTING WITH AREAS OF HIGH UNEMPLOYMENT AS THOSE ON WHICH RESOURCES SHOULD BE CONCENTRATED.

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CONFIDENTIAL

This needed to be said COP

CONFIDENTIAL
[FRAME ECONOMIC]
FM BONN 061830Z MAR 85

TO IMMEDIATE FCO
TELEGRAM NUMBER 195 OF 06 MARCH
INFO IMMEDIATE UKREP BRUSSELS, ROME, PARIS
INFO SAVING OTHER EC POSTS

YOUR TELNO 90: EC FINANCING

1. I SPOKE SEPARATELY TODAY TO TELTSCHIK (CHANCELLOR'S OFFICE) AND RUHFUS (FOREIGN MINISTRY) AS INSTRUCTED IN PARA 4 OF TUR. WITH RUHFUS I ALSO SPOKE AS INSTRUCTED IN YOUR TELNO 85. I SAID I SAW A RISK OF A TECHNICAL DISAGREEMENT IN BRUSSELS TURNING INTO A FIRST CLASS POLITICAL CRISIS BETWEEN LONDON AND BONN. IT WAS A QUESTION OF CONFIDENCE INVOLVING CHANCELLOR KOHL AND THE PRIME MINISTER PERSONALLY. I EARNESTLY ADVISED THE GERMAN GOVERNMENT NOT TO ADVOCATE ANY ARRANGEMENT WHICH WAS NOT STRICTLY COMPATIBLE WITH WHAT HAD BEEN AGREED BY THE HEADS OF GOVERNMENT PERSONALLY AT FONTAINEBLEAU. WE SHALL PURSUE THIS FURTHER AT THE TECHNICAL LEVEL.

2. RUHFUS, WHO I THOUGHT SHOWED SIGNS OF OVERSTRAIN, SAID GRUMPILY THAT IT WAS A PITY THAT THE EARLIER GERMAN PROPOSAL FOR A NEW INTER-GOVERNMENTAL AGREEMENT HAD NOT BEEN ACCEPTED. AS THINGS STOOD, WE MIGHT WIN OUR POINT BUT AT THE EXPENSE OF MUCH POLITICAL BITTERNESS IN BONN. I SAID THAT THIS WAS NOTHING COMPARED WITH THE BITTERNESS IN LONDON IF THE CHANCELLOR APPEARED TO BE GOING BACK ON FONTAINEBLEAU.

3. TELTSCHIK, WHO WAS EVIDENTLY LESS ABREAST OF THE DETAILS, AGREED THAT IT HAD BEEN PERFECTLY CLEAR AT FONTAINEBLEAU THAT THE PAYMENT OF 1000 MECU TO BRITAIN WOULD BE MADE IN 1985 AND WOULD NOT BE DEPENDENT ON THE RATIFICATION PROCESS OR ANYTHING ELSE. THIS HAD ALSO BEEN CLEAR AT KOHL'S MEETING WITH MITTERRAND LAST WEEK. BUT HE NOTED MY POLITICAL POINT AND PROMISED TO MAKE KOHL AWARE OF IT.

4. I AM REPORTING SEPARATELY OUR TALKS TODAY WITH OTHER GERMAN OFFICIALS.

FCO PLEASE PASS TO SAVING ADDRESSEES

BULLARD
FRAME ECONOMIC
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REPEATED AS REQUESTED

CONFIDENTIAL



Ref. A085/688

PRIME MINISTER

Cabinet: Community Affairs

A You may wish to refer to the Community aspects of your talks with the Belgian Prime Minister on 2 March (a record has been circulated to the Ministers mainly concerned).

2. The Foreign and Commonwealth Secretary will report on the special Foreign Affairs Council on 28 February, which had been called to try to make progress on the remaining points (principally, fish and agriculture) in the enlargement negotiations. A blanket of fog over Brussels prevented the arrival of several key Ministers, including the Foreign and Commonwealth Secretary (the United Kingdom being represented by Sir Michael Butler). The Italian Presidency tabled an outline proposal on fish, which was intended to move nearer to the position of the five fishing nations. But the Council soon petered out. The conclusions to be drawn are first, that we are wearing down the opposition within the Community to a satisfactory solution on fish and, secondly, that the Foreign Affairs Council on 17-20 March will need to make a real effort to settle the outstanding points, so that detailed issues do not come to the European Council on 29-30 March and the Spanish do have a clear basis for their decision.

3. On the revised own resources decision and the 1985 budget, the Germans (who have been isolated throughout these discussions) tabled a proposal resulting from rather confused talks between Chancellor Köhl and President Mitterrand. This is basically the "mixed solution" which is acceptable to us (ie the revised own resources decision to provide new own resources from 1 January 1986 but the United Kingdom's 1,000 million ecu abatement in 1985



on ratification; the 1985 budget overrun to be financed by an intergovernmental agreement) but apparently links this with the prior ratification of the Treaty of Accession for Spain and Portugal. The French, however, consider that this does not override the decision to have new own resources from 1 January 1986 at the latest. Recriminations between France and Germany are rife. Belgium, Denmark and the Commission rejected the German document outright. The United Kingdom made it clear that we would not ask Parliament to approve any new own resources decision unless we received our abatement in 1985 in accordance with Fontainebleau. The budget question will also come back to the Foreign Affairs Council on 17-20 March.

4. There was an informal meeting of Transport Ministers on 5 March, attended by the Secretary of State for Transport, but this did not reach any decisions requiring report to Cabinet.

5. The Environment Council meets on 7 March, when vehicle emissions will be one of the main items for discussion. Social Affairs Ministers also meet on 7 March, the Finance Council on 11 March and the Agriculture Council on 11-12 March.

RA

ROBERT ARMSTRONG

6 March 1985

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TO IMMEDIATE FCO

TELEGRAM NUMBER 815 OF 5 MARCH

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SPECIAL COMMITTEE FOR AGRICULTURE : 4-6 MARCH 1985

PRICE PROPOSALS : GENERAL REACTIONS

SUMMARY

1. SCA HELD FIRST ORIENTATION DEBATE ON PRICES, KEY COMMODITY PROBLEMS AND MCAS. NO SURPRISES OR CONCLUSIONS

2. ON PRICES, ONLY DENMARK, NETHERLANDS AND UK GAVE BROAD SUPPORT FOR A RESTRICTIVE PRICE POLICY. THOUGH FRANCE COULD UNDERSTAND THE LOGIC UNDERLYING THE COMMISSION'S PROPOSALS. OTHERS WANTED MORE GENEROUS PROPOSALS, WITH ITALY AND GREECE SEEKING THE LARGEST INCREASES AND ALSO CLAIMING THE PROPOSALS WERE UNBALANCED BETWEEN NORTH AND SOUTH.

3. THE MAIN COMMODITY POINTS RAISED WERE ON MILK (WHERE IRELAND DEMANDED AN INCREASE IN ITS QUOTA AND GERMANY WANTED TO POSTPONE THE CUT IN THE EC QUOTA AND CORESPONSIBILITY LEVY): CEREALS (WHERE FRANCE WANTED A COMMITMENT TO NEW CEREALS OUTLETS AND GERMANY WANTED HIGHER PRICES AND A REVIEW OF THE GUARANTEE THRESHOLD ARRANGEMENTS): SHEEPMEAT (WHERE FRANCE SOUGHT CHANGES TO THE REGIME): BEEF (WHERE IRELAND AND THE UK PRESSED FOR RETENTION OF THE VARIABLE PREMIUM SCHEME): MARKET MANAGEMENT (WHERE SEVERAL DELEGATIONS PRESSED THE COMMISSION TO KEEP MARKET PRICES MORE IN LINE WITH INSTITUTIONAL PRICES): AND MEDITERRANEAN PRODUCTS (WHERE GREECE AND ITALY CRITICISED ALMOST ALL THE COMMISSION PROPOSALS).

4. THERE WAS A MAJORITY SUPPORT FOR THE PROPOSALS ON POSITIVE MCAS: GERMANY ALONE OPPOSED OUTRIGHT. ON NEGATIVE MCAS, ITALY AND GREECE WANTED A DISMANTLEMENT WHICH REMOVED THE FRANCHISE.

5. THE COMMISSION WOULD NOT YIELD ON PRICES OR ON THE IMPLEMENTATION OF AGREEMENTS REACHED LAST YEAR BUT COULD CONSIDER TECHNICAL CHANGES PROVIDED LITTLE COST WAS INVOLVED. TO THE COUNCIL FOR FURTHER GENERAL DEBATE.

DETAIL

6. THERE WAS A SINGLE LENGTHY TABLE ROUND ON GENERAL REACTIONS TO THE PRICE PROPOSALS, RELATED MEASURES AND MCAS. IN WHAT AMOUNTED TO A DRESS REHEARSAL FOR NEXT WEEK'S GENERAL DEBATE IN THE COUNCIL, THERE WERE NO SURPRISES. THE MAIN POINTS MADE ON PRICES AND ASSOCIATED MEASURES WERE AS FOLLOWS:

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7. IRELAND WANTED A HIGHER OVERALL LEVEL OF PRICES BUT HER FIRST PRIORITY WAS 'A SOLUTION TO THE REMAINING MILK SUPER LEVY PROBLEMS' IE AN INCREASED QUOTA FOR IRELAND. SHE ALSO WANTED THE CORESPONSIBILITY LEVY TO BE PHASED OUT OVER 2-3 YEARS IF QUOTAS WERE TO STAY. THE SECOND PRIORITY WAS CONTINUATION OF ALL THE BEEF SECTOR PREMIUMS AND INTRODUCTION OF SEASONAL BEEF PRICE VARIATIONS. ON CEREALS, LOWER OR ABOLISHED CARRY-OVER PAYMENTS AND LOWER MONTHLY INCREMENTS WOULD GIVE ROOM FINANCIALLY FOR A RISE IN PRICES. THE COMMISSION SHOULD RUN THE MARKETS BETTER TO COMPENSATE FOR LOWER INSTITUTIONAL PRICES: IT SHOULD REVERT TO PRE-1984 ARRANGEMENTS FOR INTER-VENTION PAYMENTS, IMPROVE MARKET MECHANISMS FOR SHEEP AND BE COMMITTED TO MORE EFFECTIVE STOCK DISPOSAL (ESPECIALLY OF BUTTER).

8. FRANCE RESERVED SPECIFIC COMMENT ON PRICES FOR THE COUNCIL THOUGH RECOGNISING THE LOGIC OF THE COMMISSION'S PROPOSALS. SHE WARNED, HOWEVER, AGAINST A PRODUCER BACKLASH IF THE SETTLEMENT WERE TOO HARSH. TO HELP AVOID THIS THERE SHOULD BE A PROMISE OF NEW OUTLETS AS WELL AS PRICE CUTS. PRODUCERS WOULD BE WILLING TO CONTRIBUTE

TO THE COST OF RESEARCHING SUCH OUTLETS. PROPOSALS ON STARCH SHOULD BE ADDED TO THE DISCUSSION BALANCING OF THE CEREALS MARKET. FRANCE SUPPORTED A 1 PER CENT CUT IN MILK QUOTAS AND THE CORESPONSIBILITY LEVY. ON SHEEP, SOME OF THE MEASURES IN THE FRENCH MEMORANDUM MUST BE AGREED, OTHERWISE THE FRENCH MIGHT HAVE TO CHANGE TO THE UK SYSTEM WHICH WOULD INCREASE COSTS. FOR WINE, A RESTRICTIVE PRICE POLICY NEED NOT BE INTERPRETED AS A FREEZE AND, FOR BEEF, THE COMMISSION SHOULD SHOW FLEXIBILITY OVER THE INTERVENTION RULES.

9. GREECE FOUND THE PROPOSALS BIASED AGAINST MEDITERRANEAN PRODUCTS AND CALLED FOR HIGHER PRICES. INSTEAD OF CUTTING FRUIT AND VEGETABLE PRICES, THE WITH-DRAWAL COEFFICIENTS COULD BE ADJUSTED. SHE COULD NOT ACCEPT BOTH A PRICE CUT AND QUOTAS FOR PROCESSED TOMATOES. TOBACCO PRICES SHOULD BE HIGHER AND THE HIERARCHY ADJUSTED. DURUM SHOULD NOT BE ADDED TO A GENERAL CEREALS THRESHOLD QUANTITY AND A PRICE INCREASE WAS NEEDED FOR MINIMUM QUALITY BREADWHEAT. ANY CHANGES TO THE SHEEP REGIME MUST MEET GREECE'S SPECIAL NEEDS. SHE MIGHT ALSO NEED A SEPARATE MEASURE TO HELP SMALL PRODUCERS GENERALLY.

10. GERMANY CONCENTRATED ON CEREALS AND MILK, STRESSING THAT VIEWS EXPRESSED WERE THOSE OF THE FEDERAL GOVERNMENT AS A WHOLE. FOR CEREALS, THERE WAS NO WAY SHE COULD ACCEPT THE PROPOSED PRICE CUTS. THE GUARANTEE THRESHOLD ARRANGEMENTS SHOULD ALSO BE REVIEWED SINCE IT WAS UNFAIR THAT CUTS RESULTING FROM ITS APPLICATION THIS YEAR SHOULD AUTOMATICALLY LOWER THE STARTING POINT FOR PRICE CALCULATIONS IN SUCCEEDING YEARS. ON MILK, THE QUOTA SYSTEM WAS CAUSING GREAT POLITICAL AND LEGAL PROBLEMS. THE 1 PER CENT CUT AGREED LAST YEAR SHOULD BE POSTPONED AND THE CORESPONSIBILITY LEVY SHOULD ACCORDINGLY STAY AT 3 PER CENT.

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11.

11. DENMARK WAS BROADLY CONTENT WITH THE PRICES PROPOSED AND LOOKED FOR BETTER MARKET MANAGEMENT AS THE MEANS TO INCREASE RETURNS. HOWEVER, THE BONUS FOR PP RAPESEED VARIETIES SHOULD NOT BE HALVED AND MONTHLY INCREMENTS SHOULD BE INTRODUCED FOR PEAS AND BEANS. FOR SEEDS, THERE SHOULD BE A RETURN TO ANNUAL PRICE FIXING. COMMUNITY INSPECTORS FOR FRUIT AND VEGETABLES RAISED PROBLEMS OF NATIONAL COMPETENCE. STARCH SHOULD BE DEALT WITH AFTER THE PRICES SETTLEMENT.

12. BELGIUM SAID A 4/5 PER CENT PRICE INCREASE WAS JUSTIFIED BUT COULD ACCEPT 2 PER CENT. SHE SUPPORTED DENMARK ON IMPROVEMENTS IN MARKET MANAGEMENT AND ON STARCH. SHE AGREED WITH GERMANY ON THE NEED FOR REVIEW OF THE CEREALS THRESHOLD (WHICH SHOULD NOT BITE THIS YEAR ON TARGET PRICES). SHE OBJECTED TO COMMISSION IDEAS ON CEREALS INTERVENTION QUALITY. THE MILK PROPOSALS WERE ACCEPTABLE BUT THE SYSTEM OF QUARTERLY ADVANCES CAUSED PROBLEMS. THE OILS AND FATS TAX SHOULD BE AGREED TO COVER THE COST OF THE PRICE INCREASES SOUGHT.

13. THE UK SUPPORTED RESTRICTIVE PRICES BUT SAID THE COMMISSION SHOULD HAVE GONE FURTHER TO MAINTAIN THE PROGRESS ACHIEVED LAST YEAR. EOGA GUARANTEE EXPENDITURE IN 1985 MUST NOT EXCEED THE 19.3 BECU IN LAST OCTOBER'S DRAFT BUDGET: ALL MEMBER STATES HAD ALREADY RECOGNISED THE NEED FOR FINANCIAL DISCIPLINE AND THE OPERATION OF A FINANCIAL GUIDELINE FOR AGRICULTURE. LAST YEAR'S DECISIONS ON CEREALS AND MILK MUST BE RESPECTED IN FULL, AND -5 PER CENT ANDO WERE THE PRICES JUSTIFIED RESPECTIVELY. THERE SHULD ALSO BE AGREEMENT ON NO INCREASE IN CEREALS NORM PRICES FOR THE NEXT THREE YEARS, AND THE LIMIT IN THE MAXIMUM ABATEMENT UNDER THE THRESHOLD ARRANGEMENTS SHOULD BE SCRAPPED. THERE SHOULD BE A FREEZE FOR WINE AND BIGGER CUTS FOR TOBACCO AND FRUIT AND VEGETABLES. THE SUPPLEMENT TO THE SUCKLER COW PREMIUM COULD BE ENDED BUT THE BEEF VARIABLE PREMIUM SCHEME SHOULD CERTAINLY CONTINUE. ANY CHANGES TO THE SHEEPMET REGIME SHOULD NOT DISCRIMINATE AGAINST BRITISH PRODUCERS.

14. NETHERLANDS GENERALLY SUPPORTED THE PROPOSALS BUT THE MILK PRICE SHOULD BE FROZEN, AS SHOULD THE SHEEPMET PRICE AT JANUARY 1986

15. LUXEMBOURG HANKERED AFTER HIGHER PRICES ESPECIALLY FOR MILK. SHE DOUBTED WHETHER THE MILK CORESPONSIBILITY LEVY SHOULD CONTINUE AND WANTED A MORE GRADUAL ADJUSTMENT IN THE BUTTER/SKIM MILK POWDER RATIO. THE TIGHTENING OF CEREALS QALTIY CRITERIA HAD GONE TOO FAR.

16. ITALY COMPLAINED BITTERLY AT DISCRIMINATION, BEWAILING AT ENGTH HER HIGH INFLATION AND INCREASED COSTS. CITRUS, TOMATOES, DURUM, RICE AND SUNFLOWER SEEDS SHOULD ALL HAVE HIGHER PRICES. DURUM SHOULD ALSO BE KEPT OUTSIDE A GENERAL CEREALS THRESHOLD. WINE NEEDED THE SAME LEVEL OF INCREASE AS MILK. THE CALF PREMIUM SHOULD CONTINUE.

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17.

17. ON POSITIVE MCAS, BELGIUM, DENMARK, FRANCE, IRELAND, LUXEMBOURG, ITALY AND NETHERLANDS SUPPORTED THE COMMISSION PROPOSALS (NETHERLANDS DOING SO ON THE UNDERSTANDING THAT THE DUTCH ELEMENT WOULD ONLY BE APPLIED IF THE GERMAN ELEMENT WERE). GREECE HAD AN OPEN POSITION. GERMANY OPPOSED THE PROPOSALS AND QUESTIONED WHETHER THE LACK OF ANY MCA OVER 2.5 PER CENT WOULD LEAD TO THE TOTAL DISAPPEARANCE OF ALL MCAS.

18. ON NEGATIVE MCAS, DENMARK AND IRELAND SUPPORTED THE COMMISSION PROPOSALS (IRISH SUPPORT BEING CONDITIONAL ON FUTURE AVAILABILITY FOR THE OPTION OF STOPPING DISMANTLEMENT AT THE FRANCHISE). ITALY AND GREECE WANTED DISMANTLEMENT TO ELIMINATE THE FRANCHISE. BELGIUM, NETHERLANDS AND LUXEMBOURG RECOGNISED THE CASE FOR THIS BUT TOOK NO DEFINITIVE VIEW. UK, FRANCE AND GERMANY HAD NO COMMENTS AT THIS STAGE.

19. POOLEY (COMMISSION) OFFERED NO SYSTEMATIC RESPONSE BUT GAVE SOME POINTERS TO ANDRIESSEN'S POSSIBLE LINE. HE WOULD BE FLEXIBLE ON TECHNICAL ADJUSTMENTS IF THEY HAD WIDE SUPPORT, (EG MONTHLY INCREMENTS FOR PEAS AND BEANS CEREALS QUALITY REQUIREMENTS AND POSSIBLY A PRICE FREEZE FOR SHEEP IN 1986) SO LONG AS THEY HAD A NEUTRAL COST. BUT THERE WOULD BE NO FLEXIBILITY TOWARDS ANY MOVES TO GO BACK ON LAST YEAR'S AGREEMENTS ON MILK AND CEREALS. THERE MUST BE A RESTRICTIVE PRICE POLICY BOTH BECAUSE OF MARKET CONDITIONS AND BECAUSE EACH 1 PER CENT INCREASE WOULD COST 100 MECU. STARCH MEASURES WERE VERY COMPLICATED AND LINKED WITH THE REVIEW OF SUGAR QUOTAS AND SHOULD THEREFORE BE DEALT WITH AFTER THE PRICE SETTLEMENT. THERE WAS NO PROSPECT OF AN OILS AND FATS TAX IN THIS YEAR'S PACKAGE. THE COMMISSIONER WAS NOT LIKELY TO GIVE UNDERTAKINGS ON HOW HE WOULD MANAGE MARKETS BUT, IN THE MEDIUM TERM REVIEW, IT WOULD BE WORTH CONSIDERING HOW TO PENALISE CEREALS PRODUCERS IN THE YEAR OF SURPLUS PRODUCTION RATHER THAN THE YEAR AFTER. ON WINE, THE COMMISSION WAS COMMITTED TO NO PRICE INCREASE. IT HAD AIMED AT A NORTH-SOUTH BALANCE BUT PRICES FOR TOMATOES AND CITRUS HAD TO BE CUT MOST BECAUSE THOSE REGIMES WERE DISASTER AREAS. DURUM HAD TO BE INCLUDED IN A GENERAL CEREALS THRESHOLD BECAUSE HIGH PRICES HAD ENCOURAGED SUBSTITUTION BY SOFT WHEAT. THE MCA PROPOSALS HAD BEEN PHRASED TO AVOID THE AUTOMATIC DISAPPEARANCE OF ALL MCAS.

20. DISCUSSION THEN TURNED TO MORE DETAILED EXAMINATION OF INDIVIDUAL COMMODITIES, THE MAJOR POINTS OF WHICH ARE RECORDED IN MY IFTS.

FCO ADVANCE TO:

FCO - CLEMENTS

CAB - HARDING

MAFF - PACKER, WILSON, HADLEY, CANN, MYERS, DICKINSON, ARCHER, THOMS
ON

DAFS - DG MACKAY

DANI - CHALMERS

WOAD - HALL-WILLIAMS

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PART 29 begins:-

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