

PREM 19/1480

Confidential Filing

The Community Budget.

EUROPEAN

Developments in the European
Community.

POLICY

Part 1: May 1979

Part 30: June 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
5.6.85		16.9.85		29.11.85			
11.6.85		17.9.85		2.11.85			
19.6.85		18.9.85		26.11.85			
20.6.85		20.9.85		27.11.85			
25.6.85		25.9.85		29.11.85			
26.6.85		26.9.85		ENDS			
27.6.85		27.9.85					
1.7.85		30.9.85					
9.7.85		3.10.85					
4.7.85		4.10.85					
5.7.85		15.10.85					
10.7.85		17.10.85					
11.7.85		22.10.85					
12.7.85		31.10.85					
18.7.85		4.11.85					
25.7.85		7.11.85					
31.7.85		8.11.85					
27.8.85		11.11.85					
29.8.85		12.11.85					
12.9.85		14.11.85					
13.9.85		17.11.85					
		19.11.85					

Material used by
Official Historian
DO NOT DESTROY

PREM 19/1480

PART 30 ends:-

Home Sec to FCS 29.11.85

PART 31 begins:-

RTA to PM(A085/3150) 4.12.85

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
L(85) 51	04/06/1985
CC(85) 20 th Meeting, item 4	13/06/1985
CC(85) 21 st Meeting, item 3	20/06/1985
CC(85) 22 nd Meeting, item 5	27/06/1985
CC(85) 24 th Meeting, item 3	11/07/1985
CC(85) 25 th Meeting, item 3	18/07/1985
CC(85) 26 th Meeting, item 3	25/07/1985
CC(85) 27 th Meeting, item 3	12/09/1985
CC(85) 28 th Meeting, item 2	03/10/1985
CC(85) 29 th Meeting, item 3	15/10/1985
CC(85) 30 th Meeting, item 3	31/10/1985
EQO(85) 128	01/11/1985
CC(85) 31 st Meeting, item 4	07/11/1985
CC(85) 31 st Meeting, item 3	07/11/1985
CC(85) 31 st Meeting, item 2	07/11/1985
CC(85) 32 nd Meeting, item 3	14/11/1985
CC(85) 33 rd Meeting, item 4	21/11/1985
CC(85) 34 th Meeting, item 4	28/11/1985

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

Signed J. Gray

Date 27/1/2014

PREM Records Team

Published Papers

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

Cmnd 9633. Statement on the 1985 Community Budget. Presented to Parliament by the Minister of State to the Treasury by Command of Her Majesty – October 1985. Published by HMSO.
ISBN 0 10 196330 0

Signed J. Gray Date 27/1/2014

PREM Records Team



QUEEN ANNE'S GATE LONDON SW1H 9AT

29 November 1985

Dear Geoffrey,

Inter-Governmental Conference

Following the discussion in Cabinet yesterday about our stance towards revisions to the Treaty, in which I underlined my concern about the need to safeguard our immigration policy, it has been reported to me that there is a proposal for an additional article to encourage cooperation about the free movement of third country nationals, and on terrorism, crime, and drugs.

I would like to underline my full agreement with the view which I understand officials will report in the briefing you will receive namely that if such a proposal has to be taken on board it should not be a part of a revised text of the Treaty. Were it to be in the revised Treaty, even if the Commission were excluded, it could undermine all that we want to achieve in restricting the scope of Article 1.

A copy of this letter goes to the Prime Minister and to Sir Robert Armstrong.

Yours,
Douglas

The Rt Hon Sir Geoffrey Howe QC MP

CONFIDENTIAL

RLE

DA

PC



10 DOWNING STREET

From the Private Secretary

29 November 1985

INTERGOVERNMENTAL CONFERENCE

Thank you for your letter of 28 November about the wording of Article 1 of the Draft Treaty on Political Co-operation.

I agree that the Italian suggestion for the wording of this Article, which makes clear that the aim of joint formulation and implementation of a European foreign policy is distant and to be sought on a best endeavours basis, is helpful. While I think the Prime Minister would have no objection to the Foreign Secretary accepting the wording this weekend, she would want it to be on the basis that our position on whether to accept the agreement as a whole was reserved until we were able to judge the final shape of the overall package at Luxembourg.

(Charles Powell)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

DB



QUEEN ANNE'S GATE LONDON SW1H 9AT

29 November 1985

CDP
29/11

Dear Geoffrey,

Inter-Governmental Conference

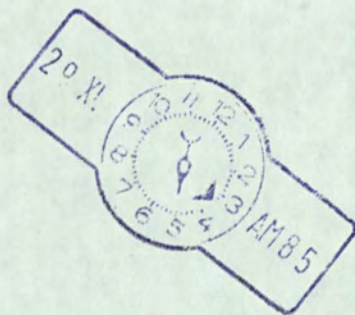
Following the discussion in Cabinet yesterday about our stance towards revisions to the Treaty, in which I underlined my concern about the need to safeguard our immigration policy, it has been reported to me that there is a proposal for an additional article to encourage cooperation about the free movement of third country nationals, and on terrorism, crime, and drugs.

I would like to underline my full agreement with the view which I understand officials will report in the briefing you will receive namely that if such a proposal has to be taken on board it should not be a part of a revised text of the Treaty. Were it to be in the revised Treaty, even if the Commission were excluded, it could undermine all that we want to achieve in restricting the scope of Article 1.

A copy of this letter goes to the Prime Minister and to Sir Robert Armstrong.

Yours,
Douglas

The Rt Hon Sir Geoffrey Howe QC MP





Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

29 November 1985

A prime example of how one can always think a hundred reasons why to give something away in negotiations, but hardly any why to defend it!

No amendment
to this Bill

The fact is that an amendment to Article 99 would be a political signal of willingness to move towards tax harmonization CDP!

[indirect taxation]

Dear Rachel, IGC: Internal Market - Possible Amendment to Article 99 EEC

Thank you for your letter of 28 November.

29/xi

The Foreign and Commonwealth Secretary has made clear in discussion in the Conference that we regard changes to Article 99 as unnecessary. This view has attracted support from the Irish and the Danes. Many other Member States are unhappy with the text, but for the opposite reason: they regard it as an effective block on all moves towards tax harmonisation.

A number of significant Treaty changes are being proposed on which we must hold out until we get the improvements we need. But the Foreign Secretary doubts whether the proposed amendment to Article 99 amounts to a significant change in the present position:

- (a) The Commission already has the power under the existing Article 99 to make proposals on tax harmonisation, and indeed has done so in a number of areas.
- (b) In one important respect the new text is more restrictive on substance than the old. It limits the Commission's freedom to make proposals to those "necessary to ensure the establishment and the operation of the internal market". The existing text refers only to "the interest of the common market" giving the Commission much freer reign.
- (c) The insertion of the reference to consultation of the European Parliament merely codifies existing practice and does not give the Parliament any new role in decision making. Article 99 proposals would not be covered by the new procedures being considered for consultation with the Parliament.

/(d) The



(d) The provision for decision taking by the Council on the basis of unanimity is clearly maintained. Only a unanimous decision of the Council could lead to a majority voting. Whatever pressure we come under there is no reason why we should succumb to it any more than we have in the past.

(e) Finally, there is agreement in the Council that the time limit referred to is not intended to be legally binding. We will be working for the strongest possible provision to that effect.

In the light of the above, the Foreign Secretary does not think we should refuse to agree to the amendment if, as is likely, all others can accept it. He thinks that, if this became the issue on which the Conference failed, we would be hard pressed to explain what significant British interest we had been defending - at the cost of the much more important interest which are at stake.

I am copying this letter to Charles Powell (No 10), John Mogg (DTI), Ivor Llewellyn (MAFF), Henry Steel (Attorney General's Office) and David Williamson (Cabinet Office).

Yours ever,

L V Appleyard

(L V Appleyard)
Private Secretary

Mrs Rachel Lomax
HM Treasury

(2)



Prime Minister
An important point
C.D.P. 29/xi

CCPC

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

28 November 1985

Len Appleyard Esq
Private Secretary to the
Secretary of State for Foreign and Commonwealth Affairs

Dear Len,

ms

IGC:

INTERNAL MARKET - POSSIBLE AMENDMENT TO ARTICLE 99 EEC

The Chancellor has seen the proposal being put forward in the IGC during discussions on the internal market to amend article 99 of the EEC Treaty. He has asked me to say that he is very much opposed to that idea, and that the United Kingdom should refuse to agree to it.

[indirect taxation]

The Chancellor has noted that the amendment would appear to entail three changes from the existing Article 99 which are particularly unwelcome.

No - pledged
not to
in Budget
campaign

No

(a) It would give the European Parliament for the first time in the Treaty a role in decisions on indirect tax matters. This would be unwelcome to the House of Commons, who would regard it as an infringement of one of their most cherished privileges.

(b) It implies a commitment to the principle of harmonisation. Although this commitment is qualified in various ways, there still remains a presumption that by the end of 1992 various tax harmonisation measures will have been agreed. It effectively prejudices the questions still being considered by ECOFIN of whether any tax harmonisation is necessary for the completion of the internal market. It would almost certainly be unwelcome and difficult to defend before our own Parliament. It could also possibly lay the Council open to an action before the ECJ if it failed to agree by the implied deadline on measures which the Commission or some member states did consider necessary for that purpose.

(c) Once the possibility of moving to qualified majority voting on certain matters is written into the Treaty, some member states would be bound to wish this provision to become effective. Although formally the United Kingdom would retain a veto over any such move,



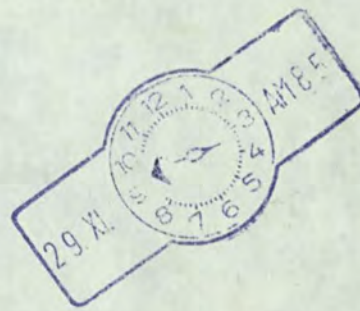
the practical effect could well be that pressure would be applied to persuade us to agree to a move to qualified majority voting in some areas. The problem is that it is very difficult to identify any areas of indirect tax, even machinery matters, which do not potentially have large revenue, compliance or manpower costs.

The Chancellor does not see how the United Kingdom could agree to this proposal. He does not, however, think that ensuring that it does not form part of the final package will necessarily absorb a great deal of negotiating capital. Since the Irish and the Danes have already said that they are not able to accept the proposal, the Chancellor does not think there is any need for the United Kingdom to take the lead on this matter, and that it would probably be unwise for us to do so. He is, however, quite clear that we should continue to refuse to agree to the amendment.

I am coying this letter to Charles Powell (No.10), John Mogg (PS/Secretary of State for Trade and Industry), Ivor Llewelyn (PS/Minister of Agriculture, Fisheries and Food), Henry Steel (PS/Attorney General), Anthony Caryl (PS/Minister of State, Foreign and Commonwealth Office) and to David Williamson (Cabinet Office).

*Yours
Respectfully*

MRS R LOMAX
Principal Private Secretary





CONFIDENTIAL

PRIME MINISTER

28 November 1985

EC BUDGET COUNCIL, 26-27 NOVEMBER

The Budget Council went predictably unsatisfactorily. The attached Written Answer summarises the outcome.

2. My officials had gone to considerable lengths to co-ordinate positions informally in advance with French, German and Dutch colleagues. But we found as soon as we arrived that more foolish counsels had prevailed. All three governments were concerned above all to avoid a row with the Parliament, especially with the Inter-governmental Conference and the European Council meetings in the offing. Contrary to the informal understandings reached between officials, all three were prepared to make specific (and substantial) provision for the so-called 'cost of the past' commitments overhang problem and to commit themselves irrevocably to proposing to the European Parliament a new 'maximum rate' at a considerably higher level.

3. I argued strongly in the Council for our preferred approach, but no-one supported. It quickly became clear that the discussion would focus on levels of non-obligatory expenditure which were barely reconcilable with budget discipline.

4. Agreement was reached accordingly in exchanges between the Chancellor, Treasury officials, your office and myself that we should stick to our guns and be outvoted unless we found ourselves in a situation where a favourable UK vote would clinch a qualified majority for an outcome which

CONFIDENTIAL

could be defended as being clearly compatible with budget discipline. In the event, such a situation never arose, and we were outvoted. The Irish opposed as well; but their complaint was that the increases in expenditure proposed by the Council were too low.

4. So far as the outcome is concerned, the Council has, I fear, taken a wrong turning on the cost of the past. It has encouraged the Commission in a Council Minutes entry to propose still further provision for the cost of the past in a supplementary budget next year. It has established a starting point for negotiations next month with the European Parliament which is higher than it need have been and is barely reconcilable with budget discipline. The Parliament will almost certainly reject the Council's proposals as being inadequate, and the Council may well have to meet again next month in Strasbourg in an effort to reach an agreement with the Parliament, as provided in the Treaty. If the Council does not make further concessions then, there are some indications that the Parliament may illegally adopt their own version of the budget. This has troublesome possibilities.

5. On a more positive note, the provision for agricultural guarantee expenditure remains within the budget discipline guideline; the extra provision for enlargement is relatively restrained and the Council's additions to non-obligatory expenditure, though excessive, are far below the European Parliament's proposals and are likely to bring a small net benefit to the UK in the shorter term.

6. As I see it, the Government needs to present the outcome of the Council as being disappointing and as posing a threat to one area of budget discipline. We must also be careful, however, given the emphasis which Ministers have placed on budget discipline in the context of raising the VAT ceiling, to avoid any suggestion that budget discipline in general is in ruins.

7. I am copying this minute as before.

mum

for PETER BROOKE

(Approved
by the
Minister
of State &
signed in
his absence)

M.....To ask Mr Chancellor of the Exchequer, if he will report on the outcome of the latest meeting of the European Community's Budget Council.

MR PETER BROOKE

The Budget Council met in Brussels on 26-7 November to consider the European Parliament's amendments and modifications to the draft budget for 1986 which the Council established in September.

The Council established by qualified majority a revised draft budget amounting in total to some 34.6 billion ecus (some £21.6 billion at the budget exchange rate of 1.61 ecu to the £) in commitment appropriations and some 32.7 billion ecus (some £20.3 billion) in payment appropriations.

The revised draft budget, like the September version, provides for limiting the growth of agricultural market support expenditure in the existing 10 member states within the budget discipline guideline and for 567 mecu (some £350 million) of agricultural guarantee expenditure in Spain and Portugal. It includes 1400 mecu (some £870 million) for the United Kingdom's VAT abatement.

The European Parliament's proposals called for additions of some 1.8 billion ecu to the payment appropriations for non-obligatory expenditure in the Council's September draft budget. The Council decided to respond by proposing to limit these additions to

821 mecu, comprising 321 mecu on account of enlargement, 400 mecu for the so-called 'cost of the past' overhang of past commitments in the Regional Development and Social Funds, and 100 mecu in other budget lines.

The growth of non-obligatory expenditure compared with 1985 implied by these proposals is 1210 mecu (some £750 million) for commitment appropriations and 1200 mecu (some £745 million) for payment appropriations. The implied new 'maximum rate' increases are some 14.6 per cent for commitment appropriations and some 20.5 per cent for payment appropriations.

Two members states, the United Kingdom and Ireland, for different reasons, opposed the revised draft budget, but were outvoted. I argued that, while it was axiomatic that the understandings on budgetary matters reached with Spain and Portugal during the accession negotiations must be fully respected, the Council should not propose special extra provision for the 'cost of the past' problem, which should be solved by reducing new commitments rather than increasing payments. The increase in non-obligatory expenditure proposed for this purpose represented a threat to budget discipline.

On food aid, the Council accepted the Parliament's proposal for establishing a new budget line for emergency food aid relief within the food aid chapter of the budget and reaffirmed its commitment to review the Community's food aid arrangements in the light of need.

The European Parliament will consider the Council's revised draft budget in the week beginning 9 December.

CONFIDENTIAL

CCPC ①



Prime Minister Foreign and Commonwealth Office
London SW1A 2AH

cebt

The wording does
indeed water the text
considerably

28 November 1985

Agree that the Foreign Secretary should
Dear Charles, accept it, while reserving our position
on whether to accept the Agreement as a whole

Intergovernmental Conference

until we see the final shape of the package at
Your letter of 19 November recorded the Prime Minister's
wish that a further serious effort should be made to secure some
watering down of Article 1 of the Draft Treaty on Political
Cooperation.

CDP
28/11

We put the arguments to our partners in the Inter-
governmental Conference at successive Ministerial meetings on
19 and 26 November, drawing on the helpful suggestions in your
letter. The Prime Minister of course also raised the subject
with M. Santer on 20 November. The result, on 26 November,
was that the Presidency accepted (and no one contested) an
Italian suggestion that the words "to seek" should be inserted,
so that the Article would now read:

Amend mto

"The High Contracting Parties, Members of the
European Community, set as their objective to seek
the joint formulation and implementation of a
European foreign policy."

The Foreign Secretary considers this new draft weakens
the effect of the article even more than your own suggestions,
and that there would therefore be advantage in accepting it
quickly before other member states try to regain lost ground.
Unless the Prime Minister sees objection, he therefore proposes
to accept this latest text at the Foreign Ministers' "conclave"
this weekend before the European Council, on the understanding
that the rest of the text is acceptable.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

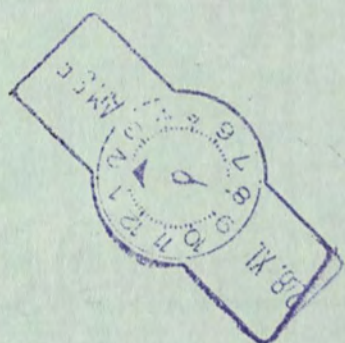
C D Powell Esq
10 Downing Street

CONFIDENTIAL

Enlo POC

BUDGET

PT 30





10 DOWNING STREET

Prime Minister

The main points
on the Community from
your meeting with Herr
Kohl were:

(a) he agreed no
monetary amendments. We must
keep him to it;

(b) he also agreed no
harmonization of taxation;

(c) he agreed on
importance of completing
the Internal Market;

(d) he can accept a
minimal text on the
Assembly. C.D.P.

Ref. A085/3072

PRIME MINISTER

Cabinet: Community Affairs

If this has not already been covered under the Foreign Affairs item you may wish to report on the Community aspects of your discussions with the Chancellor of the Federal Republic of Germany, Herr Kohl, on 27 November.

2. The Foreign and Commonwealth Secretary will report on the Ministerial session of the Intergovernmental Conference held on 25-26 November which he attended. He continued the United Kingdom's tactics of reducing the scope of the package without committing ourselves to the texts of any Treaty amendment. The maximalists (in particular, Italy and Belgium) are becoming very dissatisfied at the success of the grinding-down process. Revised texts will be issued by the Presidency today and we expect the main points of substance for decision to be included in a Presidency document. The Foreign Ministers will discuss again on 30 November - 1 December before the European Council of 2-3 December. The present situation on the principal points is:

(a) Internal market. There are potential gains for the British economy from opening up the internal market by better decision-making, provided that we protect certain essential interests. The proposed move to qualified majority voting now provides for keeping unanimity on all matters concerning taxation, the free movement of persons (frontier controls etc) and the rights and interests of employees ("social engineering"). These points are won. We shall get the retention of unanimity for our special interests on public, animal and plant health (rabies, foot

and mouth disease etc); we shall need to look at the Presidency's text to see that it satisfies our points but does not block all action;

(b) European Parliament. The latest text is little more than procedural and leaves the last word with the Council. The European Parliament itself is very discontented;

(c) "Cohesion". The text provides no basis for transfers of funds to southern member states. It does little more than put the structural funds into the Treaty (the Regional Fund has no specific Treaty base at present);

(d) Technology and Environment. New articles would provide criteria which could prove better than the present absence of criteria for actions already being taken. Some textual points remain to be settled;

(e) Monetary Provisions. You and the Federal German Chancellor, Herr Kohl, have said that amendments of the Treaty are not required. The French, Italians and Benelux will counter-attack. The procedural solution may be to let the Finance Council go on with its current work of looking at the issues (eg on capital movements) without, of course, any reference to Treaty amendment;

(f) Political Co-operation. There is a wide measure of agreement. The French proposal for a preamble to the whole package needs further examination.

We cannot rule out new problems at the Foreign Ministers' meeting or in the European Council itself. So far co-operation with France and the Federal Republic of Germany has been good, and a very modest package is in prospect. If this remains the

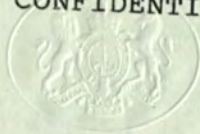
case, it would be in the United Kingdom's interest to finish this unnecessary exercise now and to leave the maximalists with the main problems.

3. The Foreign and Commonwealth Secretary will also report on the Foreign Affairs Council which was held in parallel with the Intergovernmental Conference on 25-26 November. The Minister for Trade (Mr Channon) was also present. The United Kingdom was pressed to accept the recent agreement with the United States on restrictions of steel imports in the light of some easing of the United States' position on the supply of semi-finished slabs from the British Steel Corporation to the Tuscaloosa plant in Alabama. Mr Channon, however, maintained our reserve on the whole package pending clarification from the United States. The Council also heard reports from the Commissioners who had recently discussed the trade imbalance with Japanese Ministers. The Japanese rejected even indicative import targets but we should not allow this question to be stalled off. Otherwise there is no objective way of knowing whether the Japanese measures are having any effect. The Commission will now draw up proposals for further action to put before the Council. The Council made progress on post-enlargement adaptation of Community/Mediterranean agreements.

4. The Chancellor of the Exchequer will report on the Budget Council which met on 26-27 November for its second reading discussion on the draft 1986 Community budget and at which the United Kingdom was represented by the Minister of State, Treasury (Mr Brooke). The Council voted by qualified majority (the United Kingdom and the Republic of Ireland voting against) to establish a revised draft budget some 600 million ecu (about £360 million) higher than the original draft budget. The outcome effectively splits the difference between the original draft budget and the European Parliament's amendments. It may have the effect of deflecting the European Parliament from setting an illegal budget. But, while the revised draft budget

[For different reasons: the Irish thought it was too little]

CONFIDENTIAL



firmly maintains the agricultural guideline, it weakens overall budget discipline because the maximum rate for non-agricultural expenditure is higher than we considered justified.

6. There is an Environment Council on 28 November. Next week, in addition to the European Council on 2-3 December, there will be a Social Affairs Council on 5 December.

RA

ROBERT ARMSTRONG

27 November 1985

CONFIDENTIAL



From the Minister of State for Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215)

GTN 215)5186

(Switchboard) 01-215 7877

THE HON PETER MORRISON MP

The Hon Peter Brooke MP
Minister of State
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CJP
20/11

27 November 1985

See RB

EUROPEAN REGIONAL DEVELOPMENT FUND (ERDF): UK RECEIPTS

When Ian Gow wrote to me on 14 November about the proposed final set of non-quota measures under the ERDF he touched upon wider issues relating to the EC Budget in relation to the ERDF.

I said in my letter of 30 September to Malcolm Rifkind that the chances of securing changes in the Commission proposals for the quota ranges under the ERDF after the accession of Spain and Portugal were not good. The discussions in the Regional Policy Working Group and the COREPER have confirmed this judgement. We have been stressing the need to deal with the problems of industrial decline, and will continue to do so in these discussions so long as the Greeks and the Irish press for the Commission proposals to be changed to their advantage. However there is no realistic prospect of achieving a material improvement in what is now on offer, and we can hardly block or hold up Spanish and Portuguese accession on this basis.

Commission officials have told us privately that they will seek to minimise the extent to which the UK will be net contributors to the ERDF. We shall be writing at Ministerial level to press the Commission about this, but it is unlikely that they would be prepared to give any such assurance in writing. In any case the proportionate share of the ERDF is virtually certain to be less than our marginal contribution to the Community Budget, and so increases in the Fund are likely to involve a net financial loss to the UK. I therefore agree with Ian's conclusion that our interest

MONAXI



for the foreseeable future is to resist increases in the size of the Fund. It should be recognised though that this policy involves considerable presentational difficulties and will bring criticism of the Government from many directions.

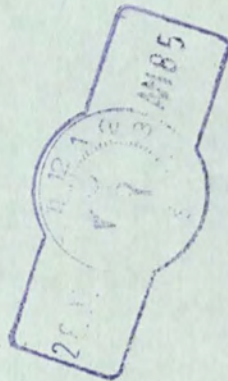
He also referred to the high hopes expressed at Fontainebleau, and reflected in the Fontainebleau Communiqué, that the long term solution to the problem of the UK's deficit lay in the development of EC spending policies. It seems to me that that sentiment represented a triumph of hope over experience, particularly in the light of the relatively high proportionate UK contribution to the Budget. The ERDF is the largest item of Community expenditure outside agriculture, and we certainly can no longer count on a net contribution towards the solution of our budgetary problem from it in future, and this has been evident for some time.

He also commented that the proposed final set of non-quota measures should ensure us a return from the Fund slightly greater than could be expected were we to rely solely on the Fund's normal operations, and added that this would not be without its disadvantages in public expenditure costs. The point which I think that he had in mind was that in the case of the non-quota measures there is no requirement that departments reduce their expenditure by the amount of the ERDF receipts passed to the private sector, for example under the Business Improvement Service Package of Schemes. However the present intention is that such a requirement should normally apply in respect of future Community programmes. I think it fair to point out that the objective of maximising receipts from the ERDF so as to get as near as possible to the top of our quota range may imply adopting policies, or accepting Commission influence which otherwise we would not have done. Conversely, of course we may choose not to change our policies in this way, and the result might then be lower receipts from the ERDF for the Exchequer, or for UK recipients as a whole, than would otherwise have been the case. This trade-off is not, and cannot be, an exact science, but nonetheless it is likely to be there.

I am copying this letter to the recipients of the earlier correspondence.

PETER MORRISON

Europol-Budget:
PE30



GRS 140

CONFIDENTIAL

CONFIDENTIAL

FM ROME

TO PRIORITY FCO

TELNO 1013

OF 270800Z NOVEMBER 85

INFO PRIORITY EC POSTS, MADRID, LISBON

FRAME INSTITUTIONAL

MYTELNO 1009: ITALY/IGC

1. AT A COMMUNITY AMBASSADOR'S LUNCH AT THE FRENCH EMBASSY FOLLOWING HIS TALKS WITH WILLIAMSON THIS MORNING, RUGGIERO WENT FURTHER THAN HE HAD DONE WITH WILLIAMSON AS REGARDS THE LIKELY ITALIAN ATTITUDE TO THE OUTCOME OF THE IGC IF THAT OUTCOME FAILED TO SATISFY THE EUROPEAN PARLIAMENT. OVER LUNCH HE SAID IN TERMS THAT IT WOULD BE IMPOSSIBLE FOR HIS GOVERNMENT TO LIFT A GENERAL ITALIAN RESERVE ON THE OUTCOME OF THE IGC IF THE EUROPEAN PARLIAMENT THEN VOTED DOWN THE IGC CONCLUSIONS. HE SAID IT WAS PARTICULARLY IMPORTANT, THEREFORE, THAT THOSE CONCLUSIONS SHOULD BE PRESENTED TO THE PARLIAMENT IN SUCH A WAY THAT THE LATTER FELT THAT ITS OPINION ON THE SUBJECT WAS NOT IRRELEVANT.

2. THE FRENCH AMBASSADOR EXPRESSED SCEPTICISM ABOUT THE POSSIBILITY THAT ITALY MIGHT IN THIS WAY BLOCK ALONE THE DECISIONS OF NEXT WEEK'S EUROPEAN COUNCIL. THE BELGIAN SUGGESTED THAT ITALY MIGHT NOT FIND HERSELF ALONE. RUGGIERO REPEATED WHAT HE SAID TO WILLIAMSON TO THE EFFECT THAT A FAILURE TO AGREE ON THIS OCCASION WOULD NOT BE THE END OF THE WORLD: A FAILURE TO CONCLUDE WOULD BE LESS DAMAGING THAN AN INADEQUATE RESULT WHICH WAS THEN PRONOUNCED MISLEADINGLY TO BE A SUCCESS.

FITZHERBERT

FRAME INSTITUTIONAL

ECDE(E)

WED

CONFIDENTIAL



ms

10 DOWNING STREET

Prime Minister

Budget Council

The situation in
Brussels is very
confused.

The Chancellor's view

is that:

- (a) we must vote
against some of the
absurdly high figures for
extra expenditure which
are being discussed; but
- (b) if there is a
chance of getting a more

reasonable figure to
cover the cost of
enlargement while
remaining within the
budget discipline
guideline, Mr. Brooke
has discretion to
suggest a compromise.
It is hard to

set a precise
figure. But the border
between reasonable &
unreasonable is around
1 billion écu (of which our
share is determined by the
Fontainebleau mechanism).

C.D.P.

RESTRICTED



Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Tel No: 233 3299
7471

26 November 1985

Private Secretary to the Minister
of State, Treasury
HM Treasury
Parliament Street
LONDON
SW1

CDP
Bxi

Dear Private Secretary,

1986 COMMUNITY BUDGET
STRATEGY FOR BUDGET COUNCIL, 26-7 NOVEMBER

The Chancellor of the Duchy has seen a copy of your Minister's minute of 21 November to the Prime Minister.

The Chancellor shares your Minister's dislike of the option set out in paragraph 7 of his minute. He would advocate stopping short of support for this option, if at all possible.

I am copying this letter to Charles Powell (No 10), private secretaries to members of OD(E), and to Michael Stark (PS/Sir Robert Armstrong).

Yours faithfully,
Andrew Lansley

ANDREW LANSLEY
Private Secretary



CLES 1000
CONFIDENTIAL

CONFIDENTIAL

FM UKREP BRUSSELS

TO DESKBY 2709COZ FCO

TELNO 4103

OF 262118Z NOVEMBER 85

INFO PRIORITY EUROPEAN COMMUNITY POSTS LISBON MADRID

FRAME GENERAL

IGC: BRUSSELS 25/26 NOVEMBER

SUMMARY.

GENERAL.

1. SAD STEERING BY POOS AND SHORTAGE OF TIME MEANT THAT ONLY THE INTERNAL MARKET, COHESION AND THE EUROPEAN PARLIAMENT RECEIVED ADEQUATE ATTENTION. SEVERAL PROPOSALS WERE NOT DISCUSSED AT ALL. THIS GIVES THE PRESIDENCY A GOOD DEAL OF DISCRETION ABOUT HOW FAR TO AMEND AND HOW TO PRESENT ITS PROPOSALS.

2. SIGNIFICANT DIFFERENCES OF POSITION WILL HAVE TO BE PUT TO THE WEEKEND CONCLAVE ON VIRTUALLY ALL SUBJECTS, IN PARTICULAR THE INTERNAL MARKET. IN ADDITION THERE HAS NOW BEEN A VIGOROUS BACKLASH FROM DELORS, SUPPORTED BY ITALY AND TO A LESSER EXTENT BENELUX, AND REINFORCED BY THE MEETING WITH THE EUROPEAN PARLIAMENT. THE MOOD IN THE RUN UP TO THE CONCLAVE IS THEREFORE UNEASY. ALL ARE AWARE THAT OUR RESERVE REMAINS AND NO ONE IS CONFIDENT OF AGREEMENT BUT SOME ARE BEGINNING TO YIELD TO THE TEMPTATION TO GRANDSTAND.

3. A LONG AND POORLY CHAIRED DISCUSSION LEFT MAJOR DIFFERENCES UNRESOLVED ON EVERY ARTICLE (EXCEPT ARTICLE 5, WHICH ALL EXCEPT FRANCE AGREED TO DELETE). YOU REGISTERED THE AMENDMENTS WHICH HMG SEEK, BUT IT IS NOT CLEAR HOW FAR THE PRESIDENCY WILL TAKE THESE AND OTHERS ON BOARD. STRONG OPPOSITION TO SPECIAL EXEMPTION FOR THE UK AND IRELAND ON HEALTH GROUNDS.

EUROPEAN PARLIAMENT (EP).

4. UK CONCERNS REGISTERED ON PRESIDENCY TEXT, WHICH WILL GO FORWARD TO THE CONCLAVE WITH A NEW VARIATION FATHERED BY DELORS OUT OF PFLIMLIN. AT IGC/EP MEETING, MOST MEMBER STATES DEFENDED THE PRESIDENCY PROPOSALS ON EP POWERS, AND EXPLAINED THEIR DIFFICULTIES WITH GOING FURTHER. ONLY ITALY CALLED FOR A SUBSTANTIVE INCREASE: DENMARK WAS SCEPTICAL ABOUT NEED FOR ANY CHANGE. PREDICTABLE REJECTION BY EP. PRESIDENCY INTEND TO ARRANGE FURTHER MEETING, AND TO PUT ANY GUIDELINES AGREED BY THE EUROPEAN COUNCIL TO THE EP FOR DEBATE IN THE DECEMBER PLENARY, BEFORE FINALISATION OF CONFERENCE TEXTS.

MONETARY COOPERATION.

5. FOR SUBSTANTIVE DISCUSSION AT THE CONCLAVE.

CONFIDENTIAL

/TECHNOLOGY

TECHNOLOGY.

6. UNDER PRESSURE FROM DELORS, PRESIDENCY AGREED THAT COMMISSION'S ORIGINAL PROPOSAL ON THE MULTI-ANNUAL FRAMEWORK SHOULD GO TO THE EUROPEAN COUNCIL ALONG WITH THE LATEST PRESIDENCY PROPOSAL.

SOCIAL PROVISIONS.

7. EVERYONE PULLING THE BLANKET IN DIFFERENT DIRECTIONS. THE COMMISSION'S PROPOSALS ON THE SOCIAL AREA AND DIALOGUE BETWEEN SOCIAL PARTNERS WILL GO FORWARD ALONG WITH PRESIDENCY PROPOSALS, WHICH MOST STILL FAVOUR. OUR FIRM OPPOSITION TO MAJORITY VOTING AND ANY EXTENSION OF SCOPE REAFFIRMED.

COHESION.

8. SOLID NORTHERN DEFENSIVE WORK, WITH HELPFUL FRENCH, GERMAN AND DUTCH INTERVENTIONS IN KEEPING WITH UK LINE. GREECE AFTER HAND-OUTS. IRELAND A BIT MORE SUBTLE. PRESIDENCY TO REVISE ITS TEXT : THEN TO CONCLAVE.

ENVIRONMENT.

9. NO SUBSTANTIVE DISCUSSION. PRESIDENCY TEXT TO GO TO CONCLAVE, WITH FOCUS ON EXCLUSIVE NATIONAL RESPONSIBILITY FOR IMPLEMENTATION/FINANCE AND PROBLEM OF EXTERNAL COMPETENCE. UK AMENDMENTS GIVEN PRIVATELY TO PRESIDENCY AND COUNCIL SECRETARIAT.

TREATY OF POLITICAL COOPERATION.

10. USEFUL PROGRESS. TEXT WILL GO TO EUROPEAN COUNCIL WITH FEW OUTSTANDING POINTS. HELPFUL ITALIAN PROPOSAL TO MODIFY TEXT ON OBJECTIVE OF TREATY. FRENCH AMENDMENT TO ARTICLE ON SECURITY GAINED LITTLE SUPPORT. ALL MEMBER STATES AGREED TO WORK ON BASIS OF SMALL EPC SECRETARIAT AS PROPOSED BY UK. PRESIDENCY LEFT DISCUSSION OF FRENCH DRAFT CHAPEAU FOR FINAL STAGES OF EUROPEAN COUNCIL. POLITICAL COMMITTEE TO DISCUSS SUBSIDIARY DOCUMENTS FOR SUBMISSION TO MINISTERS ON 2 DECEMBER.

OTHER ISSUES.

11. NO DISCUSSION ON COMMISSION'S POWERS, EMPLOYMENT OR DIFFERENTIATION. LEGAL EXPERTS TO DISCUSS ECJ REFORM PROPOSALS ON 29 NOVEMBER.

12. DETAIL OF PARAS 3-10 REPORTED SEPARATELY.

HANNAY

YYYY

FRAME GENERAL

FCO ADVANCE TOP:-

FCO - RENWICK WALL RICHARDSON

CAE - WILLIAMSON JAY

DTI - WILLIAMS

TSY - LAVELLE FITCHEM LITTLER

FRAME GENERAL

ECD (1)

* This reads:
"will adopt as their
aim to seek to
formulate and joint
implementation of a
European foreign
policy." Not bad.

2
CONFIDENTIAL

COPIES TO
ADVANCE ADDRESSEE.



10 DOWNING STREET

CDP

message from P. Wynn Owen.

Budget Council

Peter Brooke reported to
Ch Exch today that
Brussels is going badly.

We're being deserted
by our allies ie
French, Dutch & Germans
are lining up behind
European presidency
compromise around a
figure of 1.45 billion
ECU (ie higher than we
accept).

It will likely be
passed within the
next few hours by a
qualified majority
of European countries.

PTO

but the Chancellor
has instructed the
minister to vote
against it.

JB

26/11

KARL CARSTENS

5300 BONN 1
BUNDESHAUS

The Rt Hon. Mrs Margaret Thatcher, F.R.S., M.P.
Prime Minister
10 Downing Street
London SW1
Great Britain.

Bonn, 25th November 1985.

Dear Prime Minister,

Following the founding meeting of the Action Committee for Europe on 7 June I had the honour to send you the declaration which the Committee adopted on that occasion as well as its appeal to the European Council at Milan.

As we approach the next meeting of the European Council I am taking the liberty to bring to your attention once again the priorities for which the Committee called at Bonn.

The Committee insisted on :

- the creation of a border-free European home market by 1992;
- a major Community response to the challenge of advanced technology;
- strengthening the European Monetary System and bringing about mutually compatible economic policies of the member states with due regard to the promotion of solidarity between the richer and the poorer regions of the Community.

In addition, the Committee insisted that the following institutional reforms will be needed to achieve these objectives :

- majority voting in all cases where it is allowed by the Treaty and where it is indispensable for the creation of a European home market;
- a greater role for the European Parliament, in order to maintain democratic procedures in Community decision making;
- a greater role for the Commission in executing Community decisions.

./..

./...

The Inter-Governmental Conference which was launched by the European Council at Milan on the basis of article 236 of the EEC Treaty has been dealing with the points mentioned above.

I should like to express, on behalf of the Action Committee, our strong hope that the amendments to the Treaty which the European Council will ask member states to ratify will include the objectives mentioned above as well as the institutional reforms needed to bring them about.

Yours sincerely,

Wim Corsus

REPRODUCED BY PRODUCT
AMERICAN BANCORP

AMERICAN PARCHEMENT
BERNARD'S PRODUCT

CONFIDENTIAL

CONFIDENTIAL

FM UKREP BRUSSELS

TO IMMEDIATE FCO

TELNO 4069

OF 252205Z NOVEMBER 85

INFO PRIORITY EUROPEAN COMMUNITY POSTS LISBON MADRID

FRAME INSTITUTIONS

INTERGOVERNMENTAL CONFERENCE: BRUSSELS, 25 NOVEMBER 1985.

COMMISSION'S ATTITUDE.

SUMMARY DELORS DISSOCIATES COMMISSION FROM I.G.C.

DETAIL.

1. TOWARDS THE END OF LUNCH ON 25 NOVEMBER, DELORS (PRESIDENT OF THE COMMISSION) SAID THAT, FROM NOW ON, THE COMMISSION WOULD TAKE NO FURTHER PART IN THE WORK OF THE IGC. THE COMMISSION WERE NOT MEMBERS OF THE IGC. HE WOULD NEITHER INTERVENE, NOR UPHOLD A VIEW. HE FELT THAT THE COMPROMISE PACKAGE WHICH WAS BEING DISCUSSED WOULD NOT MEET THE NEEDS OF THE COMMUNITY FOR THE NEXT TWENTY YEARS. HE WOULD DISSOCIATE HIMSELF FROM THE CONCLUSIONS OF THE IGC. HE WAS GREATLY UPSET BY UK AND GERMAN ATTITUDES TO HIS MONETARY PROPOSALS (HE TOOK PARTICULAR EXCEPTION TO A GERMAN PRESS CAMPAIGN AGAINST HIM). BUT HIS DECISION STEMMED FROM BROADER CONSIDERATIONS.

2. POOS (PRESIDENCY) APPEALED TO HIM TO CHANGE HIS MIND, SAYING THAT, IF A COMPROMISE WAS ACCEPTABLE TO ALL, A DECLARATION OF THIS KIND WOULD RISK THE COLLAPSE OF THE IGC. DELORS SAID THAT HE DID NOT WISH TO PRODUCE THAT RESULT. HE WOULD GIVE NO INTERVIEWS AND EXPRESS NO POINT OF VIEW ON THE OUTCOME OF THE CONFERENCE. BUT THIS COMPROMISE WOULD NOT DO. ANDREOTTI (ITALY) SAID THAT NO COMPROMISE YET EXISTED.

COMMENT:

3. THIS ANNOUNCEMENT DID NOT PREVENT DELORS FROM TAKING AN ACTIVE PART IN THE DISCUSSION OF THE INTERNAL MARKET AND COHESION AFTER LUNCH. BUT HE HAS A PRESS CONFERENCE MID WEEK AND AN APPEARANCE BEFORE THE EP INSTITUTIONAL AFFAIRS COMMITTEE ON 28 NOVEMBER AND MAY WELL EXPRESS SIMILAR VIEWS THEN.

HANNAY

YYYY

(ADVANCED AS REQUESTED)

FRAME INSTITUTIONS

FCO ADVANCE TO:-

FCO - RENWICK WALL RICHARDSON

CAB - WILLIAMSON JAY

COPIES TO:

FRAME INSTITUTIONAL

ADVANCE ADDRESSEES

ECD (1) []

CONFIDENTIAL

CDP seen
CC CDP
TF
Press
PC.
DJC

**STATEMENT ON FOREIGN AFFAIRS COUNCIL AND THE
INTERGOVERNMENTAL CONFERENCE: 25/26 NOVEMBER**

With permission Mr Speaker, I will make a statement on the Foreign Affairs Council held in Brussels on 25 to 26 November at which I and my rt hon Friend the Minister for Trade represented the UK.

The Council agreed a mandate for negotiations with Mediterranean partners on the adaptation of their Cooperation and Association Agreements to take account of Spanish and Portuguese accession. This covers measures designed to ensure that traditional trade flows from Mediterranean partners are not adversely affected. Agreement was also reached on a mandate for negotiations with Cyprus on a customs union.

The Commission reported to the Council on their recent visit to Tokyo for discussions with the Japanese Government on the Community's trade relations with Japan.

The Council also discussed the Community's trade relations with the United States, including the renegotiation of the 1982 Carbon Steel export restraint Arrangement. The United Kingdom reserved its position on the proposed Arrangement to allow time to consider the information the Commission had received from the

United States about access to the US market for semi-finished products.

The Council discussed the Commission's proposals for the 1986 Generalised Scheme of Preferences.

The Council discussed arrangements for the forthcoming European Council in Luxembourg on 2/3 December, and adopted reports on European Union and People's Europe which will be noted by the European Council without discussion.

A further session of the Intergovernmental Conference on the future development of the EC was held at the same time, at which there was discussion of ways to accelerate progress towards our key objectives on the internal market.

Ministers also considered how to update the Treaty to take account of the Community's role in technology and the environment. A meeting with representatives of the European Parliament was devoted to considering ways in which the Parliament might be able to express its views more fully before decisions are taken by the Council.

RESTRICTED



10 DOWNING STREET

From the Private Secretary

25 November, 1985.

1986 Community Budget: Strategy for Budget Council

The Prime Minister has considered Mr. Brooke's minute of 21 November about our strategy on the second reading of the 1986 Community Budget.

The Prime Minister is content for Mr. Brooke to pursue the options set out in paragraphs 5 and 6. But she shares his strong dislike for the option in paragraph 7 and would not want him to support it, at least without further consultation.

I am copying this letter to the Private Secretaries to the members of the OD(E) and to David Williamson (Cabinet Office).

Charles Powell

Mike Norgrove, Esq.,
HM Treasury.

RESTRICTED

JDS AFL
be pe

off

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

22 November 1985

Dear Charles,

1986 Community Budget: Strategy for Budget Council,
26-27 November

I have not been able to consult the Foreign Secretary about Mr Brooke's minute to the Prime Minister of 21 November, but am confident he would agree with the following comments.

The line Mr Brooke proposes for the second Budget Council reflects prior consultation with the French, Germans and Dutch. Such consultation and the coordination of our positions is the key to a satisfactory result in the Budget Council. It is also very important that this pattern of prior concertation has been set for the future.

✓ As the Foreign Secretary suggested in his minute of 16 September to Mr Gow, we should aim for an outcome in which any additional sums for enlargement are covered by the Spanish and Portuguese own resources contributions. An outcome in which the maximum rate for the EC Ten was respected, with an additional 540 mecus for Spain and Portugal fully covered by the Spanish and Portuguese own resources contributions, would be fully defensible in terms of budget discipline. We agree with Mr Brooke's letter, which is consistent with that approach.

I am sending copies of this minute to Private Secretaries to Mr Brooke, other members of OD(E), the Secretaries of State for Transport and Energy, the Minister for Overseas Development and Sir Robert Armstrong.

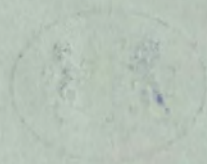
Yours ever,
Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
PS/10 Downing Street

CONFIDENTIAL

Curo PDI: Budget P430.



RESTRICTED



FROM: Minister of State

DATE: 21 November 1985

PRIME MINISTER

1986 COMMUNITY BUDGET

STRATEGY FOR BUDGET COUNCIL, 26-7 NOVEMBER

The Budget Council meets next Tuesday for its second reading discussion on the 1986 Community budget. I shall be representing the United Kingdom.

2. The September Budget Council established a draft budget in which agricultural guarantee expenditure for the Ten was within the budget discipline guideline and the increase in non-obligatory expenditure was kept just below this year's 'maximum rate' of 7.1 per cent.

3. The European Parliament decided last week to propose a massive increase of some 2.2 billion ecu (36 per cent) in non-obligatory expenditure. They argue that this is needed to meet the needs of Spain and Portugal and to deal with the so-called 'cost of the past' problem (the overhang of past commitments in the Regional Development and Social Funds). The Parliament's proposals are clearly incompatible with the recent budget discipline agreement.

4. Our objective must be to promote agreement on the lowest possible increase in expenditure. It will however be extremely difficult to find the necessary qualified majorities in the Council.

5. My preferred option would be for the Council to refuse to exceed the expenditure totals agreed at the first Budget Council plus the Parliament's statutory margin of 3.55 per cent (217 mecu). Non-obligatory expenditure would then rise by some 650 mecu (10.65 per cent). No specific provision would be made for the so-called 'cost of the past' problem, but the Council would make clear that the understandings reached with Spain and Portugal in the accession negotiations would be fully respected within the budget totals. Unhappily, I see little prospect of obtaining

RESTRICTED

RESTRICTED

a qualified majority for this approach, given the enlargement and 'cost of the past' problems.

② 6. A more practical option, as I see it, would be for the Council to adopt a new draft budget as in paragraph 5, with the same declaration on enlargement, but to indicate that the Council will be willing to explore with the Parliament the possibility of reaching agreement on a limited amount of extra provision so as to reduce the impact of enlargement on Community expenditure in the Ten. On this approach the Council would effectively commit itself to raising the statutory maximum rate only if agreement could be reached with the Parliament on an acceptable new maximum rate. I propose to argue strongly at the appropriate time for this option. It may well, however, not attract a qualified majority either.

③ 7. The other broad option for the Council will be to propose to the Parliament a new, higher maximum rate. This would undoubtedly lead to a horse-trade between the Parliament and the Council in which the Council's negotiating position would lack strength. The Treaty states that, once the basic maximum rate provisions of the Treaty are exceeded, the Council and the Parliament have to agree on a new maximum rate.

8. I very much dislike this option. If however the earlier options are not available and our willingness to support this option would enable the Council to find a qualified majority for putting forward a significantly lower new maximum rate than would otherwise be possible, I would propose to support it rather than be outvoted.

9. I hope that the approach set out in this minute will be acceptable to you and other colleagues. I will of course report back on the outcome of the Council.

10. I am copying this minute to the members of OD(E)* and Sir Robert Armstrong.

and
* to the Secretaries of State for Transport
and Energy, to the Minister for
Overseas Development

P.B.

PETER BROOKE

RESTRICTED



CONFIDENTIAL

Ref. Qz.04715

PRIME MINISTER

Cabinet: Community Affairs

If this has not already been dealt with under Foreign Affairs, you may wish to report on the Community aspects of your discussions with the French President, Monsieur Mitterrand, on 18 November. You also met Monsieur Santer, the Luxembourg Prime Minister and current President of the European Council, on 20 November.

2. The Foreign and Commonwealth Secretary will report on the Ministerial session of the Intergovernmental Conference held on 19 November at which the United Kingdom was represented by the Minister of State, Foreign and Commonwealth Office (Mr Rifkind). The pace of discussion in the Conference has quickened; there will be a meeting of the preparatory group at official level on 21-23 November, a meeting of Ministers on 25-26 November and a final meeting of Ministers beginning on 30 November. The majority of member states, including France and Germany, would like to see the Conference concluded and the main issues settled at the European Council in Luxembourg on 2-3 December. Our own conclusion is that, provided that the result is a modest package meeting our conditions, this timing is also in our interest. The meeting on 19 November discussed the internal market, on which we have to ensure that any move to qualified majority voting, which will be of value on the measures we do want, does not apply to taxation, movement of persons (frontier controls), environment, employer/employee relations ("social engineering" on such issues as parental leave or part-time working) and that our high standards on public, animal and plant health (no rabies, no foot and mouth disease, no Colorado beetle etc) are protected. There was also discussion of the role of the European Parliament and

/the

CONFIDENTIAL

CONFIDENTIAL

and the powers of the Commission. The wilder ideas of some member states for increasing the powers of the European Parliament have almost sunk without trace. The present text of the Presidency would give the European Parliament greater opportunity for being consulted while limiting its ability to complicate decision-making and leaving the last word with the Council. The European Parliament will complain. On monetary cooperation the Commission's proposal was rejected by Germany and the United Kingdom in the ECOFIN Council. There may be efforts later to revive some references but the Chancellor of the Exchequer's principal objective of demolishing the objectionable features of the Commission proposal has been achieved. The Conference on 19 November also considered the draft text on political cooperation. A French draft preamble was also circulated. The outstanding points on political cooperation have to be settled acceptably for us. The draft preamble has to be further examined in order to see whether it could further our attempts to define European Union as no more than what exists now.

3. The Foreign and Commonwealth Secretary may also report that the Sub-Committee on European Questions of the Defence and Overseas Policy Committee (OD(E)) on 20 November reached a very wide measure of agreement on the United Kingdom objectives and strategy for the final stages of the Conference.

4. The Chancellor of the Exchequer will report on the outcome of the Economic and Finance Council (ECOFIN) on 18 November which he attended. While the German Finance Minister (Herr Stoltenberg) and the Chancellor of the Exchequer rejected the Commission's proposal for some amendment to the monetary provisions of the Treaty, the French Finance Minister (Monsieur Beregovoy) argued that a monetary dimension was an essential ingredient of the changes currently under discussion in the Conference. The Monetary Committee will consider these questions again on 28 November. On the taxation aspects of the Commission's White Paper on the completion of the internal market the Council had an inconclusive and sceptical discussion about Lord Cockfield's ideas on the

CONFIDENTIAL

approximation of indirect taxes. The Council's reaction confirms the likelihood that the need to retain unanimity on tax matters will be agreed in the Intergovernmental Conference. This suits us well. The Council also approved a loan to the Greek Government of 1750 million ecu (£1035 million) in support of the recent Greek economic measures. The loan will be made available in two instalments, one immediately and one in a year's time, subject to conditions designed to ensure that the Greek measures which have an adverse impact on the rest of the Community are temporary.

5. The Secretary of State for Transport will report on the meeting of the Transport Council held on 14-15 November, which he attended. The Council made significant progress on liberalisation of road transport agreeing to create a free market without quantitative restrictions not later than 1992, and to interim measures which will progressively relax quotas and reduce distortions to competition. It also agreed to greater flexibility on lorry drivers' hours, and on the launch of 1986 as European Road Safety Year. Progress on a package of shipping measures was disappointing but a special Council may be convened next month; progress on aviation will have to wait for the Dutch and United Kingdom presidencies next year.

✓ 6. The Minister of Agriculture, Fisheries and Food will refer to the Agriculture Council on 18-19 November which he attended. The major item was a first discussion of the Commission's proposals for reform of the cereals regime. For the United Kingdom the most difficult aspect, because of our large farm size, is the proposal for a coresponsibility levy with exemptions for smaller producers. We have taken a reserved position but are examining the question more fully in London, since any disincentive to over-production does require careful consideration. Further discussion on the new sugar regime failed to produce agreement on quotas and levies. The Commission has also proposed a complete ban on hormone growth promoters, where emotion appears to be over-riding scientific judgement, but no decision was taken. The

CONFIDENTIAL

Minister of Agriculture, Fisheries and Food may also report that there are renewed difficulties over our exports of sheepmeat to France. The French are again zealously testing for chemical residues and thus delaying consignments. The Commission are also asking us to change some of the export arrangements; we hope to settle this soon but, if not, further harassment cannot be ruled out.

7. There will be a Foreign Affairs Council on 25-26 November which will in part coincide with a further Ministerial session of the Intergovernmental Conference. There will be a Budget Council on 26 November which will consider the European Parliament's amendments to the 1986 Budget. Also on 26 November there will be an Environment Council.

8. You are meeting the Federal German Chancellor, Herr Kohl, at the bilateral summit on 27 November.

D F Williamson

D F WILLIAMSON

20 November 1985



From the Minister of State for Industry

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

Telephone (Direct dialling) 01-215) 5186
GTN 215) 5186
(Switchboard) 215 7877

THE HON PETER MORRISON MP

Malcolm Rifkind Esq MP
Minister of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth
Office
Downing Street West
LONDON SW1

20 November 1985

Handwritten: F to note
CDP
20/11

Handwritten signature: S. F. L.

Thank you for your letter of 4 November about the proposed final set of non-quota regulations. I have since seen Richard Tracey's letter of 11 November.

The position now is that the French are maintaining in COREPER their request for the addition of Boulogne and Dunkergue, preferably with extra money, but if necessary without it. We have indicated that we are prepared to drop the requests for Clwyd and Fraserburgh but only if other countries also drop their requests for areas not already agreed. However it seems likely that we can get the border measure extended so as to cover all Northern Ireland except Belfast. Our main interest now therefore is to get the proposals agreed on a non-quota basis as soon as possible as prolonged discussion could lead to re-opening the non-quota basis of these regulations.

Allan Stewart in his letter of 22 October suggested that if the Commission were prepared to agree that Fraserburgh be added without extra money then we should accept this. However other colleagues who have written are opposed to this. The key point is that Grimsby and Hull are well aware of the amount of money envisaged for them in the Commission's published proposals and have lobbied long and hard to ensure that this is not reduced; they would rightly criticise us if we had taken action which had the effect of reducing it. I agree with Richard Tracey that there is no good reason to suppose that, in the competitive situation that now obtains, Hull and Grimsby could in practice make up for any shortfall in non-quota money by increasing their allocations from the main Fund.

MONAWU

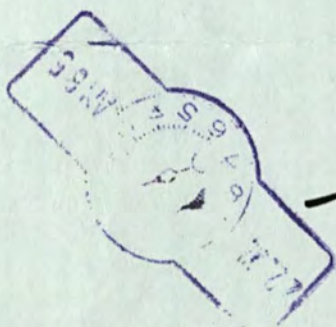


It is unlikely that the Commission and the other members states will in fact be prepared to agree to add Fraserburgh without extra money, but in view of the French position we need to be prepared for this possibility. In the light of the views of colleagues I feel sure therefore that we should instruct our representatives that the case for Fraserburgh should not be pressed so as to reduce the money available for Hull and Grimsby.

I am copying this letter to the members of OD(E) and EA Committees and to Richard Tracey (Environment), Nicholas Edwards (Welsh Office), Allan Stewart (Scottish Office), Rhodes Boyson (MO), Michael Jopling (MAFF) and Sir Robert Armstrong.

L

P.M.



PETER MORRISON

CONFIDENTIAL

CONFIDENTIAL

FM UKREP BRUSSELS

TO DESKBY 200900Z FCO

TELNO 3925

OF 192005Z NOVEMBER 85

INFO PRIORITY EUROPEAN COMMUNITY POSTS, LISBON, MADRID

cm

FRAME INSTITUTIONS/GENERAL

INTERGOVERNMENTAL CONFERENCE: BRUSSELS 19 NOVEMBER 1985

ms

SUMMARY

GENERAL

1. THERE WAS NO SERIOUS CHALLENGE TO THE PROCESS OF SHRINKAGE, WHICH CONTINUES IN PARTICULAR IN THE CASE OF THE INTERNAL MARKET, THE EUROPEAN PARLIAMENT AND COHESION. SOME SIGNS THAT THE COMMISSION AND A FEW DELEGATIONS ARE CONCERNED ABOUT THE MINIMAL NATURE OF WHAT IS EMERGING.

MONETARY COOPERATION

2. A PROCEDURAL DISAGREEMENT OVER WHETHER THE PROPOSALS SHOULD BE HANDLED BY THE ECOFIN OR IGC MACHINERY ENDED WITH PRESIDENCY INSISTENCE THAT BOTH THE PREPARATORY GROUP AND THE MONETARY COMMITTEE WOULD TAKE THIS WORK FORWARD. IT IS NOT YET CLEAR WHETHER OR WHAT PROPOSALS WILL GO TO THE EUROPEAN COUNCIL, BUT BELGIUM, ITALY, FRANCE AND THE COMMISSION ALL INSIST ON SOMETHING IN THIS FIELD.

INTERNAL MARKET

3. THE OVERALL SHAPE OF POSSIBLE TREATY AMENDMENTS IS BECOMING CLEARER. THERE IS BROAD SUPPORT FOR

- A NEW FRENCH DEFINITION BASED ON A UNIFIED MARKET WITHOUT BARRIERS TO PEOPLE, GOODS, SERVICES AND CAPITAL:
- UNANIMITY FOR ALL TAXATION QUESTIONS:
- MAJORITY VOTING FOR ARTICLE 100 APART FROM QUESTIONS CONCERNING TAXATION AND THE MOVEMENT OF PEOPLE

THERE IS NOW GROWING RECOGNITION THAT SAFEGUARDS FOR ANIMAL AND PLANT HEALTH, WORKERS' RIGHTS ETC. WILL NEED TO BE WRITTEN IN, THOUGH WHAT AND WHERE IS IN DISPUTE. OTHER QUESTIONS THAT REMAIN OPEN INCLUDE THE STATUS OF ANY DEADLINES FOR HARMONISATION OF TAXATION AND OTHER ASPECTS OF THE INTERNAL MARKET: WHETHER THERE SHOULD BE A STOCK-TAKING BEFORE 1992: AND HOW FAR DEROGATION FOR HIGHER AND LOWER STANDARDS SHOULD BE ALLOWED.

COHESION

4. AFTER A PREDICTABLE DISCUSSION IT WAS AGREED THAT THE PRESIDENCY WOULD PRODUCE NEW PROPOSALS ON THE BASIS OF ITS PAPER AND THE EARLIER FRENCH TEXT.

EUROPEAN PARLIAMENT

CONFIDENTIAL

/5.

5. A CONSENSUS HAS NOW EMERGED IN FAVOUR OF THE PRESIDENCY'S IDEAS FOR COOPERATION ON THE PROPOSALS TO BE DECIDED BY MAJORITY VOTING, WITH DEADLINES ON ALL INSTITUTIONS AND WITH A COMMISSION ROLE THROUGHOUT THE PROCESS (ON WHICH THE FRENCH PROPOSED THEIR AMENDMENTS).

MEETING WITH THE EUROPEAN PARLIAMENT

6. AS EXPECTED, THERE WAS SOME CRITICISM THAT THE IGC HAS WATERED DOWN THE MILAN WINE AND ANOTHER BID FOR PARLIAMENT TO BE ABLE TO AMEND THE OUTCOME AFTER THE EUROPEAN COUNCIL. BUT THE EP APPEARED LESS ASSERTIVE THAN LAST TIME AND THE PRESIDENCY DEFENDED THE IGC'S POSITION AFFECTIVELY.

EUROPEAN POLITICAL COOPERATION TREATY

7. SHORT DISCUSSION: LITTLE PROGRESS. NO SUPPORT FOR UK STAND AGAINST EUROPEAN FOREIGN POLICY AS AN AIM OF THE TREATY. FRANCE LED THE CAMPAIGN FOR A STRONGER ARTICLE ON SECURITY. FRENCH, GERMAN AND BELGIAN RESERVES ON ARTICLE 8(3). DISCUSSION OF SECRETARIAT SIDE-TRACKED WHEN FRANCE TABLED DRAFT PROPOSALS ON 'EUROPEAN UNION' INVOLVING SEPARATE SECRETARIATS FOR EPC AND FOR THE RENAMED EUROPEAN COUNCIL. NOT A FRANCO-GERMAN PROPOSAL. OTHERS PERPLEXED. JOINT MEETING OF POLITICAL COMMITTEE AND IGC PREPARATORY GROUP TO EXAMINE THIS AND OTHER POINTS ON 25 NOVEMBER, REPORTING TO THE IGC THE NEXT DAY.

PROGRAMME

8. PREPARATORY GROUP ON 21/3 NOVEMBER. IGC IN BRUSSELS ON 25 NOVEMBER (1200 TO 1930) AND 26 NOVEMBER (AFTER MEETING WITH EP). CONCLAVE IN LUXEMBOURG FROM 1800 ON 30 NOVEMBER TO END NOT LATER THAN LUNCH ON 1 DECEMBER. EUROPEAN COUNCIL NOW TO START AT 1030 ON 2 DECEMBER.

9. MR RIFKIND REPRESENTED THE UK

10. DETAIL IN MY 7 IFTS (EPC DETAIL TO BE REPORTED SEPARATELY).

HANNAY

YYYY

FRAME INSTITUTIONS/GENERAL

FCO ADVANCE TO:-

FCO - DEREK THOMAS, RENWICK, WALL, RICHARDSON, RAMSDEN

CAB - WILLIAMSON, JAY

UCLNAN 1194

FRAME GENERAL/INSTITUTIONAL
ECD(1)

COPIES TO:

ADVANCE ADDRESSEES

2-
CONFIDENTIAL

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

19 November, 1985

INTERGOVERNMENTAL CONFERENCE

Thank you for your letter of 15 November about the further discussions on the draft treaty on Political Co-operation which will be held today. You asked in particular about the proposal to define the aim of the Treaty in Article 1 as being "the formulation and implementation of a European foreign policy".

The Prime Minister's starting point is that the notion of a European foreign policy, to which for instance the United Kingdom and the Republic of Ireland could both subscribe, is bizarre and bears no relation to reality. She takes the view that European foreign policy makes no sense even as a concept without a European defence policy. She also sees a significant difference between talking about "strengthened co-operation on foreign policy" or "the possibilities of joint action in the field of foreign policy" on the one hand, and a "European foreign policy" on the other.

Against this, the Prime Minister acknowledges that we are dealing with Euro-speak; with an ultimate and no doubt distant aim; and a statement to which no legally binding obligations are attached.

The Prime Minister's preference would be to achieve some watering down of the draft Article 1. Possible solutions which occur to me (and no doubt long since to you) are:

- to put the aim of a common foreign policy in the preamble rather than a substantive article;
- to insert the word "ultimate" before "aim";
- to omit the words "and implementation".

The Prime Minister would like a further serious effort to be made to secure an amendment on the lines of one of these, or something having equivalent effect.

Depending on this the Prime Minister would be ready

CONFIDENTIAL

CONFIDENTIAL

-2-

herself to discuss the precise formulation of Article 1 at the European Council. I am confident that a solution can be found in the context of a satisfactory overall package at Luxembourg.

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

(C.D. Powell)

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

CONFIDENTIAL



CCAR

FCS/85/301

CHANCELLOR OF THE EXCHEQUER

CDP
19/xi

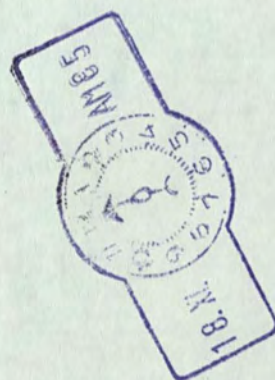
Own Resources Decision: UK Notification of Adoption

1. Ian Gow wrote to me on 12 November about the timing of our notification to the Secretary General of the Council that we have completed the necessary national procedures for adoption of the new Own Resources Decision.
2. I agree there is no good reason to delay, and I have accordingly given instructions to notify forthwith. I also agree that there is no need for any announcement.
3. I am copying this minute to the Prime Minister and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
19 November 1985

Euro Pol Budget P+30



PRIME MINISTER

Spoken
C.D.P.
19/xi

INTERGOVERNMENTAL CONFERENCE

You objected to the proposed reference in the draft Treaty on Political Co-operation to the ultimate aim of "the joint formulation and implementation of a European [foreign] policy". Can I ask you, please, to look at this again?

I absolutely agree with you that there is no way you can have a European foreign policy without a European defence policy. And in practice we aren't going to have a common foreign policy. The question is really one of Euro-speak: can we refer to a goal like a European foreign policy, even though we know it is distant and probably unrealisable?

We have already gone quite a long way in this direction. The agreed conclusions of the Milan European Council spoke of convening a conference to work out "a Treaty on a common foreign and security policy on the basis of the Franco-German and United Kingdom drafts". The Stuttgart Declaration spoke of "joint action on all main foreign policy questions".

Geoffrey Howe is now isolated in opposing this and in a difficult position.

Can you authorise him to say that we shall be ready to discuss this point in the context of an overall package at Luxembourg, in the hope that it can be satisfactorily resolved? We might be able to bargain a bit with it. And the reality will not change: there will be no legally binding obligations on us in the foreign policy field.

Agree?

C.D.P.

C.D. Powell

18 November 1985

^{FILE}
CONFIDENTIAL



DA
cle

10 DOWNING STREET

From the Private Secretary

17 November 1985

**ANGLO-FRENCH SUMMIT: INTER-GOVERNMENTAL
CONFERENCE: AMENDMENT TO ARTICLE 107**

The Prime Minister has considered the Chancellor's minute of 14 November, about the latest developments on Delors' proposed amendments to monetary provisions of the Treaty.

She would be content for the Chancellor to take the line proposed in paragraphs 13-14 of his minute at ECOFIN and in bilateral contacts with the French and Germans.

I am copying this letter to Colin Budd (FCO) and Michael Stark (Cabinet Office).

(Charles Powell)

Mrs. Rachel Lomax,
HM Treasury.

CONFIDENTIAL

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

17 November 1985

Dear Rachel,

**ANGLO-FRENCH SUMMIT: INTERGOVERNMENTAL CONFERENCE
AMENDMENT TO ARTICLE 107**

I wrote to you earlier today to say that the Prime Minister had approved the line in paragraphs 13 and 14 of the Chancellor's minute about the latest developments on Delors' proposed amendments to monetary provisions of the Treaty.

The Chancellor subsequently saw the Prime Minister this evening and said that he wished to change his advice following a conversation with Stoltenberg. It was clear to him that the Germans had now decided against any amendment of the monetary provisions of the Treaty. He therefore advised that the Prime Minister should make clear to President Mitterrand that we were firmly opposed to any amendment.

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

Yours sincerely,

(Charles Powell)

Mrs. Rachel Lomax,
H.M. Treasury.

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

15 November 1985

There is no way you can have a true foreign policy without a true defence policy. And what is the ultimate aim of Dear Charles where for Europe? Can the Foreign Secretary agree to the formulation of European Political Cooperation in a "European foreign policy". It won't happen in our life-times. But it seems an unreasonable long term goal.

Intergovernmental Conference: 19 November

At the 19 November meeting of the Intergovernmental Conference, which Sir Geoffrey Howe will attend, EC Foreign Ministers will discuss the draft treaty on Political Cooperation on which Political Directors have been working since the Milan European Council.

Discussions at official level have progressed well. Ministers will have before them a Presidency text which seems likely to command a wide measure of agreement. This text is based on our proposal, retains its essential features, and meets all our principal objectives. Sir Geoffrey Howe therefore proposes to encourage his colleagues on 19 November to resolve the few remaining outstanding issues quickly so that the Presidency can put to the European Council a text which can be agreed as part of whatever package emerges from the remainder of the IGC.

attached → In the negotiations we have been guided by the points in your letter of 21 November 1984. The text now on the table:

- (a) formalises existing informal arrangements, specifically the commitment to consult and to work for joint actions and joint positions;
- (b) avoids any commitment to majority voting or any other procedures which might hinder us from acting in defence of or promoting essential British interests. The statement that Member States will "refrain as far as possible from impeding the formation of a consensus" is no more than a description of the present practice;
- (c) makes provision for the discussion in Political Cooperation of the political and economic aspects of security, as already agreed in the 1983 Stuttgart Declaration. Although our own original text went further, the merit of the present text is that the Irish, on Dr FitzGerald's authority, have been able to accept it. We have therefore argued, and Sir Geoffrey Howe will if necessary continue to do so, that it is crucial to have a text which all Member States can accept in toto. The Irish have greatly appreciated our support;

/(d)



- (d) gives no greater role to the European Parliament than it has now;
- (e) does not in any way constrain our freedom of action to speak and act as we see fit in the Security Council. Furthermore we have succeeded in ensuring that the text no longer carries the implication in the Franco-German rival draft that national positions in institutions such as the IMF and IBRD might have to be subject to coordination and common positions among the Ten.

Discussion on 19 November is likely to focus on three points: the security question (to which I have already alluded), on which the Italians and Benelux still hanker after something stronger; the Franco-German proposal for a Secretary-General; and the ultimate aim of the treaty.

On this last point the aim is defined in Article 1 of the present draft as being "the formulation and implementation of a European [foreign[[external]] policy". We have argued long and hard that if it is necessary to set out the aim in such terms at all it would be better to refer to "external policy". But there are some cogent arguments the other way. The Milan conclusions refer to "foreign (and security) policy", and so did the Stuttgart Declaration. Sir Geoffrey Howe considers that there would in fact be advantage in using the phrase "foreign policy", as did the recent Queen's speech in this context. To do so would make more secure our means of ensuring that our freedom of manoeuvre is not restricted in bodies such as the IMF/IBRD. Agreement to a general objective related to foreign policy concertation alone would commit us to no more than what is in the subsequent Articles of the treaty, i.e. formalisation of the present informal arrangements. And by agreeing to "foreign policy", which is preferred by all our partners, we should leave ourselves better placed to press for early agreement on the treaty as a whole.

The French and Germans have still not abandoned their proposal to rename the European Council and give it a Secretary-General. All the other Member States favour our more modest concept of a very small secretariat staffed by officials on secondment from national foreign offices. The Germans privately have dissociated themselves from the French. The prospects of agreement on a Secretariat on the lines of our original proposal seem good. The other points raised in your letter of 21 November 1984 have been met.

If the Prime Minister wishes, Sir Geoffrey Howe would

/be

CONFIDENTIAL



be happy to have a word with her about these points before he goes to Brussels.

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

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

CONFIDENTIAL

FIS SA#AFC



10 DOWNING STREET

From the Private Secretary

21 November, 1984

The Dooqe Committee

Thank you for your letter of 16 November reporting on the work of the Dooqe Committee.

In general, the Prime Minister agrees with the views set out in your letter and the attached analyses of the Ruhfus proposals and the Faure Report. There are clearly a number of ideas which we cannot accept. These include:

- majority voting in POCO or any other commitment which hinders us from acting in defence of essential British interests;
- extension of the powers of the European Parliament;
- 'objective tests' for invoking the Luxembourg compromise;
- a new European Treaty;
- UK participation in the Exchange Rate Mechanism;
- new Community social legislation;
- Community preference in arms procurement.

There are quite a number of others which are either positively useful or at least unobjectionable. This applies for instance to points 1-4 and 7-10 of the note analysing the Ruhfus proposals. The Prime Minister has commented, however, that a permanent political cooperation secretariat simply means ever more bureaucracy.

The crux comes in the formalisation of arrangements for political cooperation and the extension of majority voting. The Prime Minister agrees that perhaps we could adopt a slightly more open position than hitherto on these proposals

CONFIDENTIAL

CONFIDENTIAL

subject to the following qualifications:

- (i) on POCO, we should not agree to do more than formalise existing informal arrangements. We should not accept any new obligations which would hinder our ability to promote our interests as we think best.
- (ii) On majority voting, the key requirement is that the Luxembourg compromise should be preserved intact. The Prime Minister is against extensions of majority voting, but understands that other countries would also argue fiercely against particular cases, as they arise.

25/11
The Foreign Secretary may like to pursue these points further at the meeting already arranged for 28 November.

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

C. D. POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL



CONFIDENTIAL

EUROPEAN POLITICAL COOPERATION (EPC) TREATY

ARTICLE 1: 'FOREIGN POLICY'

Queen's Speech 1985:

'Within the Community, they will work for improved decision taking, strengthened cooperation on foreign policy,'

Prime Minister's Statement after Milan European Council:

'It is regrettable however that the opportunity available to the Council to strengthen foreign policy cooperation and to improve decision making was not taken. These issues will now have to be discussed in a further conference.'

Conclusions of Milan European Council:

'The European Council discussed in detail the convening of a conference to work out the following ...:

- a Treaty on a common foreign and security policy on the basis of the Franco-German and United Kingdom drafts;'

Stuttgart Declaration:

Whole chapter headed 'Foreign Policy' included agreement on:

- '- intensified consultations with a view to permitting timely joint action on all major foreign policy questions of interest to the Ten as a whole;'
- '- progressive development and definition of common principles and objectives as well as the identification of common interests in order to strengthen the possibilities of joint action in the field of foreign policy;'

CONFIDENTIAL

POLITICAL COOPERATION TREATY: PRESIDENCY DRAFT OF 13.11.85

Preamble

[To be considered in the light of further progress at the IGC]

Article 1

[external] The High Contracting Parties, Members of the European Communities
= have adopted as their aim the joint formulation and implementation
UK only of a European [external][foreign] policy.

Article 2

Greece 1. The High Contracting Parties undertake [to show solidarity in
all areas affected by the present Treaty], to inform and consult
each other on all questions of foreign policy that are of general
interest in order to ensure that their combined influence is
exerted as effectively as possible, through the concertation of
their views, the alignment of their positions and through joint
action.

2. Such consultations shall take place before the High
Contracting Parties adopt final positions.

3. Each Contracting Party shall take full account of the position
of other partners and give due weight to the desirability of the
adoption and implementation of common European positions when
adopting national positions and taking national action.

In order to increase their capacity for joint action in the
foreign policy field, the High Contracting Parties shall ensure
the progressive development and definition of common principles
and objectives.

CONFIDENTIAL

CONFIDENTIAL

FM UKREP BRUSSELS

[FRAME INSTITUTIONAL]

TO DESKBY 150900Z FCO

TELNO 3845

OF 141730Z NOVEMBER 85

INFO PRIORITY EUROPEAN COMMUNITY POSTS LISBON MADRID

THE INTER-GOVERNMENTAL CONFERENCE (IGC).

1. OVER THE NEXT THREE WEEKS YOU AND THE PRIME MINISTER WILL BE HAVING A SURFEIT OF EURO-MEETINGS. THERE WILL BE BILATERAL CONTACTS WITH THE FRENCH, THE LUXEMBOURG PRESIDENCY, THE GERMANS THE COMMISSION AND OTHERS: THERE ARE AT LEAST TWO AND PERHAPS MORE SESSIONS OF THE IGC TO COME AND THE LUXEMBOURG EUROPEAN COUNCIL ITSELF LIES AT THE END OF THE ROAD. THE ISSUE OF POSSIBLE TREATY REVISION, AND IF SO HOW MUCH AND WITH WHAT CONTENT, WILL ARISE AT ALL THESE MEETINGS AND WILL DOMINATE MOST OF THEM. IT MIGHT BE A USEFUL MOMENT TO TAKE STOCK AND TO GIVE YOU THE VIEW FROM BRUSSELS.

2. UNTIL THE END OF OCTOBER CONFUSION WAS ALMOST TOTAL. THE CONFERENCE TABLE BECAME QUITE LITERALLY PILED HIGH WITH A PLETHORA OF DIFFERENT PROPOSALS. THE MOST AMBITIOUS AND THE LEAST REALISTIC CAME FROM THE ITALIANS (ON THE PARLIAMENT), FROM THE COMMISSION (ON THE INTERNAL MARKET, ON THEIR OWN POWERS AND ON MONETARY AFFAIRS) AND FROM THE GREEKS (ON MORE MONEY FOR THEMSELVES, ALSO KNOWN AS COHESION). WHILE THESE PROPOSALS REMAIN ON THE TABLE, THEY ARE ALL NOW GATHERING DUST AND ARE NOT GENUINE RUNNERS. INSTEAD THE LUXEMBOURG PRESIDENCY HAS BEGUN A PROCESS OF SUBSTITUTING MORE MODEST TEXTS WHICH TAKE ACCOUNT OF A GOOD DEAL OF WHAT WE AND OTHERS HAVE SAID. DESPITE A TENDENCY TO STICK TOO CLOSE TO COMMISSION TEXTS, THE PRESIDENCY IS MOVING STEADILY CLOSER TO POSITIONS WHICH PROTECT THE SUBSTANCE OF OUR INTERESTS. BUT THEY STILL FALL SOME WAY SHORT IN A NUMBER OF AREAS.

3. THE PERFORMANCE OF THE "MAXIMALISTS" (THE ITALIANS AND THE BENELUX COUNTRIES) HAS BEEN MERCIFULLY ILL-COORDINATED. IT WAS PARTICULARLY HELPFUL THAT THEY DISAGREED SHARPLY OVER THE PARLIAMENT. THE FRENCH (CONSISTENTLY AND ELEGANTLY) AND THE GERMANS (CLUMSILY AND ERRATICALLY) HAVE BEEN WORKING TO SCALE DOWN ANY POSSIBLE OUTCOME. THEIR VIEWS AND OUR OWN ARE INCREASINGLY IN THE SAME TARGET AREA. THE TWO OTHER COUNTRIES WHICH VOTED AGAINST THE DECISION TO CALL AN IGC, GREECE AND DENMARK, HAVE BEEN CAREFULLY POSITIONING THEMSELVES SO AS TO BE ABLE TO ACCEPT AT LEAST SOME TREATY CHANGES IF THAT IS THE WAY THE WIND BLOWS.

4. OUR TACTIC OF CONSTRUCTIVE COOPERATION, WHILE FULLY RESERVING OUR POSITION ON TREATY AMENDMENT, HAS WORKED SO FAR PRETTY WELL. WE HAVE HAD TO FOREGO THE OPTION OF TABLING TEXTS OURSELVES, AND THUS DIRECTLY SHAPING THE OUTCOME, AND WE HAVE HAD TO TAKE SOME HARD WORDS FROM THE PRESS ABOUT DRAGGING OUR FEET. BUT WE HAVE FLUSHED THE FRENCH AND GERMANS OUT FROM THEIR TRADITIONAL POSTURE OF SHELTERING BEHIND OUR OBJECTIONS TO COMMISSION PROPOSALS. BANQUO'S GHOST, IN THE FORM OF THE NEED TO GET OUR EVENTUAL CONSENT TO ANY TREATY CHANGE, HAS BEEN EVER PRESENT AND HAS HELPED US TO ACHIEVE CONSIDERABLE INDIRECT INFLUENCE ON THE TEXTS AS THEY HAVE EVOLVED.

CONFIDENTIAL

15.

CONFIDENTIAL

5. THE PRESENT STATE OF PLAY IS AS FOLLOWS:

- (I) TECHNOLOGY. A TEXT DESIGNED TO CODIFY IN THE TREATY WHAT THE COMMUNITY IS ALREADY DOING. THERE IS STILL DISAGREEMENT ABOUT OUR INSISTENCE THAT UNANIMITY MUST BE RETAINED FOR THE MAIN COMPONENTS (INCLUDING FINANCE) AND SPECIFIC PROGRAMMES. WE ARE IN GOOD COMPANY WITH THE FRENCH AND GERMANS AND SHOULD EVENTUALLY GET OUR WAY.
- (II) ENVIRONMENT. AGAIN A TEXT DESIGNED TO CODIFY IN THE TREATY WHAT THE COMMUNITY IS ALREADY DOING. OUR REQUIREMENT TO MAINTAIN UNANIMITY FOR DECISIONS HAS WON THE DAY AND IS COMMON GROUND.
- (III) INTERNAL MARKET. STILL A VERY CONFUSED SCENE WITH NO TEXT THAT WE COULD RECOMMEND AS COVERING OUR INTERESTS YET IN SIGHT. BUT SOLID GERMAN AND FRENCH SUPPORT FOR RESISTING MAJORITY VOTING ON TAX MATTERS, FOR KEEPING SAFEGUARDS ON THE FREE MOVEMENT OF PERSONS AND FOR THE PROTECTION OF LIFE AND HEALTH OF HUMANS, ANIMALS AND PLANTS.
- (IV) MONETARY COOPERATION. DELORS' PROPOSAL HAS GONE DOWN LIKE A LEAD BALLOON IN BONN AND SEEMS UNLIKELY TO SURVIVE EVEN WITHOUT OUR OWN OPPOSITION. BUT THERE WILL BE PRESSURE FROM SOME FOR A MORE MODEST TEXT BRINGING THE EMS WITHIN THE SCOPE OF THE TREATY AND REITERATING EARLIER COMMUNITY EARLIER COMMUNITY COMMITMENTS TO ECONOMIC AND MONETARY UNION.
- (V) COMMISSION POWERS. WE ARE AMONG A LARGE MAJORITY OF MEMBER STATES INSISTING THAT THE COUNCIL MUST CONTINUE TO DECIDE IN EACH CASE THE POWERS OF ADMINISTRATION TO BE GIVEN TO THE COMMISSION WHILE DOING THIS MORE SYSTEMATICALLY THAN IN THE PAST.
- (VI) PARLIAMENT. THE PRESIDENCY HAS NOW MOVED DISCUSSION AWAY FROM THE MORE FAR-REACHING PROPOSALS TO ONE WHICH IS LITTLE MORE THAN A REFORM OF THE PRESENT PROCESSES FOR CONSULTING THE PARLIAMENT ALTHOUGH IT IS DRESSED UP UNDER THE NAME OF COOPERATION. IT LEAVES THE LAST WORD, AS NOW, FIRMLY WITH THE COUNCIL. BUT SOME OF THE OTHERS MAY TRY TO GET THIS RE-OPENED.
- (VII) COHESION. THE MEDITERRANEAN BEGGING BOWL, WHICH HAS GOT MORE SUPPORT FROM THE COMMISSION THAN IT OUGHT TO HAVE DONE. BUT THERE IS A VERY SOLID NORTHERN LINE-UP (INCLUDING THE FRENCH) BEHIND A TEXT WHICH ENDORSES CONVERGENCE OF ECONOMIC POLICIES RATHER THAN PERFORMANCE AND LIVING STANDARDS, MERELY CODIFIES IN THE TREATY THE REGIONAL AND AGRICULTURE STRUCTURE FUNDS (THE SOCIAL FUND IS ALREADY THERE) AND CONTAINS NO COMMITMENT TO ADDITIONAL BUDGETARY TRANSFERS.

CONFIDENTIAL

6. SO FAR, NOT SO BAD. BUT HOW WILL THINGS GO IN THE ALL-IMPORTANT RUN-UP TO THE LUXEMBOURG EUROPEAN COUNCIL. THERE IS AN EMERGING CONSENSUS IN FAVOUR OF REACHING DECISIONS THERE ONE WAY OR THE OTHER. THIS VIEW IS REINFORCED BY THE COMPLICATIONS LIKELY TO ARISE FROM THE FRENCH ELECTIONS, THE WISH TO SHOW SOME PROGRESS, THE REALISATION THAT THE IGC IS ITSELF DIVERTING ATTENTION FROM COMMUNITY ISSUES OF GREATER SUBSTANTIVE IMPORTANCE. WITHOUT OUR BEING IN ANY WAY DEMANDEURS FOR AN EARLY CONCLUSION, I BELIEVE IT IS IN OUR INTEREST TO TAKE THE SAME VIEW. PRESSURE FOR AN EARLY CONCLUSION IS HELPING TO SHRINK THE PACKAGE. THE LONGER THE NEGOTIATION GOES ON, THE GREATER THE RISK OF UNACCEPTABLY AMBITIOUS PROPOSALS PICKING UP SUPPORT AND THE MORE DIVISIVE AN ULTIMATE FAILURE TO AGREE. SO I HOPE WE CAN GO ALONG WITH ANY EXTRA EFFORTS THE PRESIDENCY MAKES TO REACH A CLEAR CUT CONCLUSION ON 2/3 DECEMBER.

7. THE JOKER IN THE PACK IS, AND WILL REMAIN UNTIL THE LAST MINUTE, THE FRANCO-GERMAN RELATIONSHIP. UP TILL NOW IT HAS BEEN WORKING IN OUR FAVOUR. THE DESIRE TO REACH A COMMON VIEW HAS LED EACH TO SCALE DOWN IDEAS THE OTHER DISLIKES, THE GERMANS ON THE PARLIAMENT AND THE ENVIRONMENT, THE FRENCH ON MONETARY QUESTIONS AND TAX HARMONISATION. BUT WE CANNOT COUNT ON THAT CONTINUING. THE RECENT EPISODE OVER THE PROPOSAL TO SITE THE EUREKA SECRETARIAT IN STRASBOURG HAS DEMONSTRATED YET AGAIN THE CAPACITY OF MITTERRAND AND KOHL AND THEIR POLITICAL STAFFS TO IGNORE ALL THE OFFICIAL ADVICE AND THE VIEWS AND INTERESTS OF THEIR PARTNERS IF THEY THINK THEIR OWN WILL BE WELL SERVED. RIGHT UP TO THE END WE RISK BEING LEFT HOLDING A SHORT STRAW. BUT THE MORE INTENSIVE OUR CONTACTS WITH BOTH THE FRENCH AND THE GERMANS AT EVERY LEVEL IN THE NEXT THREE WEEKS - AND THE MORE ACTIVELY WE CAN ACTUALLY NEGOTIATE WITH THEM - THE BETTER THE RISK OF SUCH AN EVENTUALITY.

8. IS THERE ANY CHANCE OF AMICABLY REACHING THE CONCLUSION THAT THE IGC GAME HAS NOT BEEN WORTH THE CANDLE, THAT OUR OWN PRAGMATIC APPROACH MADE MORE SENSE? I FEAR THERE IS NOT, EVEN THOUGH MANY OF THOSE INVOLVED NOW MORE THAN HALF REGRET THE DECISION TO GO FOR TREATY AMENDMENT. BUT ALTHOUGH THE WATER HAS TURNED OUT TO BE COLDER AND MORE TURBULENT THAN THEY EXPECTED, THE MAJORITY REMAIN DETERMINED TO STRUGGLE ACROSS TO THE OTHER SIDE RATHER THAN HUMILIATINGLY CLAMBERING UP THE NEAR BANK. SO, IF WE WERE TO CONCLUDE THAT WE COULD NOT GO ALONG WITH A PACKAGE THAT SEEMS LIKELY TO EMERGE FROM THIS PROCESS, THERE WOULD BE DAMAGE BOTH TO OUR

CONFIDENTIAL -

ABILITY TO SHAPE COMMUNITY POLICIES IN THE FUTURE AND TO OUR
EFFORTS TO ENSURE THAT WE REMAIN A CORE MEMBER OF THE ENLARGED
COMMUNITY.

HANNAY

YYYY

FCO ADVANCE TO:-

FCO - PS PS/MR RIFKIND RENWICK WALL

CAB - WILLIAMSON JAY

DTI - PS/MR BRITTAIN

MAFF - PS/MR JOPLING

TSY - PS/MR LAWSON

DOE - PS/MR BAKER

NO 10 - PS

(ADVANCED AS REQUESTED)

FRAME INSTITUTIONAL
ECD(I)

COPIES TO:-
ADVANCE ADDRESSEES

-4-
CONFIDENTIAL

CONFIDENTIAL



Prime Minister
All a bit complicated,
and I am pretty sure
the Germans will join in

Treasury Chambers, Parliament Street, SW1P 3AG

OI-233 3000

shorting down the
Commission proposal.

PRIME MINISTER

Agree Chancellor should
take to live in para-13 and
14?

ANGLO-FRENCH SUMMIT: INTER-GOVERNMENTAL CONFERENCE (IGC):
AMENDMENT TO ARTICLE 107 (EXCHANGE RATE PROVISIONS)
OF THE TREATY

Yes Mr CDP
15/11

I thought it would be useful to let you know the latest developments on Delors' proposed amendment to the monetary provisions of the Treaty, on which briefing for Parliamentary Questions by Treasury officials was sent to you on 29 October. The subject is on the agenda of next Monday's ECOFIN, which I will be attending; and Gerhard Stoltenberg, the German Finance Minister, is coming here privately tomorrow, at his request, to discuss it with me. I set out below the line I propose to take in these discussions. I also suggest at the end of this minute what reply you might make if President Mitterrand raises the topic with you under the IGC heading at the Anglo-French Summit on the same day; (the present version of the brief on the IGC - JMV(85)3a - omits this topic).

2. The Delors' amendment to Article 107 (copy at Annex A below) is an extensive one. This was discussed last weekend in the Monetary Committee. There was a good deal of criticism of the Delors text from the German and Dutch representatives as well as ourselves, on the grounds that it would bring both the operations of the EMS and exchange rate policy more generally firmly within the ambit of the Treaty (and thus of Community legislation under Article 235); and would extend the competence of the Commission. They also opposed the proposal - which our representatives made clear was unacceptable - that in future only members of the Exchange Rate Mechanism would have votes in the management of the European Monetary Co-operation Fund.

CONFIDENTIAL



3. The text was, however, supported by France, Italy, Belgium, Luxembourg and Greece. In the latter stages of the discussion there were signs that the Germans and Dutch might be preparing to accommodate the French and their supporters by accepting a less extensive amendment of Article 107. It is quite likely therefore that compromise proposals will begin to emerge at Monday's ECOFIN. And it is possible that President Mitterrand may also refer to the idea in general terms at the Summit. The reports we have from Paris confirm that he regards a monetary element, in particular a reference to EMS, as a politically essential component of the IGC package.

4. Two possible forms of compromise were mentioned in the Monetary Committee:-

- a reference in the Treaty to Economic and Monetary Union (EMU) as an objective. This was particularly favoured by Belgium and Luxembourg. The Germans were ready to consider this on the conditions that any moves towards EMU would require new Treaty changes or unanimous approval by national Parliaments and that the Treaty reference must involve no juridical change in present Community practice or in the independence of Central Banks;
- a reference in Article 107 to the EMS as the framework or context within which Member States co-operate on exchange rates. This is particularly favoured by the French. The Dutch would want a balancing amendment to make it clear that Member States' exchange rate policies were independent.



Legal Consequences

(a) A Reference to EMU

5. My officials have had the advice of the Treasury Solicitor's Department and FCO Legal Advisers on the juridical consequences of these two compromise proposals.

6. As regards a possible reference to EMU, their advice is that it should be possible to devise a Treaty amendment which would meet the German conditions. The amendment would be on the following lines:-

- Member States will work towards the ultimate objective of EMU;
- any legislative proposals towards this end put forward by the Commission could only be adopted with the unanimous agreement of the Council and after adoption by all 12 national Parliaments in accordance with their respective constitutional requirements (ie the Article 201 "own resources" formula).

7. Notwithstanding these safeguards, the inclusion of EMU as a Treaty objective would be a political commitment going well beyond previous references to EMU, which have been in non-binding European Council resolutions or solemn declarations. It would be perceived in political terms as a major change.

(b) A Reference to the EMS

8. The legal advice is, unsurprisingly, that any Treaty reference to the EMS must formally have some juridical consequences. Specifically, once there is a reference in the Treaty either to



the EMS or to the objective of "a zone of monetary stability", there can then be no doubt that the Commission will be entitled to propose legislation under Article 235. It would appear, for example, that they would be able to do so for the purpose of setting up the definitive European Monetary Fund and for giving the ecu the status of a reserve asset in accordance with the terms of the 1978 European Council Resolution on the second stage of the EMS. Such a reference would also strengthen the Commission's claim to competence on exchange rate matters both within the Community and outside.

9. The practical consequence of a reference to the EMS is conjectural. Any proposal to amend the EMS under Article 235 would still require unanimous Council agreement. It is arguable that, given their knowledge of the German position, the Commission are unlikely in practice to try anything going beyond what they have done so far. That said, in the last resort it would be for the European Court to determine what the texts permitted. It cannot be excluded that the Commission would at some point press their claims, for example to at least shared competence in external relations on currency questions. And the amendments would undoubtedly represent a step-change in the legal status of the EMS.

Comment

10. Our objective in my view should be to avoid any amendments to Article 107. None of them are necessary or desirable. The real financial priority in the Community is the removal of exchange controls, particularly by France and Italy. The Delors proposal is clearly unacceptable both politically and in substance. So also is any reference to EMU. It will be incomprehensible to our supporters - not to mention the wider public - and objectionable to many of them. I do not believe they would regard the Article 201 formula set out in paragraph 6 above as an adequate safeguard,



since it would highlight the fact that the Government might be able to enter into EMU simply by the legislative designation of a Community Treaty.

11. A reference to the EMS is the least objectionable of the three formulae. But it would need to be very carefully drafted, in particular to ensure that there was no legal obligation on us to join the ERM, to emphasise the independence of Member States' exchange rate policy and to minimise any extension of Community competence.

12. Geoffrey Howe and yourself will want to consider the tactics of all this in relation to the December European Council. There is undoubtedly a risk that if we oppose all amendments to Article 107, we will be isolated in Brussels and the French would exploit this in the run up to 2 December. I know that Geoffrey Howe has been concerned that we should avoid coming to any breaking point with the French and Germans before the European Council.

13. I would accordingly propose to argue as follows at ECOFIN and in bilateral contacts with the French and Germans:-

- amendment of the monetary provisions of the Treaty (in Article 107 or elsewhere) is neither necessary nor desirable. The immediate priorities are for the French to remove exchange controls and for the Germans to recognise the ECU;
- the Delors amendment is politically unacceptable;
- so is any reference to EMU;
- (with a view to getting support from Stoltenberg) any reference to the EMS, however minimal, would have formal legal consequences. It would enable EMS to be amended



solely by Community legislation under Article 235; and could open up the questions of Community competence and central banks' independence.

14. In the last resort, however, if isolated, I would not rule out further consideration of a minimal reference to the EMS, subject to the following conditions:-

- the Delors text would be withdrawn and not presented to the European Council;
- there would need to be a strengthened commitment (preferably in the Treaty) to remove the exchange controls currently in operation under Articles 108 and 109;
- any reference to the EMS must be balanced by a reference to the independent responsibility of national authorities;
- no text would imply any obligation to join the ERM.

15. I suggest that in talking to President Mitterrand you should follow broadly the line in paragraph 13 above, but, subject to any further advice I may be able to let you have following my talks with Stoltenberg tomorrow, you should as a fall-back be ready to say that in the last resort you were prepared to consider a minimal reference to the EMS.

16. A copy of this minute goes to Geoffrey Howe and Robert Armstrong.

N.L.

14 November 1985

MONETARY PROVISION

Article 107 is completed as follows :

1. Member State shall treat its policy with regard to rates of exchange as a matter of common concern and shall cooperate in the framework of the EMS.

The EMS aims to contribute to a better stability within and outside of the Community.

The EMS includes a mechanism of exchange rates and interventions for Community currencies in which participate those Member States which be able to assume the obligations flowing therefrom. The European currency unit (ECU) is the foundation of the system: it is used in particular for the settlements between the monetary authorities of the Member States.

2. If a Member State makes an alteration in its rate of exchange which is inconsistent with the objectives set out in Article 104 and which seriously distorts conditions of competition, the Commission may, after consulting the Monetary Committee, authorise other Member States to take for a strictly limited period the necessary measures, the conditions and details of which it shall determine, in order to counter the consequences of such alteration.
3. The European Fund for Monetary Cooperation enjoys the autonomy necessary for the performance of its tasks. Its board of directors is composed of the Members of the Committee of Governors of Central Banks of the Member States and of a representative of the Commission. Decisions are taken unanimously by the representatives of Member States participating in the mechanism of exchange rates and interventions of the EMS.
4. The European Fund for Monetary Cooperation will be replaced, at the appropriate moment, by a European Monetary Fund which will enjoy institutional autonomy.

To this end, on a proposal from the Commission and after consulting the European Parliament, the Council may, acting unanimously, lay down the appropriate provisions which it shall recommend to the Member States for adoption in accordance with their respective constitutional requirements.

CONFIDENTIAL

CONFIDENTIAL

FM BONN

TO IMMEDIATE FCO

TELNO 1090

OF 141700Z NOVEMBER 85

INFO IMMEDIATE UKREP BRUSSELS

INFO PRIORITY PARIS, LUXEMBOURG

INFO ROUTINE EC POSTS, MADRID, LISBON

FRAME INSTITUTIONAL

IGC: GERMAN CABINET MEETING

SUMMARY

1. THE EUROPEAN COMMITTEE OF THE GERMAN CABINET MET YESTERDAY. IT AGREED THAT THE FINAL OUTCOME OF THE IGC MUST BE SETTLED AT THE LUXEMBOURG EUROPEAN COUNCIL, EVEN IF TEXTS ARE COMPLETED LATER. THE CABINET COMMITTEE REVISED THE GERMAN POSITION ON THE INTERNAL MARKET, DECISION-TAKING UNDER ARTICLES 100 AND 57, COHESION AND THE PARLIAMENT.

DETAIL

2. WE HAVE DEBRIEFED HARTMANN (FEDERAL CHANCELLERY) AND LAEUFER (AUSWAERTIGES AMT). HARTMANN, WHO HAD JUST FINISHED DRAFTING THE MINUTES OF THE MEETING, SAID THAT THE GERMANS WERE DETERMINED THAT THE IGC HAD TO BE BROUGHT TO A CONCLUSION IN LUXEMBOURG NEXT MONTH. OF COURSE THERE WOULD BE DETAILS TO SETTLE AND TEXTS TO FINALISE, BUT THE FEDERAL GOVERNMENT WANTED IT "OFF THE TABLE" BY THE END OF THE LUXEMBOURG SUMMIT. HE IMPLIED THAT THE FRENCH WERE OF THE SAME MIND, SINCE THE NEXT EUROPEAN COUNCIL WOULD BE VERY CLOSE TO THEIR ELECTIONS.

3. RUNNING THROUGH THE VARIOUS SUBJECTS, HARTMANN SAID THAT THERE WOULD BE NO DIFFICULTY IN AGREEING SOMETHING ON POLITICAL COOPERATION, THE ENVIRONMENT AND TECHNOLOGY. THE BIG SUBJECTS WERE, OF COURSE, THE INTERNAL MARKET AND THE EUROPEAN PARLIAMENT. ON THE LATTER, THE GERMANS REMAINED FIRM THAT THE LAST WORD MUST REST WITH THE COUNCIL. NONETHELESS SOMETHING HAD TO BE DONE TO GIVE THE PARLIAMENT A ROLE. IT WAS NO USE PRETENDING THAT DEMOCRACY DID NOT HAVE ITS INCONVENIENCES AND EXPENSE. THE ITALIANS WERE BOUND TO INSIST ON SOME SORT OF MEANS WHEREBY THE PARLIAMENT WOULD FEEL MORE CLOSELY INVOLVED. HE REGRETTED THE REJECTION OF THE GERMAN IDEA OF A CONCILIATION COMMITTEE. THERE WAS MUCH TO BE SAID FOR THE NEWER IDEA OF ALLOWING THE PARLIAMENT THE RIGHT OF CO-DECISION WHEN THE COUNCIL AGREED THAT A MATTER WAS OF POLITICAL IMPORTANCE. BUT SO LONG AS THE LAST WORD REMAINED WITH THE COUNCIL, IT DID NOT PARTICULARLY MATTER WHAT PROCEDURES HAD TO BE GONE THROUGH.

CONFIDENTIAL

CONFIDENTIAL

4. HARTMANN WAS IMPRECISE ABOUT THE INTERNAL MARKET, BUT SURPRISINGLY VEHEMENT ABOUT COHESION AND ABOUT THE EMS. IT WAS JUST NOT ACCEPTABLE THAT A COUNTRY LIKE ITALY COULD FEEL FREE TO PURSUE NATIONAL ECONOMIC POLICIES WHICH WERE DRIVING IT TOWARDS DISASTER AND HIGH INFLATION, AND THEN EXPECT THE WELL-ORGANISED COUNTRIES TO COME TO THE RESCUE. NOR WAS GERMANY GOING TO BUY OFF THE GREEKS, WHATEVER THEY MIGHT THINK. SIMILARLY ON THE EMS PROPOSALS OF THE COMMISSION, THE IDEA OF SURRENDERING THE INDEPENDENCE OF THE BUNDESBANK WAS QUITE OUT OF THE QUESTION.

5. LAEUFER GAVE US THE FOLLOWING INFORMATION ABOUT THE CABINET COMMITTEE'S DISCUSSION OF IGC TEXTS:

INTERNAL MARKET

6. THE FEDERAL GOVERNMENT WILL STAND BY THEIR EXISTING DEFINITION OF THE INTERNAL MARKET (FREE MOVEMENT OF GOODS, PERSONS, SERVICES AND CAPITAL). THEY CANNOT HOWEVER ACCEPT REFERENCES TO AN 'INTERNAL MARKET WITHOUT FRONTIERS'. THEIR LAWYERS HAVE ADVISED THEM THAT THIS USE OF THE WORD 'FRONTIERS' (BINNENGRENZEN) IS NOT COMPATIBLE WITH ITS INTERNATIONAL LEGAL SIGNIFICATION.

ARTICLE 100

7. THE GERMANS WILL MAINTAIN THEIR PROPOSAL FOR QUALIFIED MAJORITY VOTING FOR THE REMOVAL OF DIRECT BARRIERS TO THE FREE MOVEMENT OF GOODS ETC. STOLTENBERG REMAINED ADAMANT HOWEVER THAT HARMONISATION OF DIRECT AND INDIRECT TAXATION REQUIRED UNANIMITY. THE CABINET COMMITTEE HAD AGREED TO REPLACE THEIR PREVIOUS PROPOSAL DESIGNED TO PROTECT MEMBER STATES WITH HIGH HEALTH AND SAFETY STANDARDS BY A NEW FORMULATION. LAUEFER DID NOT HAVE THE TEXT AVAILABLE, BUT THE GIST WAS:

(A) MATTERS DIRECTLY RELATING TO THE INTERNAL MARKET (AND THEREFORE SUBJECT TO QUALIFIED MAJORITY VOTING): THE COMMISSION WOULD BE OBLIGED TO AIM IN ITS PROPOSALS AT THE HIGHEST POSSIBLE STANDARDS OF HEALTH, SAFETY AND CONSUMER PROTECTION, TAKING ACCOUNT OF THE HIGHEST STANDARDS PREVAILING IN MEMBER STATES:

(B) MATTERS NOT DIRECTLY RELATING TO THE INTERNAL MARKET (I.E. SUBJECT TO UNANIMITY). PROVISION WOULD BE MADE FOR THE COUNCIL TO DECIDE BY A QUALIFIED MAJORITY THAT AN EXCEPTION TO A DIRECTIVE COULD BE MADE FOR A MEMBER STATE WITH HIGHER STANDARDS OF HEALTH, SAFETY OR CONSUMER PROTECTION. THE COMMISSION WOULD BE REQUIRED TO REVIEW THE EXCEPTION REGULARLY TO DETERMINE IF IT WAS STILL JUSTIFIED.

ARTICLE 57

8. THE CABINET COMMITTEE DECIDED THAT UNANIMITY MUST CONTINUE TO APPLY, AS THE PROFESSIONS ARE REGULATED BY LAW IN THE FRG.

COHESION

9. THE GERMANS CAN AGREE THE FRENCH PROPOSAL, EXCEPT THAT THEY ARE FIRMLY AGAINST ANY LOANS OTHER THAN UNDER THE USUAL EIB MECHANISMS.

CONFIDENTIAL

/ THE

CONFIDENTIAL

THE EUROPEAN PARLIAMENT

10. THE COMMITTEE DECIDED IN FAVOUR OF THE LATEST PRESIDENCY VERSION OF THE COMMISSION PROPOSAL FOR BASKET II, ON CONDITION THAT THE REFERENCE TO A MEDIATION ROLE FOR THE COMMISSION BE DELETED. THEY ALSO DECIDED IN FAVOUR OF THE FRENCH PROPOSAL THAT A POSITIVE VOTE OF THE PARLIAMENT SHOULD TRIGGER MAJORITY VOTING IN THE COUNCIL. THEY CONSIDERED WHETHER TIME LIMITS SHOULD BE SET FOR THE VARIOUS STAGES OF COOPERATION WITH THE PARLIAMENT, BUT CAME TO NO CONCLUSION. THEY AGREED THAT THE PARLIAMENT SHOULD HAVE A RIGHT OF CO-DECISION ON NEW ACCESIONS, ELECTORAL PROCEDURE FOR THE DIRECT ELECTIONS, AND POSSIBLY THE CONCLUSION OF TRADE AGREEMENTS. (LAEUFER REMARKED THAT BOTH GENSCHER AND BANGEMANN WERE OPPOSED TO THE LATTER, BUT IT HAD BEEN URGED BY KOHL, WHO FELT HIMSELF UNDER INTENSE PRESSURE FROM CDU MEPS, INCLUDING OLD FRIENDS SUCH AS KLEPSCH.)

BULLARD

YYYY

FCO PLEASE ADVANCE TO: FCO BRAITHWAITE, RENWICK, WALL
CAB WILLIAMSON
TSY EDWARDS, FITCHEW
DTI BRECKNELL

(ADVANCED AS REQUESTED)

FRAME INSTITUTIONAL
ECD(I)

COPIES TO:-
ADVANCE ADDRESSEES

RESTRICTED



CC BG
✓ PC

Treasury Chambers, Parliament Street, SW1P 3AG

14 November 1985

See Peter,

CG 14/Ki

EUROPEAN REGIONAL DEVELOPMENT FUND: NON-QUOTA MEASURES

Thank you for copying to me your letter of 14 October to Malcolm Rifkind about the ERDF non-quota measures. I have seen Nick Edwards' letter of 17 October, Allan Stewart's of 22 October and Michael Jopling's of 29 October, and Malcolm's response of 4 November.

I would not wish to press views on how the final stages of these negotiations should be handled; you and colleagues most concerned can best decide on tactics. Clearly we must do the best we can to capitalise on these proposals which in their small way offer one of the few opportunities for increasing our returns from the European Community.

The reduction of the share of our receipts from the ERDF which now seems certain is regrettable - if unavoidable; the adoption of these measures before the accession of Spain and Portugal should ensure us a return from the Fund slightly greater than could be expected were we to rely solely on the Fund's normal operations. But that will not be without its disadvantages in public expenditure costs.

Moreover, the sums involved here offer no comfort against the high hopes expressed at Fontainebleau that the long term solution to the problem of the UK's deficit lay in the development of EC spending policies. The developments on the ERDF are all in the other direction and, for the future, the UK's interests will clearly be best served by doing everything possible to limit the Fund's size.

I am copying this letter to recipients of yours.

See Ian

IAN GOW

The Hon Peter Morrison MP
Minister of State for Industry
Department of Trade and Industry

RESTRICTED

Enlo POC

BUDGET

PT 30



CONFIDENTIAL

Qz.04710

MR POWELL

EUROPEAN COMMUNITY: INTERGOVERNMENTAL CONFERENCE

You asked in your letter of 29 October to Colin Budd (FCO) for a note on areas where we would want to avoid majority voting and those on which we could accept it with equanimity. These issues are being discussed in the Steering Committee on European Questions (EQS) tomorrow and in the Sub-Committee on European Questions of the Defence and Oversea Policy Committee (OD(E)) on 20 November. I attach, however, a note highlighting the main points.

I am sending copies to Colin Budd (FCO) and to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

13 November 1985

CONFIDENTIAL

APC (2)

*Prime Minister
A useful*

*Thanks on
Pul in
"Prestonbury"
folder. EDP
14/xi*

CONFIDENTIAL

EUROPEAN COMMUNITY: INTERGOVERNMENTAL CONFERENCE PROPOSALS
FOR MAJORITY VOTING

Note by the European Secretariat, Cabinet Office

There are two ways, apart from procrastination or other procedural manoeuvres, by which the United Kingdom can block an unacceptable proposal -

(1) by invoking the Luxembourg compromise citing a very important national interest ("the veto"). In the discussions leading up to and immediately after the Milan European Council, there was much talk by others of the need to abolish or reform this arrangement. This threat has now been seen off. There will be no change in the veto as a result of the Intergovernmental Conference;

(2) by refusing to agree where unanimity applies or by collecting an ally or allies (one large member state at present and one large and one small member state after enlargement is sufficient) to block a decision where qualified majority applies. The fact, however, that we did not write the Treaty of Rome is very evident from the present division in the Treaty between those areas where qualified majority voting applies and those areas where unanimity is required. The most important sectors subject to qualified majority voting are the budget and agriculture, giving us a reduced chance to block some decisions which we do not want to be taken. On the internal market, however, unanimity is the rule, thus allowing others to block some of the decisions on effective free movement of goods and on a wider market for services which we do want to be taken. Unanimity is also the general rule - in this case, very reasonably - for any proposals for new Community policies.

/2.

2. The main proposals submitted to the Intergovernmental Conference which might affect voting procedures are those concerned with:

- the internal market. The Treaty articles are article 100 (the internal market article - now requiring unanimity) and article 57.2 (services and professions - now requiring, in part, unanimity and, in part, qualified majority). The essential areas on which we must protect our own interests by maintaining unanimity are:

- ✓ (a) taxation. Although it is doubtful practice to use article 100 in relation to taxation, we must cut out this risk. Matters relating to taxation must require unanimity;
- ✓ (b) "social engineering". There is a large gulf between our political approach and the present philosophy of the Commission on legislation related to the service and conditions of workers eg on parental leave, worker participation, composition of company boards etc. We cannot stop them making some proposals for action which in our view is not best assured by legislation but we must not accept a change from unanimity;
- ✓ (c) movement of persons. We must not agree to an amendment of the Treaty which extends the definition of persons for the purposes of free movement. This could open up the prospect of more social proposals and could put pressure on our method of systematic controls at the frontier. On such issues we tend to be in the minority. We must not extend Community competence;
- ✓ (d) public, animal and plant health. We do not propose to agree to any change from unanimity on essential measures related to public, animal and plant health. This will assure us of the necessary protection on public health questions such as rabies and also allow us to avoid any risk of change to the animal and plant health advantages which we have gained from our island situation (eg freedom from foot and mouth disease and colorado beetle). These are sensitive issues and also of commercial importance. It would also retain unanimity on questions such as hormones, pesticides and the health status of food additives. There are also a number of other measures,

/eg on

CONFIDENTIAL

eg on occupational health and safety, on which it might be in our interest to retain unanimity by extending the definition of public health to public health and safety.

Departments have also drawn attention to some other areas where the issues are less clear-cut, bearing in mind that we also have business and jobs to gain from opening up markets in other member states. For example, the Department of Trade and Industry has been making substantial efforts to reduce obstructions by other member states to agreement on standards while the Ministry of Agriculture, Fisheries and Food sees some disadvantages in more majority voting on some food standards and on seeds (health status is, of course, fully protected by (d) above). We are also examining the questions of intellectual property (its special position is already recognised by its inclusion in the "safeguard" article 36), of insurance and of some aspects of public purchasing, on which our principal objective remains to open up better export opportunities elsewhere in the Community;

- environment. We see some advantages in a better, ie more restricted, Treaty base for environmental measures. Experience also shows that the critical issue is normally the detailed limits, eg parts per million of possibly carcinogenic materials in waste oils. For this reason we conclude that, in order to protect our interests, unanimity should be the rule;

- technology. A better Treaty base could be worthwhile, particularly if we could include our ideas on market-led exploitation, on which we have made some ground in the development of the EUREKA idea. On the voting provisions on research and development we want unanimity on the overall programme, on financing and on the principal elements of any significant subsidiary programme such as ESPRIT or RACE. Beyond this there are some implementing measures which could be taken by qualified majority;

/ - new policies.

CONFIDENTIAL

- new policies. We should not agree to any change from unanimity on the basket article 235 itself. We cannot predict what the Commission might propose under this article in future years and it would be far too dangerous to change the voting provision.

These questions and the United Kingdom's approach at the next meetings of the Intergovernmental Conference in the period up to the European Council are being examined by the Sub-Committee on European Questions (OD(E) of the Defence and Oversea Policy Committee on 20 November.

13 November 1985

Euro Pol: Budget

PK 30



Ref. A085/2909

PRIME MINISTER

Cabinet: Community Affairs

In the absence of the Foreign and Commonwealth Secretary the Minister of State, Foreign and Commonwealth Office (Mr Rifkind) will report on the Ministerial session of the Intergovernmental Conference on 11 November. The meeting took forward discussion on technology and environment. At present the Commission puts forward proposals on research and on environment under the basket article 235 of the Treaty which is very widely and generally drafted with no criteria at all. This has given us a good deal of trouble, eg on acid rain. The proposal is that there should be specific Treaty articles. This could be helpful if we could write in some criteria, eg on the need to take account of the costs to industry or environmental proposals. Without committing ourselves on Treaty amendment, we have been manipulating the proposals of others so that they do contain sensible criteria, maintain unanimity on the environment (now secured) and maintain unanimity on the financing (now secured) and on all the main elements of significant research and development proposals (partly secured but we need to do better). At the Ministerial meeting there was also discussion of "cohesion". The northern member states are having no truck with further attempts by southern member states to bid for more in this Conference and, rather belatedly, Monsieur Delors, the President of the Commission, came out strongly against attempts by the southern member states to divert the discussion in their own interest. There will be further Ministerial meetings of the Conference on 19 and 25 November which will discuss the internal market and the role of the European Parliament. There seems now to be an increasing wish in many member states to aim for the main decisions at the European Council in Luxembourg and to



close Pandora's box, even though quite a lot of wind has escaped in the meantime, as quickly as possible. The Italians are an exception because they still hold unnegotiable ambitions for the European Parliament. The general strategy for the United Kingdom in the run-up to the European Council will be discussed by the Sub-Committee on European Questions of the Defence and Oversea Policy Committee on 20 November.

2. The Secretary of State for Trade and Industry may wish to bring his colleagues up-to-date on developments in the negotiations between the Community, acting at United Kingdom instigation, and the United States on the need for clear assurances that will protect the trade in semi-finished steel products between the British Steel Corporation and the joint venture plant at Tuscaloosa in Alabama. Until such assurances are received our ability to accept the whole outcome of the recently concluded negotiations between the Community and the United States on an export restraint agreement for steel products remains in doubt.

3. The Secretary of State for Energy may report on the Energy Council held in Brussels on 11 November, which he attended. The main subject discussed was a series of measures relating to the coal industry. The existing Community arrangements, eg in relation to aids, expire at the end of 1985. Following an intervention by the Secretary of State for Energy at the formative stage, we are generally content with the way the Commission have now framed their proposals for the continuing arrangements. But we and the Germans agree on the need still to make some improvements in the detail. To allow time for this the Council agreed that the present regime should be rolled forward until the end of June 1986.

4. A Transport Council, attended by the Secretary of State for Transport, is being held on 14-15 November in Brussels. There will be an Economic and Finance Council on 18 November; an



Agriculture Council on 18-19 November; and in parallel with the Intergovernmental Conference on 19 November there will be a Political Co-operation Ministerial meeting.

5. In its current session the European Parliament has returned to the draft 1986 budget. Any amendments it passes - preliminary discussion indicates that they might add to the budget up to 2 billion ecu on account of enlargement and the so-called "cost of the past" on the Regional and Social Funds - will be considered by the Budget Council on 26 November. The Budget Council left a small margin of manoeuvre but is expected to reject most of the European Parliament's amendments.

6. You will be seeing President Mitterrand at the Anglo-French Summit on 18 November and entertaining Monsieur Santer, the Luxembourg Prime Minister and current President of the European Council, to lunch on 20 November.

ROBERT ARMSTRONG

13 November 1985



Treasury Chambers, Parliament Street, SW1P 3AG

12 November 1985

Ian Goffey,

NEW OWN RESOURCES DECISION: UNITED KINGDOM NOTIFICATION OF ADOPTION

Now that the European Communities (Finance) Act has become law, the United Kingdom can formally notify the Secretary-General of the Council that we have completed the necessary national procedures for its adoption.

The Decision requires member states to make their notifications "without delay" and I can see no reason for the United Kingdom not to comply with that requirement. I think that we should do so now. There might, perhaps, be some comment at home if it became known that we were - as I understand may well be the case - the first to make that notification. But this possibility is not an adequate reason to delay. There could be advantages in encouraging some member states to make progress once they see that others have adopted the Decision.

I understand that it is for you to make the formal notification, and that the correct form of words is being prepared for you. I hope that you will be content to proceed accordingly. I assume that we shall make no announcement at home about what is a pure formality.

Copies of this letter go to the Prime Minister and Malcolm Rifkind, and to Sir Robert Armstrong.

7

es

an.

IAN GOW

The Rt Hon Sir Geoffrey Howe QC MP



DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

My ref: B/PSO/18266/85

Your ref:

11 November 1985

Des Peters

Thank you for copying to me your letter of 14 October to Malcolm Rifkind about the ERDF non-quota measures. I have also seen Nicholas Edward's, Allan Stewart's and Michael Jopling's responses.

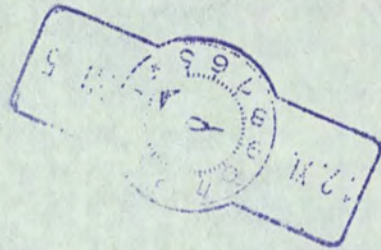
I support Michael's view that we should not divert any funds from Hull and Grimsby. The local authorities there consider that they have played an important role in persuading the European Commission to put forward the fisheries measure and have well developed plans for spending the allocation they expect to get. To cut what they regard as their reward would be very unpopular on Humberside. Nor would the idea that they could make up the difference by claiming money from the main part of the Fund impress them as there is no certainty that they could achieve this.

/ Copies of this letter go to members of ODE and EA Committees and to Nicholas Edwards, Rhodes Boyson, Michael Jopling, Allan Stewart and Sir Robert Armstrong.

*Yours
faithfully*

RICHARD TRACEY

Euro PD1 PT 30
Budget



CONFIDENTIAL

GRS 820

CONFIDENTIAL

FM BONN

TO IMMEDIATE FCO

TELNO 1070

OF 091020Z NOVEMBER 85

INFO IMMEDIATE EC POSTS, WASHINGTON, UKDEL NATO, MODUK

MY TELNO 1067: FRANCO GERMAN SUMMIT

GENERAL

SUMMARY

1. LOW PRIOR EXPECTATIONS ENABLE THE PARTICIPANTS TO CLAIM A REASONABLY SUCCESSFUL MEETING, DESPITE LACK OF TANGIBLE RESULTS. NO SIGNIFICANT CONVERGENCE OF VIEWS, AND NO PROGRESS ON THE EUROPEAN RECONNAISSANCE SATELLITE OR HERMES. NO UNWELCOME DEVELOPMENTS ON EFA. EC ISSUES REPORTED SEPARATELY. (MIFT)

DETAIL

2. THE SUMMIT TOOK PLACE AGAINST A BACKGROUND OF UNUSUALLY GLOOMY PRESS COMMENT ABOUT THE STATE OF THE FRANCO-GERMAN RELATIONSHIP (MY TELNO 1053 - NOT TO ALL). IN YESTERDAY'S SUDDEUTSCHE ZEITUNG, BERGDOLL SPOKE OF AN ATMOSPHERE OF INCREASING FRENCH DISILLUSIONMENT AND BARELY CONCEALED IRRITATION AT GERMAN INDECISIVENESS. WHEN HEAD OF CHANCERY CALLED ON STABREIT (FEDERAL CHANCELLERY) YESTERDAY EVENING FOR A DE-BRIEFING, STABREIT ACKNOWLEDGED THAT THE FRENCH HAD COME TO BONN WITH VERY LOW EXPECTATIONS (BUT GIVEN THAT, HE THOUGHT THEY HAD GONE HOME SATISFIED). HIS ACCOUNT OF THE VARIOUS MEETINGS, TOGETHER WITH THE TONE OF THE PRESS CONFERENCE, INDICATES A WISH TO CONVEY THE IMPRESSION OF A GENERALLY SUCCESSFUL MEETING, DESPITE THE DEARTH OF TANGIBLE RESULTS.

3. STABREIT DESCRIBED THE SUMMIT AS A 'FAMILY GATHERING', AT WHICH TECHNOLOGY HAD BEEN THE CENTRAL AND MOST INTERESTING THEME. MITTERRAND HAD PRESSED KOHL TO BE MORE DARING AND IMAGINATIVE. THE GERMANS BELIEVED THAT VERY CONSIDERABLE INVESTMENTS HAD ALREADY BEEN MADE IN THE FRANCO-GERMAN TECHNOLOGICAL COOPERATION IN MANY FIELDS: THE FRENCH HAD NO JUSTIFICATION FOR TRYING TO PUT THEM IN THE DOCK FOR LACK OF EFFORT. TWO PARTICULARLY CONTENTIOUS SUBJECTS, ON WHICH LITTLE PROGRESS HAD BEEN MADE, WERE THE EUROPEAN RECONNAISSANCE SATELLITE AND HERMES.

EUROPEAN RECONNAISSANCE SATELLITE

4. STABREIT SAID THE GERMANS BELIEVED THAT THIS WAS SIMPLY TOO EXPENSIVE. IT WAS NOT THE INITAIL EXPENSE, BUT THE BILLIONS OF MARKS

CONFIDENTIAL

/IN

CONFIDENTIAL

IN RUNNING COSTS NEEDED TO MAINTAIN 3 FUNCTIONING SATELLITES AT ALL TIMES. THE COSTS WOULD HAVE TO BE MET FROM THE DEFENCE BUDGET, AND WOERNER HAD SAID QUITE CLEARLY THAT HE HAD OTHER, HIGHER PRIORITIES: HE COULD NOT AFFORD TO EMASCULATE THE GERMAN ARMED FORCES RE-EQUIPMENT PROGRAMME FOR THE SAKE OF ERS. WHILE, AT FRENCH INSISTENCE, IT HAD BEEN AGREED NOT TO WRITE OFF ERS FOR THE TIME BEING, IT HAD ONLY 'TROISIEME PRIORITE'.

HERMES

5. THIS WAS OF MORE INTEREST TO THE GERMANS, BUT THE FRENCH WISH FOR AN ACCELERATED TIMETABLE WAS NOT RECIPROCATED. THERE WAS NO QUESTION OF ANY SIGNIFICANT GERMAN FUNDING IN 1986 OR 1987. HOWEVER, STOLTENBERG SAW POTENTIAL MERIT IN THE CONCEPT, IF AND WHEN BUDGETARY CONSTRAINTS ALLOWED THE GERMANS TO BE MORE FORTHCOMING.

FAST-BREEDER REACTORS AND HERA

6. ON THESE TWO POINTS THE GERMANS HAD BEEN THE DEMANDEURS. HAVING CONTRIBUTED TO THE CONSTRUCTION OF SUPER-PHENIX, THE GERMANS LOOKED FOR AN APPROPRIATE FRENCH FINANCIAL CONTRIBUTION TO THE FEASIBILITY STUDY FOR A FULL-SCALE BREEDER REACTOR IN GERMANY. HOWEVER, NOTING THE DIFFICULTIES WHICH THE FEDERAL GOVERNMENT WERE STILL HAVING WITH KALKAR (DESPITE THIS WEEK'S FAVOURABLE VOTE IN THE BUNDESTAG), THE FRENCH WERE RELUCTANT TO PUT THEIR HANDS IN THEIR POCKETS. ON HERA, THE FRENCH WERE STILL STUDYING A GERMAN REQUEST FOR THEM TO PARTICIPATE.

EUROPEAN FIGHTER AIRCRAFT

7. MITTERRAND'S SUGGESTIONS AT THE JOINT PRESS CONFERENCE (PARA 3 OF MY TELNO 1067) HAD COME MORE OR LESS OUT OF THE BLUE. THE GERMANS HAD NOT FORMED ANY VIEW ABOUT CROSS-PARTICIPATION, THOUGH WOERNER HAD TOLD THE PRESS SUBSEQUENTLY THAT THEY WERE STILL CONSIDERING THE IDEA. IN HIS DISCUSSION WITH QUILES, WOERNER HAD MADE IT CLEAR THAT NOTHING MUST BE ALLOWED TO HOLD UP THE EFA PROGRAMME (WE HAVE CONFIRMED THIS SEPARATELY WITH FMOD SOURCES): NOR INDEED HAD THERE BEEN ANY FRENCH PRESSURE FOR A DELAY.

OTHER AIRCRAFT PROJECTS

8. STABREIT CONFIRMED THAT AGREEMENT HAD BEEN REACHED ON THE NEED TO DEVELOP BOTH A 4-ENGINED VERSION OF THE AIRBUS AND A STRETCHED TWIN-ENGINED VERSION, TO ENTER SERVICE IN THE EARLY 1990'S. ON MARITIME RECONNAISSANCE AIRCRAFT AND TRANSPORT HELICOPTERS (PARA 4 OF MY TELNO 1067), STABREIT SAID THAT THESE HAD MERELY BEEN IDENTIFIED AS AREAS WHICH MERITED FURTHER JOINT STUDY.

- 2 -

CONFIDENTIAL

MILITARY

CONFIDENTIAL

MILITARY COOPERATION

9. THERE HAD BEEN CONSIDERABLE DISCUSSION OF SECURITY ISSUES, THOUGH THE SUGGESTION OF A FURTHER KOHL-MITTERRAND MEETING BEFORE CHRISTMAS (PARA 4 OF MY TELNO 1067) WAS STILL ONLY TENTATIVE. THERE WAS AGREEMENT SUBSTANTIALLY TO INCREASE THE SIZE AND NUMBER OF JOINT MANOEUVRES, NOT JUST STAFF EXERCISES (PARA 3 OF MY TELNO 1053). HOWEVER THERE HAD BEEN NO DISCUSSION OF FUTURE COOPERATION ON TANKS, ABOUT WHICH THERE HAD APPARENTLY BEEN SOME SPECULATION IN FRANCE.

EAST-WEST AND SDI

10. ALTHOUGH KOHL AND MITTERRAND HAD SPENT A CONSIDERABLE PART OF YESTERDAY'S MEETING DISCUSSING EAST-WEST REALTIONS, THIS HAD CONSISTED MAINLY IN BRINGING EACH OTHER UP TO DATE ON THE DIPLOMATIC ACTIVITIES OF THE PAST MONTH, AND NO NEW POINTS HAD EMERGED. AT THE SEPARATE MEETING OF DEFENCE AND FOREIGN MINISTRIES THE FRENCH HAD NOT TRIED TO PRESSURISE THE GERMANS TO BACK OFF FROM A FRAMEWORK AGREEMENT ON SDI COOPERATION WITH THE US, BUT HAD EQUALLY GIVEN NO HINT OF ANY CHANGE IN THEIR OWN POSITION. THEY HAD HOWEVER EXPRESSED INTEREST IN HARMONISING FRENCH AND GERMAN POSITIONS IN THE DEBATE ON STRATEGIC ASPECTS OF SDI. STABREIT THOUGHT THAT THE GERMANS WOULD IN DUE COURSE WISH TO DISCUSS THE IDEA OF A POSSIBLE EUROPEAN TACTICAL DEFENCE INITIATIVE WITH THE FRENCH.

11. FOR THE SUMMIT'S COVERAGE OF EC QUESTIONS, SEE MIFT.

BULLARD

EUROPEAN POLITICAL

WED

ACDD

CONFIDENTIAL

GRS 1025

CONFIDENTIAL

FM BONN

TO IMMEDIATE FCO

TELNO 1071

OF 091200Z NOVEMBER 85

INFO IMMEDIATE PARIS, UKREP BRUSSELS

INFO PRIORITY OTHER EC POSTS, MADRIS, LUXEMBOURG

FRANCO-GERMAN SUMMIT: 7-8 NOVEMBER: INTERGOVERNMENTAL CONFERENCE (IGC)

SUMMARY

1. THE IGC IS NOT BEING PRESENTED AS THE CENTRAL THEME OF THE CONSULTATIONS. KOHL AND MITTERRAND APPEAR TO HAVE DISCUSSED IT ONLY IN GENERAL TERMS. MORE DETAILED TALKS BETWEEN FOREIGN MINISTERS AND THEIR DEPUTIES HAVE NARROWED SOME DIFFERENCES, BUT THERE IS STILL A LONG WAY TO GO, PARTICULARLY ON THE PARLIAMENT. THE PRESS REPORTS THAT THERE WILL BE JOINT FRANCO-GERMAN PROPOSALS AT LUXEMBOURG. GENSCHER AND DUMAS WILL MEET NEXT WEEK, BUT THERE ARE NO PLANS FOR KOHL AND MITTERRAND TO DO SO AGAIN BEFORE LUXEMBOURG.

DETAIL

2. STABREIT (KANZLERAMT) WHOM H OF C DEBRIEFED YESTERDAY WAS UNWILLING TO GO INTO ANY DETAIL OVER THE IGC. HE SAID THAT THE TALKS (HELD IN PARALLEL BETWEEN KOHL AND MITTERRAND, GENSCHER AND DUMAS, AND STAVENHAGEN, RUHFUS AND MME LALUMIERE) HAD NARROWED DIFFERENCES ON THE INTERNAL MARKET, TECHNOLOGY, ENVIRONMENT, COHESION AND POWERS OF THE COMMISSION, THOUGH THERE HAD BEEN LESS AGREEMENT ON THE PARLIAMENT. THE FRENCH MADE A STRONG PLEA FOR STRENGTHENING EMS, ON WHICH THE GERMANS HAD BEEN 'VERY RETICENT'. THE FRENCH HAD ALSO FAVOURED TAX APPROXIMATION, BUT ONLY BY UNANIMITY AND IN SLOW TIME. THEY HAD ALSO MADE IT CLEAR THAT DELORS WAS FAR FROM BEING MITTERRAND'S PUPPET, AND THAT MITTERRAND WAS FIRMLY AGAINST ANY EXTENSION OF DELORS' INFLUENCE, OR ANY INCREASE IN THE COMPETENCES OF THE COMMISSION.

3. STABREIT SAID THAT THE FRENCH AND GERMANS WOULD PUT FORWARD JOINT PROPOSALS BEFORE LUXEMBOURG IF THEY COULD RESOLVE THE REMAINING DIFFERENCES BETWEEN THEM. HE DID NOT DISGUISE HIS PERSONAL DISAPPOINTMENT THAT AGREEMENT WAS NOT YET WITHIN REACH. HE SPOKE OF 'OPPOSING FRONTS' IN BONN, WITH THE KANZLERAMT AND AUSWAERTIGES AMT PRESSING FOR IMAGINATIVE PRO-EUROPEAN DECISIONS AGAINST RESISTANCE FROM THE INTERIOR, FINANCE AND ECONOMIC MINISTRIES.

4. WE HAVE HEARD FROM LAEUFER (AUSWAERTIGES AMT), WHO WAS PRESENT AT THE MEETINGS BETWEEN STAVENHAGEN, RUHFUS AND MME LALUMIERE, THAT THE FRENCH AND GERMANS WERE NOW NOT FAR APART ON TEXTS ON THE

CONFIDENTIAL /ENVIRONMENT

CONFIDENTIAL

ENVIRONMENT AND TECHNOLOGY. NO PROGRESS AT ALL HAD BEEN MADE ON THE PARLIAMENT, WHERE THE FRENCH LINE HAD BEEN VERY RESTRICTIVE. ON THE INTERNAL MARKET AND ARTICLE 100 HE ADDED THAT THE GERMANS FELT UNDER PRESSURE (THOUGH NOT PARTICULARLY FROM THE FRENCH) TO DROP THEIR PROPOSAL THAT IF A DIRECTIVE WOULD RESULT IN LOWER STANDARDS OF SAFETY OR HEALTH IN A GIVEN MEMBER STATE, THAT MEMBER STATE'S POSITIVE VOTE WOULD BE NECESSARY BEFORE THE DIRECTIVE WAS ADOPTED.

5. THIELE (KANZLERAMT) SAID THAT KOHL AND MITTERRAND HAD LEFT THEMSELVES LITTLE TIME TO DISCUSS THE IGC. THEY HAD AGREED THAT THE MAIN LINES WERE CLEAR ON TECHNOLOGY AND THE ENVIRONMENT. THE GERMAN SIDE HAD STRESSED THE NEED FOR FINANCIAL DISCIPLINE IN ANY MOVE TOWARDS COHESION. LITTLE HAD BEEN SAID ON POWERS OF THE COMMISSION. MUCH WORK STILL NEEDED TO BE DONE ON THE PARLIAMENT, AND THE GERMANS HAD BEEN FIRM ON THE NEED FOR THE LAST WORD TO LIE WITH THE COUNCIL. THE MAIN INTERNAL MARKET POINT DISCUSSED HAD BEEN TAXATION HARMONISATION: STOLTENBERG HAD MADE CLEAR THAT THIS COULD NOT BE RESOLVED UNDER PRESSURE OF DEADLINES OR BY MAJORITY VOTING. THE FRENCH HAD AGREED: THERE WAS A DIFFERENCE BETWEEN TAXATION AND STANDARDS. STOLTENBERG HAD ALSO BEEN FIRM ON THE NEED FOR CAUTION ON THE COMMISSION'S VIEWS ON THE EMS: THERE WERE SERIOUS IMPLICATIONS FOR THE AUTONOMY OF THE BUNDESBANK.

6. MUELLER-THUNS (ECONOMICS MINISTRY) CONFIRMED THIELE'S ACCOUNT GENERALLY, ESPECIALLY THE FIRM LINE TAKEN ON TAXATION HARMONISATION, THE LAST WORD RESTING WITH THE COUNCIL, AND THE UNACCEPTABILITY OF THE DELORS PROPOSAL ON THE EMS AND FRENCH PROPOSALS FOR APPROXIMATION OF SOCIAL POLICY. SCHMIDT (AGRICULTURE) WOULD CONFIRM ONLY THAT THE CAP HAD NOT (REPEAT NOT) BEEN DISCUSSED.

FRANCO-GERMAN BILATERAL NEGOTIATIONS BEFORE LUXEMBOURG

7. WHEN ASKED ABOUT THE REFERENCE TO JOINT PROPOSALS AT THE PRESS CONFERENCE, MUELLER-THUNS INDICATED THAT THIS MEANT NO MORE THAN THE FRENCH AND GERMANS HAD MANAGED TO BRING THEIR POSITIONS ON THE MAIN POINTS CLOSER TOGETHER: THEY WOULD CONTINUE TO WORK TO DO SO, AND WOULD HOPE TO BE ARGUING ON THE SAME LINES IN THE DISCUSSIONS LEADING UP TO LUXEMBOURG. LAEUFER, ON THE OTHER HAND, SAID THAT THERE WOULD BE FRANCO-GERMAN NEGOTIATIONS ON TEXTS ON ALL THE CENTRAL IGC ISSUES OVER THE NEXT FEW WEEKS, CONDUCTED LARGELY BY THE AUSWAERTIGES AMT AND THE QUAI D'ORSAY. STABREIT CONFIRMED THAT THERE WERE NO PLANS FOR A FURTHER MEETING BETWEEN KOHL AND MITTERRAND BEFORE LUXEMBOURG. HE CLAIMED THAT KOHL HAD NO INTENTION OF DISCUSSING DETAILED DRAFTING WITH MITTERRAND: GENSCHER AND STAVENHAGEN COULD TAKE THAT ON. THE PRESS REPORTS THAT GENSCHER AND DUMAS WILL MEET THIS WEEK AFTER THE IGC.

ITALIAN DEMARCHE

8. YESTERDAY'S PRESS REPORTED THAT THE ITALIAN AMBASSADOR HAD

CONFIDENTIAL

1/DELIVERED

CONFIDENTIAL

DELIVERED A MESSAGE TO THE AUSWAERTIGES AMT JUST BEFORE THE START OF THE FRANCO-GERMAN CONSULTATIONS, URGING THE FEDERAL GOVERNMENT TO PUT ITS FULL WEIGHT BEHIND EC REFORM. IN AN INTERVIEW WITH THE BONN GENERAL ANZEIGER THE ITALIAN AMBASSADOR SPOKE OF HIS DISAPPOINTMENT OVER THE "EXAGGERATEDLY PRAGMATIC COURSE" OF GERMAN EUROPEAN POLICY IN THE AFTERMATH OF MILAN, AND SAID THAT THE ITALIAN GOVERNMENT WOULD NOT AGREE TO ANY COMPROMISE WHICH IT COULD NOT CREDIBLY PRESENT TO THE ITALIAN PUBLIC. STABREIT (KANZLERAMT) TOLD US THAT THE GERMAN/ITALIAN CONSULTATIONS PLANNED FOR 21 NOVEMBER HAVE BEEN CANCELLED. WE HAVE NOT YET ESTABLISHED THE REASONS.

PRESS COMMENT

9. FRANCO-GERMAN COOPERATION IN THE IGC RECEIVES ONLY BRIEF COVERAGE IN TODAY'S GERMAN PRESS REPORTS OF THE CONSULTATIONS, WHICH CONCENTRATE INSTEAD ON BILATERAL MILITARY AND TECHNOLOGY QUESTIONS.

COMMENT

10. THERE IS CLEARLY A WISH ON THE PART OF KOHL AND GENSCHER TO MAKE A DETERMINED ATTEMPT IN THE SHORT TIME REMAINING BEFORE THE LUXEMBOURG EUROPEAN COUNCIL TO MAKE COMMON CAUSE WITH THE FRENCH ON AS MANY POINTS AS POSSIBLE. OUR INFORMANTS REFERRED TO THE NEED TO "GIVE IMPETUS TO" AND "LOOSEN UP" THE IGC DISCUSSIONS. THEY SAID THAT KOHL, WHO HAS BUILT UP 1985 AS THE "YEAR OF EUROPE", NEEDS SOME TANGIBLE IF MODEST RESULTS IN DECEMBER BEFORE THE TWELVE ARE HAMSTRUNG BY THE IMPENDING FRENCH ELECTIONS. THE AUSWAERTIGES AMT APPEAR TO BE WORRIED THAT THE ITALIANS WILL WRECK THEIR ATTEMPT TO DEVISE A CONSENSUS AT LUXEMBOURG. THEY ARE ALSO CONSCIOUS THAT AGREEMENT WITH THE FRENCH IS STILL SOME WAY OFF, ESPECIALLY ON INSTITUTIONAL QUESTIONS. OTHER MINISTERS HAVE APPARENTLY SET THEIR SIGHTS LOWER, AND ARE SCEPTICAL THAT ANYTHING MUCH CAN BE ACHIEVED BEFORE OR AT LUXEMBOURG.

BULLARD

FCO RESIDENT CLERK: PLEASE ENSURE THAT COPIES REACH BRAITHWAITE, RENWICK AND WALL (FCO) AND WILLIAMSON (CABINET OFFICE) TODAY

FRAME INSTITUTIONAL
ECD (I)

COPIES TO:
ADVANCE ADDRESSEES

-3-
CONFIDENTIAL

✓

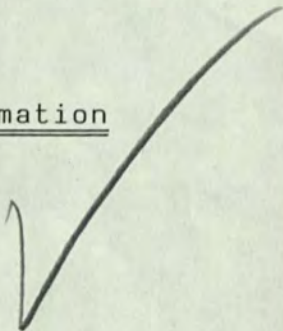
Expend

Budget

STRICTLY PERSONAL & CONFIDENTIAL
Mr C'D Powell, No 10



For your own information



With the compliments of
R W Renwick

FOREIGN AND COMMONWEALTH OFFICE
LONDON, SW1A 2AH

9/11/81

CONFIDENTIAL/DEDIP

3216 - 1

OCMIAN 3216
CONFIDENTIAL
DEDIP
DD 051430Z BREEC
FM FCOLN TO BREEC
051300Z NOV
GRS 982

CONFIDENTIAL DEDIP
FM FCO
TO IMMEDIATE UKREP BRUSSELS DESKBY 051430Z
TELNO 366
OF 051300Z NOVEMBER 85
AND TO RFI (PERSONAL FOR AMBASSADORS) IMMEDIATE PARIS, BONN
AND TO PRIORITY (PERSONAL FOR AMBASSADORS) OTHER EUROPEAN COMMUNITY
POSTS

FOLLOWING PERSONAL FOR HANNAY FROM RENWICK
INTER-GOVERNMENTAL CONFERENCE

1. TRUMPF TELEPHONED THIS MORNING. I HAD ASKED HIM TO LET ME HAVE A PREVIEW OF WHAT HE THOUGHT LIKELY TO BE AGREED ON THE COMMUNITY AT THE FRANCO GERMAN SUMMIT ON 7-8 NOVEMBER. ALTHOUGH WHAT HE SAID WILL COME OUT IN DUE COURSE, HIS CONFIDENCE MUST BE PROTECTED. HE IS OF COURSE AWARE THAT WE ARE NOT COMMITTED TO ANY TREATY CHANGE.
2. TRUMPF SAID THAT THE FRENCH AND GERMANS WERE CLOSE TO AN AGREED DEFINITION OF THE INTERNAL MARKET, BASED ON THE FRENCH DOCUMENT ORIGINALLY PROPOSED AS AN 'ACT' OF THE CONFERENCE, BUT WHICH THE FRENCH NOW SEEMED PREPARED TO PUT IN A JURIDICAL FORM. THE FRENCH AND GERMANS INTENDED TO INCLUDE A REFERENCE TO A 'UNITED MARKET WITHOUT FRONTIERS'. GIVEN THAT 'FRONTIERS' WOULD BE QUALIFIED IN THIS WAY, TRUMPF HOPED THAT OTHERS MIGHT BE ABLE TO AGREE TO THIS. THE FRENCH AND GERMANS ALSO WOULD PROPOSE REFERENCES TO TAX APPROXIMATION, THOUGH PROBABLY NOT ON THE 1992 TIME-SCALE.
3. TRUMPF SAID THAT THERE HAD BEEN AN IMPORTANT SHIFT IN THE

FRENCH POSITION. THE FRENCH NOW AGREED THAT THERE COULD BE AN OVERALL CHANGE TO QUALIFIED MAJORITY VOTING UNDER ARTICLES 57(2) AND 100. UNANIMITY WOULD NEED TO BE MAINTAINED UNDER ARTICLE 99 FOR INDIRECT TAXATION AND, SO FAR AS THE GERMANS WERE CONCERNED, FOR ANY MEASURES RELATING TO DIRECT TAXATION UNDER ARTICLE 100. THE GERMANS WERE LIKELY TO HAVE TO ABANDON THE QUALIFICATIONS IN THEIR OWN DRAFT REVISION OF ARTICLE 100 DIRECTED TOWARDS THE PROTECTION OF HIGHER STANDARDS.

4. I ASKED WHETHER THERE WOULD BE CONTINUING PROTECTION FOR MEASURES RELATING TO PUBLIC SAFETY, HEALTH, SECURITY ETC. TRUMPF SAID THAT IT WAS NOT CLEAR WHAT THE FRENCH ENVISAGED IN THIS REGARD AND WHETHER ARTICLE 36 WOULD BE LEFT UNAFFECTED. THE FRENCH HAD SAID THAT THEY ENVISAGED RELYING ON THE 'VITAL INTEREST' IE THE LUXEMBOURG COMPROMISE IN RELATION TO ANY MEASURES THEY DEFINITELY COULD NOT ACCEPT.

5. THE BIG PROBLEM FOR THE FRENCH WAS WHAT WOULD HAPPEN IN 1992. THEY COULD NOT AGREE THAT THE COURT SHOULD THEN BE IN A POSITION TO STRIKE DOWN ANY REMAINING OBSTACLES. BUT THEY WOULD BE PREPARED TO PUT THE 1992 DATE IN THE TREATY IF THEY COULD GET A REVIEW CLAUSE, ENABLING THE COUNCIL TO POSTPONE THE 1992 COMPLETION DATE. THE GERMANS DID NOT THINK THAT ABSOLUTE FINALITY COULD EVER BE REACHED IN RELATION TO COMPLETION OF THE INTERNAL MARKET IN ANY EVENT. THEY WANTED TO MAINTAIN A CUT OFF DATE IN 1992, FOLLOWING WHICH THERE WOULD BE MUTUAL RECOGNITION OF STANDARDS.

6. THE FRENCH AND GERMANS AGREED THAT IN THE INTERNAL MARKET AREA DEROGATIONS SHOULD APPLY ONLY IN EXCEPTIONAL CASES, AND SHOULD BE TIME-LIMITED. THE FRENCH WERE STILL THINKING, HOWEVER, OF THE POSSIBILITY OF INTRODUCING AN ARTICLE 235(2) INTRODUCING DIFFERENTIATION FOR DECISIONS IN 'NEW' AREAS.

7. IN THE CONFERENCE THE FRENCH AND GERMANS WOULD BE TRYING TO TAKE THE COMMISSION'S DRAFT ARTICLES ON THE INTERNAL MARKET, AND TO TURN THEM INTO PROPOSALS OF THE KIND DESCRIBED. THE MAJOR ISSUE FOR DECISION AT THE EUROPEAN COUNCIL WOULD BE HOW FAR THE HEADS OF GOVERNMENT WERE PREPARED TO GO IN THE EXTENSION OF QUALIFIED MAJORITY VOTING ON THE INTERNAL MARKET. THE FRENCH AND

GERMANS HOPED ALSO TO SEE AGREEMENT ON THE POCO TEXT, COOPERATION WITH THE PARLIAMENT, AND ON DRAFT ARTICLES ON TECHNOLOGY AND THE ENVIRONMENT. OTHER MATTERS, IF NECESSARY, MIGHT BE DEALT WITH LATER.

8. ON TECHNOLOGY TRUMPF CONFIRMED THAT GERMAN DEPARTMENTS (BUT, HE INDICATED, NOT NECESSARILY GENSCHER HIMSELF) WANTED UNANIMITY TO BE MAINTAINED FOR IMPORTANT NEW PROGRAMMES AND NOT JUST FOR THE MULTI-ANNUAL FRAMEWORK.

9. I ASKED ABOUT FRENCH AND GERMAN THINKING ABOUT THE PARLIAMENT. TRUMPF WAS AWARE OF OUR FUNDAMENTAL OBJECTIONS TO THE FRENCH IDEA THAT A VOTE IN THE PARLIAMENT COULD TRIGGER A SHIFT TO MAJORITY VOTING IN THE COUNCIL. HE SAID THAT THE FRENCH AND GERMANS NOW RECOGNISED THAT THEY WOULD HAVE TO DROP THEIR OWN PROPOSALS AND WORK ON THE BASIS OF THE COMMISSION'S PROPOSAL. I POINTED OUT THAT THE COMMISSION'S PROPOSAL REQUIRED THE COUNCIL FORMALLY TO DECIDE TWICE. TRUMPF AGREED THAT THIS WAS UNDESIRABLE. THE FIRST PHASE PROCEDURE SHOULD BE SIMPLER.

10. ON THE DELEGATION OF POWERS TO THE COMMISSION TRUMPF SAID THAT THE GERMANS FAVOURED BASING A SOLUTION ON THE DUTCH PROPOSAL, BUT WOULD PREFER TO SEE THIS WRITTEN INTO ARTICLE 155.

11. TRUMPF CONFIRMED THAT DELORS' PROPOSALS ON MONETARY COOPERATION WERE STRONGLY OPPOSED BY THE BUNDESBANK. BUT THE GERMANS MIGHT AGREE TO SOME REFERENCE TO THE EMS IN ARTICLE 107.

12. ON 'COHESION' THE GERMANS INTENDED TO SUPPORT FRENCH TEXT. I QUESTIONED ~~OF~~ THE REFERENCE IN THAT TEXT TO BORROWING. TRUMPF SAID THAT THE FRENCH CLAIMED THAT THEY INTENDED TO REFER ONLY TO THE EXISTING FACILITIES IE EURATOM LOANS AND NEW COMMUNITY INSTRUMENTS. HE AGREED THAT THE REFERENCE TO BORROWING WOULD NEED TO BE DROPPED (PREFERABLY) OR CLARIFIED.

13. I THANKED TRUMPF FOR GIVING US THIS PRIVATE ACCOUNT OF THE FRANCO-GERMAN EXCHANGES. I ADDED THAT I THOUGHT IT EXTREMELY IMPORTANT THAT THE FRENCH AND GERMANS SHOULD NOT START TRYING TO PRESENT US OR OTHERS WITH A JOINT POSITION. THEY WERE LIKELY TO GET A BETTER HEARING IF THEY APPROACHED US ON THE BASIS OF A SERIOUS ATTEMPT TO WORK SOMETHING OUT TO WHICH WE COULD BOTH AGREE. TRUMPF CLAIMED TO TAKE THIS POINT (THOUGH WHETHER IT WILL

CONFIDENTIAL/DEDIP

3216 - 1

WORK OUT LIKE THAT AT THE POLITICAL LEVEL REMAINS TO BE SEEN).
HE WANTS TO TALK FURTHER IN LUXEMBOURG ON MONDAY.

HOWE

LIMITED.

HD/ECD (1)

HD/ECD (E)

PRIVATE SECRETARY

PS/MR RIFKIND

PS/PUS

MR DEREK THOMAS

MR BRAITHWAITE

MR RENWICK

MR ADAM FERGUSSON

COPIES TO:

MR WILLIAMSON - CABINET OFFICE

CONFIDENTIAL/DEDIP

CONFIDENTIAL

From: R W Renwick
Date: 5 November 1985

cc: Private Secretary
PS/Mr Rifkind
Mr Derek Thomas
Mr Braithwaite
Mr Hannay, UKREP Brussels
Mr Williamson,
Cabinet Office
Mr Weston, Paris
Mr Shepherd
ECD(I)

Mr Wall

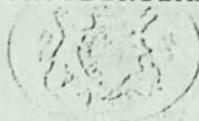
INTER-GOVERNMENTAL CONFERENCE: FRENCH POSITION

1. Boissieu rang me back this afternoon. I did not refer to Trumpf's account of French and German views. But Boissieu was quite forthcoming. He dealt with the issues in the following terms, stressing that he was anxious to work with us to see if common ground could be established when President Mitterrand meets the Prime Minister.

Decision-Taking

2. Boissieu indicated that the French are prepared to move to qualified majority voting on Articles 57(2) and 100, and possibly also 28 (which, if any treaty change is considered, should not cause great problems for us). He confirmed, explicitly, that the French would be determined to maintain the safeguards in Article 36 of the treaty about public policy, health, security, etc. I said that this was very important.

CONFIDENTIAL



The Parliament

3. Boissieu acknowledged that the French proposal did not look likely to pass. We had made clear the problems it would cause for us. The French, therefore, would be working on the Commission proposal. Boissieu agreed that it did not make sense to oblige the Council to decide twice. The first reading should fall short of that. Boissieu also indicated that in the French view, in the final stage of the procedure the Council should decide according to the treaty, ie the Parliament/Commission view should not trigger a switch to qualified majority voting. Boissieu knows that it is very difficult for us to contemplate any treaty change in this area. It was striking, however, that French concerns about the Commission proposal appeared to be close to ours. Boissieu added that the coverage of the articles concerned would need to be reduced to avoid this procedure applying to conjunctural policy.

Environment

4. Boissieu confirmed that in the French view this is an area in which unanimity must apply, whether for framework regulations or for implementing measures.

Technology

5. Boissieu said that the French favoured requiring unanimity for agreement on specific programmes. This might, be expressed as unanimity being required for programme decisions "except when....": The French had not yet made their doctrine on the limited areas in which majority voting might apply.



Cohesion

6. I asked Boissieu about the references in the French text to borrowing. Boissieu said that the French intention was that this should cover nothing more than the existing instruments, ie Euratom loans and the new Community instruments. There could be no question of opening up deficit financing.

Monetary Co-operation

7. I pointed out the objectionable features of the Delors proposal for amendments to Article 107. Boissieu said it was certainly not the French intention that it should be made more difficult for us to participate in the EMS. The French were concerned that Spain and Portugal, whose currencies would not be participating in the ECU package, should not enjoy full EMCF rights. Those rights must, however, apply to Britain. I said that this was not the effect of the Commission's proposal. We saw no need for any change to Article 107. Boissieu said that the French would be trying to get a reference to strengthened monetary co-operation included in that article.

General

8. I told Boissieu that we realised that the French and Germans were engaged in bilateral discussions. I thought it most important that we should not be confronted when President Mitterrand came here with a Franco-German position. Boissieu said that he understood this. He would be advising that the French approach should be rather: This is the kind of

CONFIDENTIAL



package we think might be achievable. Can we work to try to get something like this agreed?

R W Renwick

R W Renwick

RRAACI

CONFIDENTIAL

Euro Fed Budget



CONFIDENTIAL

Qz.04703

MR POWELL

EUROPEAN COMMUNITY: INTERGOVERNMENTAL CONFERENCE

Your minute of 4 November.

2. I agree with you that EQO(85) 128 should not be shown to the Prime Minister. We are following the normal procedure of discussing these issues next in the Steering Committee on European Questions. A paper will be circulated today. Thereafter a shorter revised paper will be submitted by the European Secretariat to the Sub-Committee on European Questions of the Defence and Oversea Policy Committee (OD(E)). We shall advise the Foreign and Commonwealth Secretary immediately thereafter to report the conclusions of OD(E) to the Prime Minister, with copies to all his colleagues principally concerned.

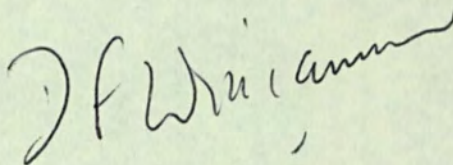
3. I am grateful for your warning about continuing maximum restraint on treaty amendments. We have consistently made clear in the discussions in the intergovernmental conference that we are not committed to any amendments. The most likely package to come to the European Council in December would be a number of important questions relevant to treaty amendments on:

- improved decision-taking on the internal market (an amendment of article 100 and possibly, but not certainly, an amendment of article 57(2);
- role of the European Parliament: the latest Presidency non-paper is very modest;
- (possibly) an amendment of article 145 on delegation of some tasks to the Commission;
- new articles on technology and environment.

CONFIDENTIAL

CONFIDENTIAL

We are continuing the policy of compression and also of correction of bad proposals but we have never indicated that we would accept anything.

A handwritten signature in dark ink, appearing to read 'D F Williamson', with a stylized, flowing script.

D F WILLIAMSON

8 November 1985

CONFIDENTIAL

Euro Pol: Budget.

Pl 30



Ref. A085/2845

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Ministerial meeting on EUREKA held in Hanover on 5-6 November which he attended together with the Minister for Information Technology (Mr Pattie). The purpose of the meeting was to agree a joint Declaration by member Governments and to give more substance to the operation of EUREKA, including ways of identifying and approving projects and the benefits to participants that would be expected from gaining the EUREKA stamp. A wide range of projects, including British ones, were tabled, though few are fully developed. The meeting also discussed administrative arrangements and the role of Government funding: the United Kingdom is committed to no additional public funding but existing schemes are, of course, available. The Foreign and Commonwealth Secretary offered to host the next Ministerial meeting in the United Kingdom in May/June 1986. This role puts the United Kingdom in the lead in taking EUREKA forward over the next six months and gives us a good chance of shaping it in our direction. Our aim continues to be to keep the whole operation responsive to industry and geared to meeting the needs of the market.

2. The Foreign and Commonwealth Secretary may refer to the Intergovernmental Conference. The next Ministerial meeting is on 11 November but there have been further meetings at official level. The United Kingdom negotiators, while taking no commitment on Treaty amendment, have been following your instructions to grind away at the over-ambitious proposals of other member states. It may be possible, if we keep in contact with the French (who do not want to go far) and the Germans



outside the conference, that the package will become quite modest, covering some improved decision-making on the internal market (without, of course, touching the veto in the "Luxembourg compromise"); some limited changes on the European Parliament which would leave the last word with the Council; and articles on technology and environment which might provide a better legal base than the existing practice of putting forward these proposals under the basket article (235) without a specific provision.

3. The Secretary of State for Trade and Industry will wish to bring his colleagues up to date on developments in the negotiations between the Community and the United States on 17 "consultation products" not covered by the 1982 Carbon Steel Arrangement. The United States, determined to protect their steel industry, set a 31 October deadline for concluding an export restraint arrangement with the Community for 1986 and beyond as the alternative to taking unilateral action to restrict imports from the Community. The deal, which was concluded on the deadline but ad referendum to Governments, is generally better than had been expected on quantities for the main steel products and in this respect can be considered tolerable for British exports. We do need, however, better assurances on semi-finished steel products, including slabs which are important for the participation of the British Steel Corporation in the joint venture plant at Tuscaloosa in Alabama. There are no quantity limits in the agreement on semi-finished products, which are merely "consultation" products, but our fear is that this will not stop the United States authorities acting unilaterally to restrict supplies. Discussions are in train with the Commission and bilaterally in Washington with a view to gaining assurances from the United States which will safeguard the contracts between the British Steel Corporation and Tuscaloosa. If these are not received, our ability to accept the whole package is in doubt. This would have a very serious effect on trade relations with the United States and within the Community and almost certainly on



our exports of other steel products. What the United Kingdom needs is both the agreement and the assurances on semi-finished products.

4. In the general field of Community/United States trade relations the Secretary of State for Trade and Industry may mention that after the breakdown of negotiations on citrus/pasta on 31 October the United States unilaterally imposed a duty on pasta imports from the Community. The Community announced retaliatory measures on lemons and nuts. The Community is taking up the issue in the General Agreement on Tariffs and Trade (GATT) but possibilities for further negotiation between the Commission and the United States should not be neglected, in view of the risks of fall-out on other trade issues.

5. There was a Development Council on 4 November (attended by the Minister for Overseas Development, Mr Raison) which reviewed the Community's action on famine in Africa. The 1.2 million tonnes of cereals food aid agreed at the Dublin European Council is on schedule. The Council also re-established for 1986 a food aid reserve of 500,000 tonnes of cereals, although the budgetary implications have still to be sorted out. Mr Raison drew attention to the need for Community action on famine relief to be more effectively presented to public opinion. There was also a Fisheries Council on 4 November which does not call for a report to Cabinet.

6. There will be an Energy Council on 11 November and a Transport Council on 14-15 November. In its session from 11 to 15 November the European Parliament will return to the draft 1986 budget.

ROBERT ARMSTRONG

6 November 1985

cc/c



Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

4 November 1985

The Hon Peter Morrison MP
Minister of State for Industry
Department of Trade & Industry
1 Victoria Street
LONDON SW1

GDQ
5/Ki

Dear Minister,

Thank you for your letter of 14 October. I have also seen the letters from Nick Edwards, Allan Stewart, Rhodes Boyson and Michael Jopling.

I think we are agreed that the most important priority is to secure the adoption of the four non quota measures before the end of 1985 in order to prevent the UK's receipts from them being counted against our 1986 ERDF quota. Our tactical position on extending the geographical coverage should take second place to this.

I agree with the line you propose on Clwyd, Fraserburgh and Northern Ireland. I see virtually no prospect of the Commission offering to include Fraserburgh without provision of extra money. The financing of the fisheries measure has been worded out on a Community-wide basis on the current scale of the fishing industry in each port and the numbers of jobs lost. It is not in our power to distribute the UK's allocation between our ports as we wish. I also share Michael Jopling's reservations about the practical difficulties of including Fraserburgh at the expense of Hull, Grimsby and Fleetwood.

That leaves the possibility of securing extra finance for Fraserburgh. It is certainly worth a try, and we should make one last effort. But if it becomes clear that to press further would lead to other member states demanding the inclusion of other disadvantaged areas and thus prevent the adoption of the measures in 1985, we should, as you suggest, agree to the package without Fraserburgh. This would be better than a delay which might cause us to lose out financially from the ERDF in 1986.

I am copying this letter to the members of OD(E) and EA Committees and to Rodney Elton (Environment), Nicholas Edwards (Welsh Office), George Younger (Scottish Office), Rhodes Boyson (MO), Michael Jopling (MAFF) and Sir Robert Armstrong.

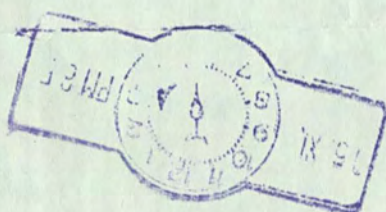
yours sincerely

Anthony Cary

for Malcolm Rifkind

Approved by Mr Rifkind and signed in his
absence by his Private Secretary

EUR. Pol: Budget: Pt 30





cc DE
BG

em

FCS/85/285

MINISTER OF STATE FOR INDUSTRY AND INFORMATION TECHNOLOGY

EUREKA Progress and Prospects

1. Thank you for your letter of 29 October and the report by officials "EUREKA Progress and Prospects".
2. I agree with the line you propose, subject to one comment. Like you I am conscious that we will have a direct responsibility for carrying EUREKA forward in the first half of next year, but shall need to make it clear, both to industry and to our partners, that we intend to make practical progress. We shall need to concentrate on key areas like standardisation, Eurotype and public procurement.
3. I am reluctant therefore to acknowledge or concede the need to establish "a Secretariat". We do not want to set up new bureaucratic bodies without real tasks - particularly when such a step can all too easily be seen as fulfilling the purpose of the exercise. I would on the other hand be content to accept the idea of a small task force, drawing on Commission expertise and supplemented as necessary from non-EC countries. Such a thing could be given a limited life and a

/specific



specific purpose - and to be staffed by redistribution of the activities of existing officials. This would prevent it having a paper-generating life of its own. Its task would be to work, yeast-like, for the Eurekaification of existing agencies and functionaries.

4. I am copying this minute to the Prime Minister, to other members of OD(E), Keith Joseph, Peter Walker, Michael Heseltine, Nicholas Ridley, as well as to Sir Robert Armstrong and Sir Robin Nicholson.

A handwritten signature in dark ink, appearing to be 'G. Howe'.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

4 November 1985



file 7034EA
CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

Mr. Williamson

INTER-GOVERNMENTAL CONFERENCE

I have been looking at EQO(85)128. I imagine that you will not want the Prime Minister to see it at this stage.

I am alarmed by the number of Treaty Amendments which appear to be envisaged. If I calculate rightly, we contemplate the possibility of going along with amendment of at least Articles 57(2), 100, 145 and 155, as well as the addition of new Articles on at least freedom of movement, technology, environment. I don't think the Prime Minister realises, even following her talk with Sir Michael Butler and you, that we contemplate changing the Treaty to this degree. I should be careful about getting too far down this road, at least without a further discussion.

CDP

4 November, 1985.

CONFIDENTIAL

Bm

CONFIDENTIAL

Ref. A085/2761

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Ministerial meeting of the intergovernmental conference on 21-22 October at which the Minister of State, Foreign and Commonwealth Office (Mr Rifkind) represented the United Kingdom. This proved to be more realistic than we had feared, most member states indicating a wish to look for a modest and negotiable package. There was a wider insistence - in particular, from the French and Germans - that any changes in decision-taking should be directed to the main objective, ie the completion of the common market in goods and services. There was little common ground on the European Parliament. The Presidency could only conclude that there was no desire to change the fundamental balance between the Community institutions but that the European Parliament should be more directly involved in decision-taking. On instructions from the conference the Presidency made clear in a meeting with the representatives of the European Parliament that the European Parliament's request to have the right to approve or amend the outcome of the conference was not acceptable. This was not well received by the European Parliament. The next meeting of the conference is on 11 November.

2. The Foreign and Commonwealth Secretary and the Secretary of State for Trade and Industry will report on the Foreign Affairs Council on 22 October, which dealt mainly with trade issues. The United Kingdom was represented by the Minister for Trade (Mr Channon) and the Parliamentary Under Secretary of State, Foreign and Commonwealth Office (Mr Eggar). The Council decided that tariff reductions agreed by the Community in the Tokyo

CONFIDENTIAL

round should go ahead a year earlier than planned ("rollback"). The United Kingdom attaches importance to this as a counterweight to growing protectionism. The decision was adopted by qualified majority against the opposition of France and Greece. On trade relations with Japan the Council agreed that the Commissioners who are visiting Japan later this month should tell the Japanese that, as a means of checking Japanese performance against their promises, we would look for a quantified target for a significant increase in imports. The United Kingdom has advocated this approach because of Japanese procrastination. The Council also reviewed the difficulties with the United States of citrus/pasta with a view to attempting to defuse the situation. Finally the Council tried - against Italian filibustering and opposition - to come to a decision on the maintenance of access to the Community market for certain products from Mediterranean countries (eg Tunisian olive oil, Cypriot potatoes and Israeli citrus) after the enlargement of the Community. The discussion continued at length in the informal meeting of Foreign Ministers on 25-26 October. Some progress is being made.

4. The Secretary of State for Trade and Industry may refer to the two Industry Councils held on 17 and 29 October which dealt with steel. The Minister of State, Department of Trade and Industry (Mr Morrison), represented the United Kingdom. The issue has been the arrangements in the Community's own steel market when the current restrictive measures expire at the end of the year. The Commission proposed a gradual return to free market conditions by the end of 1988, with production quotas progressively relaxed but the controls on state aids tightened. This has now been agreed. The United Kingdom also gained its objective of an increase in production quotas for the British Steel Corporation in this interim period, though not the full amount we had been seeking. There are still major problems resulting from the United States' wish to further restrict their imports of steel and to extend restrictions to new products, in

particular semi-finished steel products (the British Steel Corporation has a major interest in supplying these products to a United States plant in Tuscaloosa). These negotiations are under way.

5. The Chancellor of the Exchequer may refer to the Economic and Finance (ECOFIN) Council on 28 October at which the United Kingdom was represented by the Minister of State, Treasury (Mr Gow). The Council agreed (subject only to a Danish reserve which is expected to be withdrawn) on two Directives permitting unit trusts and similar bodies to operate freely throughout the Community. The United Kingdom should benefit, both because of the expertise of our companies and as a further step toward greater liberalisation of the Community's capital markets. On the 1986 draft budget the basic provision was not in issue but there was a discussion of the Commission's proposal to add about £150 million now to this figure. The Council did not question our entitlement to an additional abatement but considered that the correct figure would not be known until next year. They did not therefore accept the rectifying letter now but agreed as declaration inviting the Commission to submit an amending budget in September 1986 to take full account of our increased abatement, which will be known accurately then. We should still make the full abatement during 1986. The President of the Commission, Monsieur Delors, indicated a proposal for referring to the European Monetary System (EMS) in the package which might result from the intergovernmental conference. This does not involve any additional obligation in relation to the exchange rate mechanism. Nonetheless, it was received cautiously and will be examined later and in detail by the ECOFIN Council itself and by the preparatory group of the intergovernmental conference.

6. The Minister of Agriculture, Fisheries and Food may report on the meeting of the Agriculture Council on 21-22 October. The main items were a report by the Commission on the outcome of



their consultations on their paper on perspectives for the common agricultural policy; the revision of the sugar regime, which must be agreed by June 1986; and various technical matters, including space standards for battery hens. An additional Agriculture Council has been fixed for 19 December to discuss the perspectives for the common agricultural policy.

7. There was a meeting of EC(ASEAN) Economic Ministers in Bangkok on 17-18 October (attended by the Minister for Trade, Mr Channon); an informal meeting of Research Ministers (attended by Sir Robin Nicholson) on 23 October; and a meeting of Culture Ministers on 29 October (attended by the Minister for the Arts, Mr Luce).

8. There will be a Fisheries Council on 4 November. On 5-6 November the Foreign and Commonwealth Secretary and the Minister for Information Technology (Mr Pattie) will attend the EUREKA Ministerial meeting in Hanover. The EUREKA scheme is beginning to take on a more sensible shape as an instrument for promoting market-led developments in high technology. A number of projects will be announced in Hanover and the British EUROTYPE proposal is being actively followed up with support from the Commission.

MS

for

ROBERT ARMSTRONG

30 October 1985



From the Minister of State
for Industry and Information Technology

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

Telephone (Direct dialling) 01-215)
GTN 215) 5147
(Switchboard) 215 7877

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

NBM
CD
30 K.

29th October 1985

EUREKA: PROGRESS AND PROSPECTS

I enclose a note on "EUREKA: PROGRESS AND PROSPECTS", looking towards the Ministerial Conference that we shall both be attending in Hanover next week.

We have had a clear central objective throughout: to use the EUREKA initiative to help to improve our - and Europe's - technological performance by encouraging industrial collaboration to produce advanced technology goods and services capable of capturing major shares of world markets and by exerting further pressures towards securing an integrated European market.

We have made some encouraging progress with our European partners towards shaping EUREKA to accord more with our judgement of what is required. Although a good deal remains to be done, there is now a reasonable prospect of establishing a framework which should improve the opportunities for our companies to join with their European counterparts in profitable, market orientated collaborative ventures.

It is also helpful that in the six to eight months following the Ministerial Conference we shall be acting as "lead" country and to that extent will have many of the reins in our own hands. We should certainly exploit the opportunities that will give us along the lines indicated in paragraphs 39 onwards of the Note to secure our objectives. In particular, we must aim to put into practice the suggestion originally made by our own businessmen of "industrial fora" as a means by which industrialists can decide among themselves and for themselves what projects should be pursued under EUREKA.

As for Hanover itself, our companies are now beginning to come forward with solid, worthwhile, proposals. Projects that we might be able to announce include at least the following:

- (1) Acorn/Olivetti/Thompson: European standard for micros for use in schools.



(ii) European Silicon Structures: a new Pan European custom chip company.

(iii) Plessey Matra: wide band (telecommunications) switching.

(iv) CO2 laser project: Ferranti; LK Lasers; Fairey; Welding Institute plus French, German and Italian interests.

(v) collaboration between BAe; Aerospatiale; Aeritalia; MBB and CASA in various fields.

(vi) STC/GEC/Thomson/Siemens: interactive home systems.

These are current possibilities. The situation on projects changes daily, and we shall not be able to take a final decision until immediately before the Conference.

As one would expect, there are a number of issues that could arise at Hanover which will require careful handling.

The Germans, for internal political reasons, will wish the Conference to make a presentational impact. They may seek to achieve this by announcing the provision of large sums of public money for EUREKA and/or long head-line catching lists of projects. France and other countries may be tempted to play a similar game.

So far as public funding is concerned, the best indication we have is that the Germans will not be able to unveil large amounts of new money, but they may follow the French precedent of earmarking for EUREKA a specified amount within their total R & D budget. Our own position is wrongly interpreted as an unwillingness to commit any public funds to EUREKA projects; so it will be important to make clear, within our existing policy of not incurring a commitment to additional public expenditure, the extent to which British participants in EUREKA projects have access to existing schemes for financial support.

As to projects, the French, Germans and others may give the impression that they have more firmly committed ventures under way than we have (including some outside the market-led area on which we are focussing). In reality we doubt whether their lists of front runners are much if at all further advanced than our own. At all events, we should, of course, make the most effective possible impact with what we are able to announce.



In substance our main interest is to try to make sure that the EUREKA label will really mean something in terms of the quality of projects to which the label will be attached. At Hanover, while we should obviously welcome the wide interest already shown, we ought to endeavour to persuade the Conference of the need for approbation of specific activities to be reserved to those of real substance which can without undue distortion be attributed to EUREKA. Even if we set a fairly high standard there should be enough of those to buttress the credibility of the initiative.

But to achieve real credibility we must also commit ourselves to a good deal of further work after Hanover to make sure that the EUREKA mechanisms secure practical benefits, especially in the area of improving the market for goods and services with the EUREKA label. In this connection I am, as I have already indicated, content with the objectives and work programme for that period outlined in paragraphs 39 and onwards in the Note.

The Dutch, who very much share our basic approach to EUREKA, and a good many others, are anxious for an immediate decision to use the Commission Services to discharge a secretariat function. It may well be wise to secure an added degree of stability in this way, but my preferred course would be not to take a decision for the moment as we still have a little way to go on working out mechanisms of EUREKA and hence the exact job to be done. I would expect the French, in particular, to take broadly the same line, and I would wish to try to carry the day with them. But, rather than allow ourselves to be completely isolated on a point on which at the end of the day we could not die in the last ditch, I would be prepared to go a little further than the Note and to agree now to the principle of establishing a secretariat, leaving the details of how that should be done to be worked out in the period up to the next Ministerial Conference.

Lastly, I am sure that we must reject adding technology transfer to the objectives of EUREKA, as the Greeks, Turks, Portuguese and one or two others would wish. However worthy an end, this should be - and is being - pursued by other means. We shall need to argue that the important point is for EUREKA to offer scope for all sizes of firms, and to point to the way in which the ability of SMEs to make a valid contribution has been recognised.

Subject to your views therefore, and those of other colleagues to whom I am sending a copy of this letter and enclosure, I propose that we should take the Note as the basis for our approach to EUREKA at the Hanover Ministerial Conference and during the ensuing period.



I am sending a copy of this letter to the Prime Minister, to other members of OD(E) Keith Joseph, Peter Walker, Michael Heseltine and Nicholas Ridley, as well as to Sir Robert Armstrong and Sir Robin Nicholson.

GEOFFREY PATTIE



EUREKA: PROGRESS AND PROSPECTS

Note by the Department of Trade and Industry

UNITED KINGDOM OBJECTIVES

M. Dumas launched EUREKA in a letter of 17 April 1985 addressed to Sir Geoffrey Howe and others.

2 Whatever motivated the precise form and timing of that initiative, it is clear that a major underlying French concern was a problem of substance and importance: Europe's weak technological performance when compared, in particular, to America and Japan.

3 We share that concern. It was therefore decided, quite apart from considerations of a more tactical character, to mount a sustained effort to develop EUREKA into an effective instrument to help tackle the substantive problem thus identified. Others have felt a similar concern, and the initiative has evoked a strong, positive response from all those now engaged (the Community of Twelve, Austria, Finland, Norway, Sweden, Switzerland, and Turkey together with the Commission).

4 We also agreed with the French perception that part of the answer to improving Europe's performance lay in increased collaboration within Europe; but in other respects our analysis and prescription differed from theirs.

5 First, in our judgement the source of Europe's technological weakness does not lie primarily in the quantity and quality of our basic science or in the quantity and quality of our research and development, but rather in our ineffective exploitation of research and development to produce and market goods and services



based on advanced technologies that can capture substantial shares of world markets. We therefore set ourselves the objective of shifting the focus of EUREKA away from the original, somewhat traditional, approach of seeking to secure an increase in collaborative research and development activity in favour of encouraging collaborative projects aimed at developing internationally competitive advanced technology goods and services.

6 This emphasis on "market-led" rather than "technology-led" projects resulted in two consequential objectives. It underlined the importance of ensuring that industrialists are accorded the dominant role in identifying and carrying out projects. And, as one means to that end, British businessmen suggested the use of industrial fora. Each of these fora would bring together a manageable number of industrialists (and users), from a number of European countries but from a single reasonably homogeneous market sector, in order collectively to identify potential EUREKA projects. Once identified, a particular project would probably be implemented by a smaller grouping including, but not limited to, participants in the forum concerned.

7 Emphasising the 'market-led' character of projects also had implications for our attitude towards funding. To the extent that EUREKA is focussed on projects aimed at developing and marketing internationally competitive products and services, it becomes appropriate to look, at least for shorter term projects, predominantly to normal commercial sources of finance. The French concentration on collaborative research and development projects sits naturally with a larger role for public finance. This 'market-led' approach was therefore compatible with our second basic objective, which was also heavily influenced by budgetary considerations: to avoid any commitment to additional public expenditure, national or Community. (This does not, of course, preclude EUREKA projects from qualifying under existing support schemes.)



8 Our second main divergence from, or rather extension of, French thinking was again related to our emphasis on the market. In essence, it stems from the judgement that, in many market sectors based on advanced technologies, competition is on a world rather than a national or a continental scale; and that, because of the size of the investments needed to compete effectively, the prospects of success in world markets are greatly increased by access to a domestic market of continental scale. This led to our third basic objective: to bring out the importance for the success of EUREKA of measures to integrate the European market and to improve the supply side. We have stressed the possibility of using market integration measures as an alternative means to subsidies of encouraging industrial collaboration. The existence of a common European standard, for instance, could open up the possibility of sales throughout Europe and thereby improve the risk: reward ratio of a potential EUREKA project. We have also put forward a supply side proposal of our own - EUROTYPE - which is designed to develop advanced technology companies of a size and capacity to compete effectively with the USA and Japan. We have additionally drawn attention to the radical proposals of Dr Wilmot (Chairman of ICL) to develop a new transnational corporate status. There are now indications that the Commissions are seriously addressing these proposals.

9 We wished to retain the principle, embodied in the original French proposal, that participation in any particular project should be optional ("variable geometry"). Our motive was a desire to avoid the disadvantages that can flow from the Community approach based on unanimity and always acting as a group of Ten: rigidities, delays, the tendency for proposals to be diluted to accommodate all interests, and the possibility of having to contribute financially to projects of no particular national interest. We also wished the structures and procedures developed for EUREKA to be as flexible and unbureaucratic as possible; and to avoid duplication with other areas of collaboration within Europe.



PROGRESS ON OBJECTIVES

10 We have made substantial progress towards securing these objectives in the inter-governmental discussions on the objectives and structures of EUREKA:

- the aim of promoting international competitiveness figures prominently in the draft "Declaration of Principles relating to EUREKA", to be considered at the Hanover Ministerial Conference (annexed), as does the objective of encouraging industrial and technological cooperation directed at developing advanced technology products and services with a world market potential.
- it is accepted in that text that industrialists will determine the projects to be undertaken; the composition of project consortia; the form of co-operation and the nature of project management.
- industrial fora figure in that text as one means of identifying possible projects (though there are differing views as to the usefulness of this approach).
- it is accepted that the extent of public funding is a matter for individual governments to decide. There has been no significant pressure for additional expenditure on the Community budget and no suggestions of creating a central fund. The draft text embodies no commitments on public expenditure.
- the relevance of an integrated European market and an improved European supply side is generally accepted and reflected in the text. But, as yet, no clear link has been established between collaborative projects undertaken under EUREKA and action on any market integration measures that would markedly contribute to their success.



- the principle of 'variable geometry' remains intact.
- but there is a risk of premature bureaucratisation of EUREKA by the creation of a free standing Secretariat (see paragraphs 21-23 below); and, while the principle that EUREKA should not duplicate other areas of collaboration within Europe has been accepted, this is not being respected in practice in a number of the proposals for projects being canvassed (see paragraph 13 below).

PROJECTS

11 These inter-governmental discussions on the objectives and structures of EUREKA have been paralleled by intense activity in the United Kingdom and elsewhere to identify potential projects. There have been widespread contacts between government and industry in individual countries; between governments (primarily on a bilateral basis); and between firms in different countries (again primarily on a bilateral basis).

12 The result, so far as we can judge, has been to identify:

- a handful of activities that were already well advanced but which could be 'relabelled' as EUREKA projects.
- a handful of more or less genuinely new EUREKA activities approaching the project definition stage.
- a large number of expressions of interest by individual companies in particular potential projects, for which partners have not yet been meaningfully identified.



- a large number of expressions of interest by individual companies in particular areas of technology, for which specific projects and partners have not yet been meaningfully identified. (These lists have largely been compiled by the smaller countries).

13 Hardly surprisingly, given the time at which and the process by which they have been generated, many potential projects being canvassed sit uneasily with the objectives of EUREKA as described above or with the agreed characteristics of EUREKA projects that have been derived from those objectives and the agreed structures for EUREKA. In particular, many of the proposals being put forward by EFTA countries overlap with elements in the Community's research and development programmes. Another issue that we shall need to address during our period as "lead" country (paragraph 37 et seq) is how to introduce a degree of discipline into the process of according a project EUREKA status.

CONFERENCE OF FINANCIERS AND INDUSTRIALISTS

14 On 14 October, we organised a Conference of financiers and industrialists in London to consider the role of private finance in EUREKA.

15 The discussion was, as intended, broad ranging. No one dissented from our basic analysis of the nature of the problem. Private finance could play a substantial role in suitable market-focussed EUREKA projects. There was some reference to the case for public funding and for changes in fiscal arrangements, particularly to create an environment conducive to enterprise. There was also a recognition of the value of market integration measures and supply side improvements, and of their relevance as one factor affecting the viability of projects. Several comments were made about the way in which competition policy inhibited collaboration within Europe when American and Japanese companies constituted the effective market challenge. The sense of the



meeting was that any follow up action should be on more closely defined issues, but no clear indication was given of what those issues should be.

PROSPECTS FOR THE HANOVER MINISTERIAL CONFERENCE

16 In many respects, the prospects for the Hanover Ministerial Conference are favourable.

17 As a result of having prepared and circulated papers to the Paris Ministerial Conference and to the two subsequent meetings of the High Level Group of officials in Bonn, our approach to EUREKA is generally understood and often sympathetically received. This effect has been reinforced by our having held bilateral meetings, often repeated bilateral meetings, with the Netherlands, Switzerland (and thereby indirectly the other four EFTA countries), and with Italy, as well as with France, Germany and the Commission.

18 One of the main tasks of the Conference will be to adopt a "Declaration of Principles relating to EUREKA". As already indicated, the draft text clearly reflects most of our objectives, and there is no particular reason to expect any serious back-sliding.

19 But there are a number of, containable, issues still to be resolved or which may arise. These mainly stem from a fear felt on the part of many countries that EUREKA will become a largely UK/French/German preserve; a concern on their part to try to ensure for themselves at least an opportunity to put forward possible participants for a wide range of EUREKA projects; and a concern on the part of the smaller, less technologically advanced Southern countries that there will only be very limited scope for their companies to participate in projects on their industrial and technological merits.



20 These concerns underlie the desire to promote information flows about potential EUREKA projects, in the name of 'transparency' (Sections IV, 1.1; IV. 1.2; and V, 2.2 of the draft text); the anxiety about the scope for SMEs to play a part (Section II, 2 of the draft text); and the wish at least to refer to the possibility of projects remaining open to additional participants (Section IV, 1.7 of the draft text).

21 These concerns also underlie the widely shared desire, led by the Netherlands, to set up a secretariat immediately, primarily to collect and disseminate information. (Alternative passages at Sections IV, 2.3 and V, 2 of the draft text.)

22 There could well be a case for the Commission Services carrying out some EUREKA functions, to provide an increased element of stability; but so far we have opposed such a step as premature, wishing first to settle the objectives and structures of EUREKA. To date France and Germany have shared this view - but Germany is showing signs of weakening.

23 A good deal of work in any event remains to be done on precisely how one might establish, and perhaps pay for, such a body - including the question of how one would add non Community staff on to the Commission Services for this purpose as envisaged by the Dutch proposal - as well as on the tasks it might perform. One possible compromise, therefore, might be to include in the work programme for the period during which we act as "lead" country (paragraph 37 et seq) a study on the tasks of, and the modalities for establishing, such a secretariat, with a view to taking a decision at the next Ministerial Conference.



24 The Italian and Greek reluctance to leave decisions on whether or not a particular project has EUREKA status entirely in the hands of the governments of the countries of the companies etc participating in the project (Section IV, 1.6 of the draft text) stems in part from these concerns. The Italians also appear genuinely anxious that the EUREKA 'label' should not be devalued by being applied to projects that bear no real relation to the objectives of the initiative; while the Greeks may have in mind using their agreement to according EUREKA status as a bargaining lever.

25 We put forward proposals, in our second paper to the High Level Group of officials, on a mechanism for awarding EUREKA status that should introduce an element of discipline and provide a link to securing agreement on market integration measures. We believe those proposals will be acceptable at least to the Italians but they have not yet been considered collectively and are unlikely to be so addressed until after the Ministerial Conference. But that prospect may provide the basis for an accommodation with the Italians and Greeks on this point at Hanover.

26 Fearing that the initiative would otherwise pass them by, the smaller Southern countries have, from time to time, sought to add 'technology transfer' to the objectives of EUREKA. If included in any meaningful, mandatory or semi-mandatory sense, this would, of course, be quite incompatible with an 'industry-led' conception of the initiative. For the moment those countries have been bought off by the form of words at Section II, 3 of the draft text (which do not, strictly speaking, address the issue of technology transfer), but they may return to the charge. We shall have to continue to argue that what matters is the scope that EUREKA offers SMEs, and refer to what has been done to meet the concern and to promote 'transparency' (paragraph 20 above).



27 We are unlikely to be asked to enter into collective commitments on public funding. But France has already announced, with a certain fanfare, the availability of FF 1bn for EUREKA projects next year. These funds have been found largely by reallocating existing budgets; but that does not diminish their reality to the potential recipients or their presentational impact.

28 There have been moves in Germany for Chancellor Kohl to make a similar announcement at Hanover. Our best information is that the Germans have reached agreement on announcing that there will be a 'EUREKA budget', but, so far, not on any figure. If the Germans do succeed in catching the head-lines on money, this will increase the pressures on other countries to follow suit. And our own firms are, of course, concerned at being disadvantaged if they have to negotiate about entering into collaborative ventures with companies in other countries who do have access to public funds.

29 We are considering, separately and, on a contingency basis, what response we might make within the existing policy constraint of no additional public expenditure to bring out that our firms participating in EUREKA projects can apply for support under any of our existing schemes for which they are eligible.

30 The Commission have shown considerable interest in EUREKA. They would inevitably play a leading part in opening up the Community market. But they have been careful not to try to arrogate a role to themselves beyond this, while remaining willing to help in other areas such as a secretariat (if established).



31 If the draft 'Declaration of Principles' seems tolerably under control, that is less true of the second major item on the agenda for the Hanover Ministerial Council - projects.

32 There is a general agreement that it would be desirable for the communique after the Hanover Ministerial Conference to refer to at least some specific projects being pursued under the auspices of EUREKA.

33 As against that, the level and nature of the activity to date on projects, described in paragraphs 11 to 13 above, have led to a certain anxiety that this recognition could be granted too freely and pay inadequate attention to how well the proposed projects correspond to the objectives of EUREKA or to their tentative stage of development, thereby devaluing the initiative. The Germans show signs of seeking to introduce an element of selectivity: they should be encouraged and supported in this.

34 The best outcome would be, and our objective should be, a welcome, expressed in general terms, for the level of interest being shown by industry in the possibility of participating in EUREKA projects and for the number and range of potential projects being discussed; and a specific reference to a limited number of activities of real substance (say half a dozen) that are to be pursued as EUREKA projects (involving, of course, a reasonable level of British participation).

35 Substantive project proposals that we might be able to announce at the Hanover Ministerial Conference include:



- (i) Acorn/Olivetti/Thompson: European standard for micros for use in schools.
- (ii) European Silicon Structures: a new Pan European custom chip company.
- (iii) Plessey Matra: wide band (telecommunications) switching.
- (iv) CO2 laser project: Ferranti; LK Lasers; Fairey; Welding Institute plus French, German and Italian Interests.
- (v) collaboration between BAe; Aerospatial; Aeritalia; MBB and CASA in various fields.
- (vi) STC/GEC/Thomson/Siemens: Interactive home systems.

[These are current possibilities. The situation on projects changes daily, and the list will not be finalised until directly before the Ministerial Conference]

In addition to the specific proposals, we shall have in reserve a longer list of 'expressions of interest' by British companies, to be tabled should other delegations decide to adopt this approach.

36 The report of the Conference of financiers and industrialists is also on the agenda for the Hanover Ministerial Conference: this is currently being prepared by Sir Peter Carey, as Conference Chairman.



THE OUTLOOK BEYOND THE HANOVER MINISTERIAL CONFERENCE

37 We have indicated that we are prepared to act as hosts for the third EUREKA Ministerial Conference, to be held, say, in May or June 1986. The common assumption is that this offer will be accepted. This carries with it the responsibility for managing the EUREKA process, and we have said that we would outline, at the Hanover Ministerial Conference, our aims and work programme for the ensuing period.

38 At Paris, Ministers formally demonstrated the high level of political support for EUREKA; at Hanover, Ministers will define the basic objectives and structures of the initiative. Our broad aim should be to bring those structures into effective operation. It is only by so doing that our companies can secure practical benefits from the initiative. And unless that can be done, EUREKA will lose credibility.

39 The first element in the work programme should be directed towards securing a flow of EUREKA projects.

40 So far as the United Kingdom in particular is concerned, this should involve demonstrating the usefulness of industrial fora by arranging for two to be convened by appropriate companies (our existing commitment) and by encouraging others to do likewise. PENSA (communication systems architecture) is already developing into a forum involving British, French, German and Dutch companies. Interactive home systems has been firmly identified as a second area and various other possibilities are under active consideration.



41 It will also be important to ensure that the information flows envisaged in the draft "Declaration of Principles" actually take place, both to retain a broad based interest in the initiative and because it should be possible to use this process to introduce some degree of discipline into the award of EUREKA status to projects. This will involve clarifying the detail of what information is to flow and by what routes.

42 The second element in the work programme should relate to continuing to focus attention on the relevance of market integration measures and supply side measure.

43 The most practical approach would seem to be to seek to secure agreement to the proposal which we have already advanced. This would give the governments of the countries with companies etc participating in a project the option of putting before the High Level Group of officials a statement of any market integration and supply side measures that would enhance the project's prospects of success and of initiating some discussion of the merits of those measures. The Commission still considering the issue of a firmer link to implementing action, and that may have to be developed as a matter of practice rather than principle.

44 A third element in the work programme should be some follow up to the Conference of financiers and industrialists, (paragraphs 14 and 15 above), the precise form of which will depend on Sir Peter Carey's Report and any reactions to it.

45 A final possible element in the work programme could be a study related to a possible EUREKA secretariat (paragraph 23 above.)



DRAFT

Declaration of Principles relating to EUREKA
adopted at the Hanover Ministerial Meeting

EUREKA was established by a Conference of Ministers of 17 countries and Members of the Commission of the European Communities, meeting in Paris on 17 July 1985.

Meeting in Hanover on 5 and 6 November 1985, Ministers of 18 countries and Members of the Commission of the European Communities agreed as follows:

I Objective

The objective of EUREKA is to raise, through closer cooperation among companies and research institutes in the field of advanced technologies, the productivity and competitiveness of Europe's industries and national economies on the world market, and hence strengthen the basis for lasting prosperity and employment: EUREKA will enable Europe to master and exploit the technologies that are important for its future, and to build up its capability in crucial areas.

This will be achieved by encouraging and facilitating increased industrial, technological and scientific cooperation on projects directed at developing products, systems and services having a world-wide market potential and based on advanced technologies.

EUREKA projects will serve civilian purposes, and be directed both at private and public sector markets.



II Focus and criteria

- 1 EUREKA projects will initially relate primarily to products, processes and services in the following areas of advanced technology: information and telecommunication, robotics, materials, manufacturing, biotechnology, marine technology, lasers, environmental protection and transport technologies.

EUREKA will also embrace important advanced technology research and development projects aimed at the creation of the technical prerequisites for a modern infrastructure and the solution of trans-boundary problems.

- 2 EUREKA is open to all efficient capacities including those existing in small and medium-sized enterprises as well as in smaller research institutes.
- 3 The exchange of technologies between European enterprises and institutes is a prerequisites for a high technological standard of European industry. EUREKA projects will encourage and enlarge this exchange.
- 4 EUREKA projects will satisfy the following criteria:
 - compliance with the objectives set out above.
 - cooperation between participants (enterprises, research institutes) in more than one European country.
 - some identified expected badenefit from pursuing the project on a cooperative basis.
 - the use of advanced technologies.



- the aim of securing a significant technological advance in the product, process or service concerned.
- appropriately qualified participants - technically and managerially.
- adequate financial commitment by participating firms.

III General conditions

- 1 EUREKA will receive suitable support by the Governments of the participating countries and by the European Communities.
- 2 The establishment of a large, homogeneous, dynamic and outward-looking European economic area is essential to the success of EUREKA.
- 3 Completion of the internal market of the European Communities and the implementation of the Luxembourg declaration between the European Communities and EFTA countries will therefore benefit EUREKA. In particular this means that EUREKA should lead to an acceleration of ongoing efforts to:
 - elaborate joint industrial standards at an early stage.
 - eliminate existing technical obstacles to trade, inter alia by the mutual recognition of inspection procedures and certificates.
 - open up the system of public procurement.
- 4 The European Communities and the countries participating in EUREKA will examine the possibility of additional supportive measures for EUREKA.
- 5 Actions in the framework of EUREKA will be carried out in accordance with the principles of international free competition.



IV Project implementation and co-ordination

1 The projects

- 1.1 EUREKA projects will be prepared by an intensive exchange of information among enterprises, institutes and - where appropriate - potential users. In this context the establishment of industrial fora in certain sectors could help to identify possible EUREKA projects.
- 1.2 Governments and the Commission will support the exchange of information so as to inform all interested parties of envisaged projects.
- 1.3 EUREKA projects finally will result from the consultations among relevant parties. The enterprises/institutes concerned will carry out the projects in groups chosen by them.
- 1.4 The parties to a EUREKA project will determine the form of co-operation according to the specific requirements. The parties will likewise be responsible for determining the nature of the project management and for providing their own administrative support.
- 1.5 The enterprises/institutes participating in a EUREKA project will finance the project from their own funds, the capital market and any public funds made available to them.



- 1.6 The Governments of the countries of enterprises/institutes participating in a project and the Commission - when appropriate - will inform jointly the Conference of Ministers, through the High Representatives when meeting as a group, of the creation of a EUREKA project, once agreement has been reached to start the project and once they have established compliance with the objectives and criteria laid down for EUREKA. Such information may include indications of required measures referred to in the General Conditions. [Proposed Italian addition. A compliance analysis of EUREKA projects on a collegial (SIC) basis by the High Representatives is necessary.]
- 1.7 After such notification EUREKA projects should, however, remain open to other parties should the project partners so desire.

2 Organisation

- 2.1 The co-ordinating body is the EUREKA Conference of Ministers. Its members will be representatives of Governments of the countries concerned and of the Commission of the European Communities.

At the end of each meeting the Conference of Ministers will choose the chairman or the next meeting. The chairman will ensure continuation of the work.

It will be the responsibility of the Conference of Ministers to develop further the substance, structures and goals of EUREKA and to assess the results.



2.2 High Representatives of each of the participating countries and of the Commission of the European Communities will meet when necessary as a group in order to assist the Conference of Ministers in carrying out its tasks and prepare its meetings, including a briefing on projects to be notified to the Conference of Ministers.

The chairman of the group will have the same nationality as the chairman of the Conference of Ministers.

The High Representatives in accordance with national procedures, will make suitable arrangements to

- promote the necessary flow of information in their own country.
- arrange contacts between enterprises and institutes in countries participating in EUREKA, provide the requisite information and promote the implementation of projects.
- inform the other High Representatives and point out sectors, technologies, products or services for which there is a declared interest in co-operation.
- provide the other High Representatives with information on the preparation of EUREKA projects.
- discuss with other High Representatives solutions to any problems and exchange views on project funding.

Meetings of the High Representatives concerned may be held to discuss specific projects.

[2.3 A decision on the establishment of a Secretariat will be taken in due course in the light of the experience gained.



Among its tasks would be:

- to collect and to disseminate information, thus offering the services of a clearing house.
- to give the support for the meetings of a Conference of Ministers and High Representatives.
- to provide for continuity in the tasks to be performed.]

[2.3 Proposed Dutch alternative. A small and flexible central EUREKA Secretariat will be established to enhance the transparency and efficiency of EUREKA.

Among its initial tasks will be:

- to collect and to disseminate information, thus offering the services of a clearing house.
- to give the support for the meetings of a Conference of Ministers and High Representatives.
- to provide for continuity in the tasks to be performed.

The establishment of parallel European administrative structures will be avoided. To that end the EUREKA Secretariat will make full use of the services, experience and competence provided for by the Commission of the European Communities.] The composition of the Secretariat will reflect the participation of EC and non EC members in EUREKA. The Secretariat will operate under the responsibility of the EUREKA Conference of Ministers.]



V Relationship between EUREKA, the European Communities and existing European co-operative arrangements

- 1 EUREKA projects are not intended as a substitute for existing European technological co-operation, such as programmes sponsored by the European Communities, COST, CERN, ESA projects, bilateral or multilateral co-operative projects, or its further development. Their purpose is instead to extend or supplement it. [Proposed Dutch addition. Cross-fertilisation between these various programmes and projects will be stimulated by the EUREKA Secretariat and their counterparts in the various bodies.]
- 2 The European Communities may participate as a partner in EUREKA, eg through their own research capacity, research and development programmes, and finance facilities.
- 3 The creation of suitable general conditions in the European Communities and in the countries concerned and of an environment conducive to technological co-operation is a particular prerequisite for success of the EUREKA initiative.

CONFIDENTIAL



10 DOWNING STREET

Subject cc Master

for K4ACX
bc SPC

From the Private Secretary

29 October 1985

EUROPEAN COMMUNITY INTER-GOVERNMENTAL CONFERENCE

The Prime Minister had a talk with Sir Michael Butler this afternoon about the progress (or lack of it) of the Inter-Governmental Conference and the way ahead.

The Prime Minister wondered whether it would be possible to reach conclusions by the time of the European Council in Luxembourg. But a good reason for trying to reach agreement there was that the longer the conference dragged on the greater would be the risk of others trying to do more.

The Prime Minister wanted to know more about the possible impact of an extension of majority voting on our interests. I understand that a paper is in preparation in the Cabinet Office which would identify areas where we would want to avoid majority voting and those in which we could accept it with equanimity. It would be helpful to have an early sight of this.

The Prime Minister was sceptical of the need for new Treaty articles on the environment and technology but acknowledged that in some circumstances such articles could actually work to our advantage.

On the European Assembly, the Prime Minister saw no case for going significantly beyond our own proposals at the June European Council.

The Prime Minister's conclusion from the meeting was that for the time being we should continue to keep our cards close to our chest and go on grinding down the unrealistic aims of other member states and of the Commission. She recognises that, nearer the time of the European Council, officials may need to become more closely involved in drafting elements of a package which might be acceptable at the European Council. But it must be made clear that we enter this exercise without commitment and that the main purpose is to prevent others from drafting conclusions which would be unacceptable from our point of view. Officials should therefore continue to make clear that they do not know what the Prime Minister would or would not be able to accept when it comes to the Council itself.

CONFIDENTIAL

CONFIDENTIAL

2

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

CHARLES POWELL

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

CONFIDENTIAL



From the Minister

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

The Hon Peter Morrison MP
Minister of State for Industry
Department of Trade & Industry
1-19 Victoria Street
London
SW1H 0ET

29 October 1985

I have seen Allan Stewart's letter of 22 October to you about the non-quota measures under the European Regional Development Fund.

When I wrote to Norman Lamont on 12 February, I explained that any diversion of the ERDF money allocated for Humberside would cause a major row. This is still very much the case and while I recognise that the amount suggested by Allan Stewart is relatively modest, we should not underestimate the strength of the reaction such a diversion would produce. I therefore fully support the line taken in your letter of 14 October to Malcolm Rifkind that our aim must continue to be to obtain the best settlement possible without any reduction in the money already offered for Hull and Grimsby.

I am copying this letter to the members of ODE and EA Committees, to Rodney Elton, Nicholas Edwards, Rhodes Benson, Allan Stewart and to Sir Robert Armstrong.

MICHAEL JOPLING

Euro Per h30

Budget



GRS 1200

CONFIDENTIAL

CONFIDENTIAL

FM UKREP BRUSSELS

TO DEKBY 281330Z FCO

TELNO 3550

OF 281225Z OCTOBER 85

INFO PRIORITY EUROPEAN COMMUNITY POSTS, LISBON, MADRID

FRAME GENERAL

CALL ON PRESIDENT OF THE COMMISSION: 28 OCTOBER 1985

SUMMARY

1. DELORS WANTS THE IGC TO CONCENTRATE ON GETTING CLEAR GUIDELINES FROM THE EUROPEAN COUNCIL AS THE BASIS FOR FINAL DECISIONS IN MARCH

II. 1986 ON:

- INTERNAL MARKET: THIS REMAINS HIS MAIN PRIORITY. HE IS SHOWING INCREASING FLEXIBILITY ABOUT THE HANDLING OF TAXATION AND THE FREE MOVEMENT OF PEOPLE.

- ECONOMIC CONVERGENCE: HE REMAINS AMBIGUOUS ABOUT THE NEED FOR EXTRA RESOURCE TRANSFERS, BUT IS PUTTING MORE EMPHASIS ON NATIONAL EFFORTS AND THE COORDINATION OF EXISTING FUNDS.

- EUROPEAN PARLIAMENT: HE STILL FAVOURS A GENUINE INCREASE IN ITS POWERS, BUT CONFINED TO A LIMITED NUMBER OF AREAS, NOTABLY THE INTERNAL MARKET.

- MONETARY COOPERATION: COMMISSION PROPOSALS, TO BE OUTLINED TO ECOFIN TODAY, INVOLVE NO INSTITUTIONAL CHANGE BUT WOULD PROVIDE A JURIDICAL FRAMEWORK TO DEVELOP THE EUROPEAN MONETARY COOPERATION FUND IN THE FUTURE.

HE IS VERY CONSCIOUS OF THE NEED TO AVOID ISOLATING A MINORITY AT THE EUROPEAN COUNCIL: OF THE CONSTRAINTS WHICH UNDERLIE HMG'S CONTINUING SCEPTICISM, AND OF THE NEED FOR FRANCO-GERMAN-BRITISH COOPERATION.

2. HE CONFIRMED HIS COMMITMENT TO FOLLOWING-UP THE PRIME MINISTER'S PROPOSAL ON DEREGULATION.

DETAIL

3. I PAID AN INTRODUCTORY CALL OF ABOUT 45 MINUTES ON DELORS THIS MORNING. HE WENT STRAIGHT INTO AN ACCOUNT OF HIS ATTITUDE TO THE IGC. HE HAD ALWAYS BEEN SCEPTICAL ABOUT THE NEED FOR IT AND HAD WELL UNDERSTOOD THE ALTERNATIVE BRITISH APPROACH. BUT NOW THAT THE IGC WAS IN BEING, IT WAS IMPERATIVE THAT IT SHOULD PRODUCE A CLEAR RESULT. HE DEPLORED THE TENDENCY TO THROW IN THE KITCHEN SINK, WHEN WHAT WAS NEEDED WAS TO FOCUS ON A HANDFUL OF PRIORITIES.

CONFIDENTIAL

14.

CONFIDENTIAL

4. BY FAR THE MOST IMPORTANT WAS THE INTERNAL MARKET, IN WHICH HE SET OUT HIS THINKING IN FAMILIAR TERMS. HE CLARIFIED THAT THE PROBLEMS CONNECTED WITH THE FREE MOVEMENT OF PERSONS WOULD NEED TO BE HANDLED SEPARATELY FROM THE REST OF THE WHITE PAPER PROGRAMME. HE NOTED THAT THE FRENCH AND GERMANS WOULD INSIST ON RETAINING SAFEGUARDS FOR PUBLIC HEALTH AND SECURITY. (I ASSURED HIM THAT WE WOULD TOO). HE COMMENTED THAT THE TAX HARMONISATION ASPECTS WERE BASICALLY A MATTER OF TIMING: IF FINANCE MINISTERS WERE READY TO DEAL WITH THESE ISSUES, THE PROGRAMME COULD BE COMPLETED BY 1992.

5. I REMINDED HIM THAT HMG'S ATTITUDE TO TREATY AMENDMENT WAS STILL BASICALLY RESERVED AND WOULD REMAIN SO UNTIL IT WAS CLEAR WHEN PROPOSALS WERE ON THE TABLE. THE PRIME MINISTER'S PROPOSAL FOR A SOLEMN UNDERTAKING AS AN ALTERNATIVE TO TREATY AMENDMENT MIGHT WELL HAVE WORKED IF OTHERS SHARED THE BRITISH PHILOSOPHY. BUT OTHER MEMBER STATES SEEMED TO FEEL THAT IN ORDER TO CHANGE THE PSYCHOLOGY OF DECISION-MAKING IT WAS NECESSARY TO CHANGE THE TREATY.

6. I SAID THAT WE WERE CONCERNED ABOUT THE WAY IN WHICH COHESION HAD BECOME ATTACHED TO THE INTERNAL MARKET DOSSIER. WE FELT THAT IT WAS A MISTAKE TO ENCOURAGE THE EXPECTATION AMONG THE SOUTHERNERS THAT THE ALREADY LARGE NET TRANSFERS TO GREECE AND ITALY WOULD BE INCREASED AND EXTENDED TO SPAIN AND PORTUGAL. WE FEARED THAT IT WOULD BE VERY DIFFICULT TO CREATE THE INTERNAL MARKET IF THE HABIT DEVELOPED OF BUYING-OFF THE SOUTHERN GROUP FOR EACH ADVANCE THAT WAS MADE. DELORS REPLIED THAT THE COMMISSION'S APPROACH WAS BASED ON ECONOMIC COOPERATION AND THE EFFORTS OF INDIVIDUAL MEMBER STATES TO HELP THEMSELVES MUCH MORE THAN ON RESOURCE TRANSFERS. THE THREE EXISTING FUNDS WERE INCOHERENT AND INEFFECTIVE. THEY ADDED INSIGNIFICANTLY TO NATIONAL EXPENDITURE (2 PERCENT IN THE CASE OF THE SOCIAL FUND) AND THEIR MAIN IMPACT WAS TO PUT A COMMUNITY LABEL ON PROJECTS WHICH WOULD PROBABLY HAPPEN ANYWAY. BETTER COORDINATION OF THE FUNDS WITH EACH OTHER AND WITH NATIONAL ECONOMIC PROGRAMMES WERE ESSENTIAL. BUT HE MAINTAINED THAT SOMETHING MORE WAS NECESSARY. HE REPEATED TWICE THAT THE COMMUNITY OF TWELVE WOULD BREEK UP WITHOUT STRONGER POLICIES FOR ECONOMIC CONVERGENCE.

7. I REMINDED HIM THAT THE EUROPEAN PARLIAMENT WAS FOR US A PARTICULARLY SENSITIVE PART OF THE IGC AGENDA. WE DISLIKED ANY TINKERING WITH THE INSTITUTIONS WHICH THREATENED TO SLOW DOWN DECISION-MAKING OR (AS WITH THE DUTCH PROPOSAL FOR AN INVESTITURE VOTE) CREATE FURTHER STRAINS. HE AGREED WARMLY. THE INVESTITURE OR NOMINATION OF THE COMMISSION BY THE EP WOULD BE A RECIPE FOR ENDLESS TENSION AND UNCERTAINTY. HE WAS VERY CONSCIOUS FROM HIS CONVERSATIONS WITH YOU OF THE SPECIAL ROLE THAT WESTMINSTER HAD IN BRITISH DEMOCRACY. OTHER MEMBER GOVERNMENTS BY COMPARISON SEEMED TO PLAY HIDE AND SEEK WITH THEIR PARLIAMENTS. HE RECOGNISED THE NEED NOT TO DISTURB THE SUBTLE BALANCE AT WESTMINSTER. HE DEPLORED THE WAY IN WHICH SOME GOVERNMENTS, NOTABLY THE GERMANS, HAD GONE OUT OF THEIR WAY TO TRY TO PLEASE THE EP BUT WITHOUT OFFERING ANYTHING OF SUBSTANCE: MEPS SAW THIS FOR THE DEMOGOGERY THAT IT WAS. INSTEAD OF

-2-
CONFIDENTIAL

/WINDOW

CONFIDENTIAL

WINDOW DRESSING - WHICH HE COMMENTED WOULD CAUSE HMG DIFFICULTIES AT WESTMINSTER FOR NO PURPOSE - THE IGC SHOULD FOCUS ON A FEW AREAS WHERE THE EP COULD EXERCISE A CLEAR RESPONSIBILITY IN THE FACE OF PUBLIC OPINION. THE MOST OBVIOUS AREA WAS THE INTERNAL MARKET. IN AN IDEAL WORLD, HE WOULD ALSO LIKE TO CHANGE THE BUDGET RELATIONSHIP BETWEEN COUNCIL AND PARLIAMENT, WHICH HE DESCRIBED AS IRRESPONSIBLE AND DETESTABLE. BUT THAT WOULD REQUIRE SEVERAL YEARS OF WORK. I REMINDED HIM THAT HMG WERE FIRMLY OPPOSED TO GIVING THE EP ANY ROLE IN DECISIONS TO INCREASE OWN RESOURCES.

8. TOWARDS THE END OF OUR TALK, DELORS CAME BACK TO THE IGC. HE THOUGHT THAT FINAL DECISIONS IN DECEMBER WOULD NOT BE POSSIBLE WITHOUT A MUCH GREATER INPUT FROM FOREIGN MINISTERS THAN WAS ENVISAGED. THE BEST THAT COULD BE HOPED FOR IN LUXEMBOURG WAS THAT THE EUROPEAN COUNCIL WOULD BE GIVEN CLEAR ALTERNATIVES ON 5 OR 6 CENTRAL QUESTIONS SO THAT THEY COULD LAY DOWN GUIDELINES AS THE BASIS FOR FINAL TEXTS TO BE DECIDED ON IN MARCH. THESE QUESTIONS WERE:

- INTERNAL MARKET (INCLUDING THE QUESTION OF DEROGATIONS AND DIFFERENTIATION AS WELL AS THE HANDLING OF FISCAL AND SECURITY ASPECTS)
- COHESION
- THE EUROPEAN PARLIAMENT
- THE POWERS OF THE COMMISSION (A VERY BRIEF ITEM)
- TECHNOLOGY (HE STRESSED THAT THE COMMISSION'S APPROACH WAS NOT AN EXCLUSIVE ONE BUT MERELY SOUGHT TO ENABLE THE COMMUNITY TO PLAY A HELPFUL ROLE IN THE WIDER PICTURE)
- MONETARY COOPERATION (SEE BELOW)

HE STRESSED THAT THIS APPROACH WOULD NOT SUCCEED WITHOUT THE CLOSER COOPERATION OF THE COMMISSION WITH THE BRITISH, GERMANS AND FRENCH (WHO, HE ADDED, WERE BEGINNING TO STIR).

9. HE GAVE A SHORT PREVIEW OF HIS PRESENTATION TO ECOFIN LATER TODAY ON MONETARY COOPERATION. THE COMMISSION'S PROPOSALS INVOLVED NO INSTITUTIONAL CHANGE. THEY AIMED TO TAKE ACCOUNT OF SIX YEAR'S OF POSITIVE ACHIEVEMENT IN EMS AND SET A JURIDICAL FRAMEWORK FOR A FUTURE DECISION TO EXTEND THE ROLE OF THE EUROPEAN MONETARY COOPERATION FUND WHEN THAT WAS JUDGED APPROPRIATE BY MEMBER STATES. IT WOULD MARK OUT THE FUTURE COURSE WITHOUT ANY COMMITMENT AT THIS STAGE TO ECONOMIC AND MONETARY UNION. HE RECOGNISED THAT HMG'S POSITION WAS VERY RESERVED ON THIS.

10. I MENTIONED THAT, IN ADDITION TO THE IGC, YOU MIGHT WISH TO TOUCH ON DEREGULATION WHEN YOU SAW DELORS TOMORROW. HE COMMENTED THAT IT WAS A DIFFICULT TOPIC BUT THAT THE COMMISSION WERE WORKING ON IT WITH GOODWILL AND VERY MUCH IN LINE WITH THE PRIME MINISTER'S PROPOSALS IN MARCH. HE HAD INSISTED TO SANTER THAT THERE SHOULD BE SPACE FOR A PROPER DISCUSSION OF THIS AND THE BROADER PROBLEM OF COMPETITIVITY AT THE EUROPEAN COUNCIL, INSTEAD OF THE CLASSIC EXCHANGE ON ECONOMIC POLICY. HE FEARED THAT THE COMMISSION'S ANALYSIS OF WHY EUROPE WAS FALLING BEHIND JAPAN AND THE US WOULD NOT GET FULL MARKS. BUT HE WAS CONVINCED THAT THE COMMISSION SHOULD IN FUTURE ATTACH TO ALL PROPOSALS A CHAPTER ON THE BUREAUCRATIC AS WELL AS THE BUDGETARY IMPACT. THIS WOULD BEGIN THE LONG PROCESS OF ESTABLISHING BETTER WORKING HABITS.

CONFIDENTIAL

/n.

CONFIDENTIAL

11. I ALSO MENTIONED THAT YOU MIGHT WISH TO EXPLORE HIS THINKING ABOUT HOW THE COMMISSION WOULD ADAPT TO TAKE ACCOUNT OF ENLARGEMENT. HIS REACTION WAS, AS USUAL, VERY RESERVED.

HANNAY

YYYY

FRAME GENERAL

FCO ADVANCE TO:-

FCO - PS, PS/MR RIFKIND, BRAITHWAITE, RENWICK, WALL

CAB - WILLIAMSON, JAY

DTI - WILLIAMS

MAFF - ANDREWS

TSY - LAVELLE

UCLNAN 0792

FRAME GENERAL.

EC0(1)

COPIES TO:

ADVANCE ADDRESSEES.

-4-
CONFIDENTIAL

COVERING CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

25 October 1985

Dear Charles,

European Community

/ Sir Michael Butler is due to call on the Prime Minister on Tuesday 29 October. I attach a copy of Sir Michael Butler's report on the Inter-governmental Conference, which the Prime Minister will wish to see before Sir Michael's call. The Foreign Secretary considers that this report offers us a useful insight into the way in which we should be approaching the Luxembourg European Council.

/ I also enclose a copy of Sir Michael's farewell despatch.

Yours ever,
Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

COVERING CONFIDENTIAL

PRIME MINISTER

EUROPEAN COMMUNITY: INTERGOVERNMENTAL CONFERENCE

Michael Butler - who has now retired - is coming in on Tuesday to talk about the Intergovernmental Conference. He has prepared the attached note setting out the points on which he thinks decisions will be required. If you have time, you may also want to glance at his valedictory despatch.

This will be in the nature of a seminar rather than a decision-taking meeting. Points on which you will want to get Michael Butler's views are:

- (i) is it realistic to think of decisions being taken at the European Council in December? Or would it be better to agree now that more time will be needed? Otherwise we risk a premature and damaging row.
- (ii) what are the practical consequences of the limited extension of majority voting under Articles 57(2) and 100 which Michael Butler proposes? [Paragraph 12(a)] [Photocopies in folder]
- (iii) will adding new articles on technology and the environment extend Community competence?
- (iv) Michael Butler proposes [paragraph 15(c)] that officials be given authority to negotiate any arrangements on the European Assembly which leave the last word with the Council. This would be to give officials a very wide remit indeed: the Assembly could be given much greater powers while still leaving the last word to the Council. You will want to keep a tight personal control of negotiations on this point, which could be very sensitive in Westminster.

/On tactics

On tactics, Michael Butler recommends that we should continue to keep the other member states in the dark about our real intentions. But officials should be allowed to negotiate without commitment to see what is the minimum package which can be achieved. I would add a further point: that you should keep officials in the dark about your intentions. They will negotiate the harder if they are uncertain how far you will be ready to go, but suspect it is not very far!

You may want to take the opportunity to thank Michael for his many years - 13 - of hard work on the Community.

C.D.P.

CHARLES POWELL

25 October 1985

INTER-GOVERNMENTAL CONFERENCE

SUMMARY OF PROPOSALS

Internal Market

1. The Commission's proposals (broadly supported by Italy and the Benelux):

- define the common market as Europe without frontiers
- set 1992 as the deadline for its completion
- introduce majority voting under ten Treaty articles for measures needed to complete it (including taxation)
- give the Commission extensive powers of implementation.

Member states would also "cooperate" over the free movement of persons, though this would not involve majority voting. This is an improvement on the Commission's first draft (largely as a result of pressure from France and Germany) but it remains a maximalist proposal.

2. The French proposals involve:

- a modest definition of the internal market
- an ambiguous reference to tax harmonisation
- a review of progress in 1990
- majority voting under Articles 100 and 57(2) where a majority of the members of the European Parliament vote in favour of a Commission proposal, or do not press amendments to it.

3. The Germans have agreed among themselves, but have not so far tabled, an amendment to Article 100 which would introduce majority voting for directives removing direct impediments to free



movement of goods, services, capital and workers. Unanimity would be maintained in other cases (including all tax measures) and member states would be protected against being outvoted on proposals which would force them to lower their safety, health or environmental standards.

Cohesion

4. The current Commission text:

- commits member states to convergence of living standards
- links this to completion of the internal market
- writes the Regional Fund into the Treaty
- calls for better coordination of the three structural funds in order to promote convergence
- extends the Community's borrowing and lending powers.

5. In addition to the ideas put forward by the Commission, the Irish have proposed that the development of a common policy on regional development should be included among the objectives of the Community, and that the implementation of all common policies should take the regional dimension into account.

6. The French proposals remove some of the worst aspects of the Commission text by confining themselves to providing a Treaty base for the existing structural funds, for greater use of loans, and for the coordination of all the financial instruments at the Community's disposal. The French have also proposed an amendment to Article 235 which would allow a degree of "differentiation" (ie variable geometry) on measures not affecting the internal market.

Commission

7. The Commission have made proposals which would automatically give them extensive implementing powers which the Council could only claw back by unanimity. The Dutch have proposed that while the Commission should as a general rule have delegated powers of



execution, this should require a decision of the Council on each occasion. There is little support for the Commission, but considerable support for the Dutch proposal, and for the Commission's further suggestion that management procedures should be rationalised.

8. The Dutch have proposed that the President of the Commission should be nominated by common accord after consulting the European Parliament, and that he should propose a team of Commissioners to member states. The Dutch have also proposed that the Parliament should hold an "investiture vote" on the membership of each new Commission (Italy has proposed a vote on its programme).

9. The Dutch have proposed that there should be twelve Commissioners instead of seventeen after enlargement - a long-standing proposal of our own.

Powers of the European Parliament

10. The Germans want to extend the existing list of articles under which the European Parliament has to be consulted, to introduce an elaborate consultation and conciliation procedure under selected articles which could take up to sixteen months to complete, and to introduce a new requirement that the Parliament should approve new accessions, agreements with third countries and Treaty amendments before any of these are ratified by national parliaments.

11. As well as majority voting on the internal market (para 1 above) the Commission have proposed a "cooperation" procedure under which the Parliament could approve, amend or reject texts voted on by the Council. Any text approved or amended by the Parliament on which the Commission had subsequently given a favourable opinion could then be adopted by majority voting in the Council; but unanimity would be required to alter the Parliament's amendments, override an unfavourable Commission opinion or adopt a proposal rejected by the Parliament. The



Parliament's agreement would also be required for Council decisions on a uniform electoral procedure, own resources, Treaty amendments and new accessions.

12. Under the Italian proposals the Council would not be able to adopt a text rejected by the Parliament. The Italians have also proposed that the Parliament should have a right of enquiry.

13. Under the French proposals on Article 57(2) and 100 (para 2 above) majority voting would be triggered by the European Parliament's approval of a Commission proposal. The French have also put forward separate proposals on Council/Parliament cooperation which would enable the Parliament to amend a Commission proposal, subject to the Commission's right to insist on its original proposal or to make a new proposal, and would introduce a conciliation procedure where the text adopted by the Council differed substantially from that recommended by the Parliament. In all cases the last word would remain with the Council.

Technology

14. The Commission's text on technology would permit the content and financing of individual R&D programmes to be agreed by qualified majority within a unanimously agreed framework which would include an estimate of the financial resources to be devoted to R&D. It would also enable the Commission to become more involved in national R&D. The French and Germans intend to insist on the maintenance of unanimity for decisions on new programmes. The Danish text concentrates on R&D programmes and exchanges of information, and is designed simply to write current practice into the Treaty.

Environment

15. The Commission have proposed new articles on the environment under which objectives would be decided by unanimity



but implementation would be by qualified majority. Apart from this, the text now reflects elements of the UK approach to environment policy: action should be based inter alia on scientific evidence, cost/benefit analysis of the measures proposed, and an assessment of whether action at a Community level could achieve more than measures taken by member states. The Danish text, which is limited to problems caused by trans-frontier pollution, is unlikely to prove a basis for serious discussion.

Aid and Development

16. The Dutch proposals attempt a definition of development policy and provide for majority voting on aid questions. They would also have the effect of giving the Community competence to represent member states in international development fora. The Danish proposals are more tightly drafted but still provide for majority voting. Neither proposal has aroused much interest.

Culture

17. The Commission's proposals would write cultural activity into the Treaty and envisage cooperation with other European countries. The Italians and Dutch have proposed minor variations.

Fundamental Rights

18. The Belgians have proposed preambular language to entrench fundamental human rights in the Treaty.

Miscellaneous Danish Proposals

19. In addition to their proposals on technology, environment and aid the Danes have put forward proposals on voting in local elections, energy, employment, the working environment, and participation by third countries in EC cooperation.



Structure of Final Act

20. The Commission have proposed that any treaty amendments resulting from the Inter-governmental Conference should be combined with the new agreement on European political cooperation in a single act which, however, would keep political cooperation outside the framework of the Treaty of Rome.

Economic and Monetary questions

21. Belgium and the Commission have said that they will table proposals on economic and monetary questions.



INTER-GOVERNMENTAL CONFERENCE

REPORT BY SIR MICHAEL BUTLER

1. The inter-governmental conference met at Ministerial level on 9 September and 21 October. Work on possible treaty changes is being conducted in a preparatory group (Permanent Representatives under the Luxembourg chairman Dondelinger). There will be one or two further discussions at Ministerial level before the European Council.

2. With a plethora of proposals now on the table, the process could drag on beyond December. But the Luxembourg Presidency and the French and Germans will be pressing for at least agreement in principle on key issues at the European Council. The proposals put forward so far in the conference are summarised in the attached annex.

A

3. The Commission have put forward maximalist proposals on (a) extending majority voting, getting more power delegated to themselves and bringing the Parliament into the decision making process; and (b) "cohesion" - a code name for giving the Greeks, Irish, Spaniards and Portuguese a lever to extract more resource transfers. Their proposals have been



criticised by the Germans and, especially, the French, whose position on the substance is close to our own. The French would be prepared to agree, however, to limited treaty amendment, while ensuring that this does not touch any of their essential interests. The Germans want to go further on the Parliament (para 6 ⁷ below).

4. There is support for a limited extension of majority voting related to specific internal market objectives. If we appeared to be opposing changes in decision-taking on the removal of direct obstacles to trade in goods and services, we should risk defeating our own objectives on the internal market. This will be one of the key issues.

5. There has been no attempt in the Conference to undermine the Luxembourg compromise (though neither the Belgians nor Italians would agree to its inclusion in the treaty).

6. Since there will be no agreement on any more radical changes in decision-taking, peoples' minds have been turning to updating the Treaty by including in it articles covering subjects such as the Regional Fund,



technology and the environment on which the Community has been working for years. Depending on the wording, draft articles on these lines could be either objectionable (as the Commission's proposals were) or anodyne or even mildly helpful.

7. Though the French and Germans will not accept anything as radical as the Commission have proposed:

a) The Germans, while keeping the last word for the Council, have proposed a cumbersome mediation procedure between Parliament and Council. They are prepared to move to majority voting on the non-taxation aspects of Articles 57(2) and 100.

b) The French have made a modest and sensible proposal on cooperation with the Parliament. But they propose to move to majority voting on Articles 57(2) and 100 when an absolute majority in the Parliament has voted in favour of a Commission proposal.

8. The question of the Parliament remains the most difficult issue. A version of our own pre-Milan proposal is the best solution, ie European Parliament



produces its "opinion", with suggestions for changes on the Commission's proposal before Council gets down to serious legislation, representatives of the Parliament then discuss with Ministers who take account of their views in final negotiation, and Presidency explains to Parliament how far its ideas have been taken on board. Except for the Danes, most other member states are willing to go further and several believe passionately that it is necessary to do so.

9. The Italians have proposed a form of co-decision which would give the Parliament a blocking power. Neither this nor the German proposal for an extremely cumbersome consultation procedure has attracted much support. But there is a desire to improve consultation and to put this in the Treaty. There is interest in the German idea of requiring the assent of the Parliament for new accessions and new association agreements.

10. Work is proceeding on the political cooperation text on the lines we proposed. This will keep political cooperation outside the Treaty of Rome. Other will want this to be coupled with (a) some preambular language on European union and (b) some



limited changes and additions to the Treaty (paras 4-10 above).

11. We have been taking the line that UK Ministers will only be able to decide whether they can approve any amendments to the Treaty when they see the shape of the final package and that they will judge proposals by whether they are necessary in order to achieve desirable results. We have been joining "constructively" in discussion of all the draft proposals with the private aim of arousing as much opposition as possible to all the bits that look unattractive! Others, especially the French and Germans, have been at least as critical of the Commission's contributions. The Greeks seem to be signalling willingness to be bought off. The Danes are determined not to appear completely negative: they have themselves proposed a number of new articles, including the environment and technology.

12. A possible package that might form the basis for an agreed outcome could be:

- a) on decision-taking, agreement on a limited extension of majority voting under Articles 57(2)



and 100 for the removal of direct impediments to the free movement of goods, services, capital, workers and the professions, possibly coupled with agreement that the Council should lay down framework regulations unanimously (in considerable detail) in certain areas, with implementation thereafter by qualified majority voting (an adaption of the UK proposals at Milan);

b) short articles on technology laying emphasis on allowing firms to cooperate and on opening up the internal market. The framework/implementing regulation approach could be applied to technology, with specific research programmes requiring unanimity;

c) an article on the environment (nearly all other member states will want something in this field) which would not change the existing situation and which would spell out the need to balance industrial and regulation costs against environmental advantages;

d) a mention of the regional fund in the Treaty and an article providing for coordination of the



three structural funds to avoid overlapping waste
(this has been proposed by the French to defeat
the Commission proposals on "cohesion");

e) something on the Parliament;

13. The Italians, Commission and Benelux would not think such a package sufficient. But cooperation with the French and Germans so far in the conference has been good. Kohl and Mitterand will want something positive to be decided and may be interested in working for agreement on something like this basis, possibly leaving the detailed drafting to be settled in subsequent discussions.

TACTICS

14. The questioning approach we have adopted has served us well. We have been able to stimulate the French and Germans into firm opposition to the maximalist proposals from the Commission and others. We can continue this line in the Conference. It is in our interests to maintain uncertainty about our intentions. But we need to work with French and German officials and the Presidency in the coming weeks in

order to continue to "shrink" the package which is likely to be on the table in December and get it as close as possible to something we might be able to accept. Otherwise the French and Germans will probably reconcile their differences in a way which is unattractive to us and sell the result to the Presidency before the European Council.

15. I recommend that for some time to come, and probably right up to the European Council, your team should take the line privately with the French, Germans and Presidency that:

a) British Ministers and in particular the Prime Minister will not be able to take a view about a possible package of proposals until something much more modest and practical than is now on the table emerges;

b) the Prime Minister sees the Community's main tasks as getting on with the internal market and creating a climate in which European firms can compete effectively with Japan and the United States and will need to be convinced that any changes will help towards the attainment of those



practical objectives;

c) at official level, and without commitment, we are prepared to work to see whether a package on the lines of para 12 above might be acceptable.

On the Parliament, we should reject any arrangements which would not ensure that the last word remains with the Council.

16. When the Prime Minister sees Mitterrand (18 November) and Kohl (27 November), they will be beginning to focus on what should be done at the European Council. Our assessment is that their preferred option will be to make a "minimalist" deal with us, if they see that this is possible. Otherwise they will work for their own package. The Prime Minister will not need to commit herself about precise proposals, but will need to consider what signal to give to them.



SIR MICHAEL BUTLER'S VALEDICTORY DESPATCH

SUMMARY

1. The Community's maddening ways breed cynicism. But European unity is needed to protect and promote our interests at home and abroad. It has to be made to work (paragraphs 1 and 2).

2. Recently it has worked better than most people think. But there is a feeling of malaise. Various causes; one that the public have no clear picture of what the Community is about (paragraphs 3 and 4).

3. There will be no shortage of problems in next five years: the European Parliament, the internal North/South split, the CAP, the stony road to the "great market", relations with the US. Britain, too, will have its problems, some of our own creation (paragraphs 5 and 6).

4. How to convince people that the venture is worthwhile? No magic answers. We can only slog away. Commission and Governments must improve their presentation. We shall get our way more often if we are seen to be more in favour of European Unity (paragraph 7).

/5.



5. Tribute to your handling of European policy (paragraph 8).
6. Glad to have seen the UK budget problem through to its solution. Equally glad to be going now. But the Community is one of the great issues of our day. Diplomacy in Europe is professionally even more interesting than in the 1950s (paragraphs 9 and 10).
7. UKRep and our Cabinet Office machinery are the envy of the professionals in Brussels (paragraph 11).
8. Permanent Representative needs to know the Community before he comes if he is to get his way. David Hannay meets the bill admirably (paragraph 12).



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

TELEPHONE 230 62 05

10 October 1985

The Right Honourable
Sir Geoffrey Howe QC MP
etc etc etc

Sir

1. Long exposure to the European Community tends to breed cynicism. The boredom of hanging around outside European Councils or inside interminable and sometimes unsuccessful Foreign Affairs Council meetings; the hypocrisy of the games Governments play when trying to blame others for lack of progress; the failure of Ministers such as Genscher to learn enough about the subject-matter to negotiate seriously; the monotonous regularity and irrelevance of major exercises about the future of the Community (Tindeman's report, Three Wise Men's report, 30 May Mandate, Dooge Committee, and now Intergovernmental Conference) as a substitute for urgent and difficult action to reform the CAP or to complete the internal market; the mediocrity of the content of Communautaire effusions; it is too easy to begin to think that this is all there is. As we sat in the "Dondelinger group" preparing the Intergovernmental Conference recently one of my colleagues, who is an even older Community hand than I am, turned to me and whispered.- "You are a lucky man to be

/going



going. I've had it - up to there". But the peculiar thing is that he, who is gloomily staying, and I, who am gladly going, both share an absolute conviction that it is all worthwhile.

2. Why? Because the democratic countries of Western Europe need unity if they are to protect and promote their interests in the modern world. They need unity of the European market if their economies are to become sufficiently competitive to provide prosperity and employment. They need it in order collectively to counter Soviet foreign policy with a uniting Western Europe and to tie West Germany indissolubly to France and Britain; to organise Western Europe so that it can bargain on less unequal terms with a United States which seems to be drifting slowly away from us as well as risking being carried off on a wave of protectionism; to create a climate in which European companies co-operate to meet the Japanese and American challenge rather than trying to hang on as "national champions" and gradually going under; and to tackle the innumerable problems which have made progress in these fields too slow for survival so far. The full list of requirements for common action is longer still and there are many things further down it which are not so crucial but are still important. So the Community has to be made to work. For it is the only means that we have to achieve these ends.

3. Even if Community decision-making is painful to the participants, it does work better than most people think. In the last two or three years an enormous range of decisions has

/been



been taken:-

a Common Fisheries Policy established, with a Community inspectorate;

the beginning of action to curb the CAP surpluses, with milk quotas;

agreement on budget discipline, including our long-sought aim of a strict financial guideline for the CAP even if this is as yet not wholly secure;

the settlement of the British budget problem (in a way which will prevent it ever being so tiresome again);

the increase in own resources to 1.4% of VAT, at least for other member states;

the innumerable decisions required to permit the conclusion of the enlargement negotiations with Spain and Portugal;

the revision of the Regional and Social Fund regulations;

a five-year research programme, including Esprit;

decisions on the environment, eg exhaust emissions;

a breakthrough on standards by the adoption of 15 long-blocked directives and agreement on future mutual recognition of standards;

the single administrative document to facilitate the movement of goods across frontiers;

the reasonably successful management of the crisis régime in the steel industry (prices and quotas and closures);

the handling of difficult negotiations with the US on restraint on Community steel exports.

/a



a third Lomé Convention;

the emergency aid programme to Africa; and so on and on.

Those who say that the Community is blocked are either ignorant or are comparing reality with some unrealisable ideal.

4. Yet those who yearn for "qualitative leaps" or push the Community into intergovernmental conferences to revise its constitution reflect a genuine malaise. There is a widespread feeling that the European ideal has lost impetus. Even if it is true, as I believe, that the historians in a 100 years time will find the place of European integration in the 1980s to have been rather rapid, the man or woman in the street does not see it today. My own wife doubts it. This is partly the fault of the European enthusiasts themselves who are always prone to describe the Community glass as nine-tenths empty rather than as it is, half full. It is partly the fault of the media and its obsession with rows rather than their solution. It is partly due to the national champion mentality in Community negotiations, as some Ministers recount them to the public. It is perhaps partly due to the mediocrity of the political leadership in many Member States and its preoccupation with home politics, "European" though it professes itself to be in most countries. But perhaps the most deep-rooted and worrying cause is that so few people in any of our countries have a clear picture of what the Community is now about. If the ordinary intelligent member of the public looks at the list of subjects

/to



to be dealt with in order to complete the internal market (attached), he is bound to ask himself whether all this is really necessary in order to have a united Europe. Alas, the answer is that it is.

5. Though the political pressure to move forward has increased in my time here and though the Delors Commission will certainly give things a push, there will be no shortage of problems in the next five years. The controversies will continue, as it is natural that they should. Even in fully-fledged federations, political and economic controversy is not unknown! Those claiming to be ideologically in front will cry forward and accuse those who do not cry with them of being at the back, crying back. The European Parliament will cause member Governments much trouble because it has a vocation to demand for itself powers that the national Governments and Parliaments are not ready to give it. Enlargement will both create new problems and make them more difficult to solve. The camp of the less rich, including now Spain and Portugal, will try to force the richer camp to disgorge still more funds. Both sides will find it hard to rally a qualified majority. France, Germany and the UK, the net contributors, will resist increased expenditure and will make themselves unpopular if (as I ardently hope that they will) they agree among themselves what should be done. (They may make themselves still more unpopular if they disagree). The CAP will come under increasing strain and will not survive in the form so long lauded as the essence of the

/"Communataire"



"Communaautaire". The road leading to the "single great market" will be stony. The Atlantic will be rough and Europe's great American partner will be floundering. Europe will not find it easy to unite to deal with them. It will frequently be in "crisis".

6. Britain will have its problems, some of them of our own creation. To give an example of the latter category, I do not believe that the PESC (EC) method of controlling Community expenditure on research and development is likely to prove consistent with constructive membership of the Research Council. The Community budget as a whole and the European Parliament's role in its adoption will continue to cause us unavoidable problems, though less than those it will cause to the French and the Germans, whose percentage net contribution to expenditure in the Mediterranean countries will be four or five times our own. Others will want to increase own resources again before we are ready - though this will give us an opportunity to improve further the budget discipline arrangements and even, if we wish, the corrective mechanism for the UK. The British Parliament will remain hostile to the European Parliament and this will make relations with British MEPs a problem. The results of the Intergovernmental Conference on revising the Treaty may not be easy to negotiate in a form acceptable to the British Parliament. There will often be something for the Daily Express to complain about.

/7.



7. How then to convince the people that Europe is already uniting fast and must unite faster? How to convince them that the constant clash of views and interests is not a sign of fundamental disunity, but of the breadth of the front on which European integration is moving and the vitality of the process? Only a static Europe would be calm and united. If I had had any magical prescriptions for getting the Community better understood, I would have recommended them to you long since. We can all only slog away at it, as you do tirelessly. The Commission and the other member Governments need to improve their presentation of the facts and we should keep at them to do so. You are also quite right to try to generate some enthusiasm for the cause of European unity. Not only do the anti-free market, anti-Common market, anti-European Union views of the extreme Left need to be exposed and countered, but it is in our interests to convince the other member Governments that the British Government and people are with them on the voyage. We shall get our way more often if we are perceived to be more in favour of the aim of European Union. For in the eyes of our partners, the Community is not just a permanent negotiation about important but boring detailed issues. It is a common enterprise to unite a continent and those who proclaim this aim are forgiven many minor sins and granted considerable favours.

8. In this farewell despatch I should like to pay tribute to the constant and careful thought that you give to every aspect of

/our



our European policy and how to present it; to the good humour with which you approach the endless round of Councils and political co-operation and bilateral meetings with your Community colleagues; and to your hard work, patience and negotiating skill which brings us a higher than average degree of success. My Coreper colleagues make no secret of their envy. For me, it has been a recurring, frequently recurring, pleasure to work for you.

9. I am grateful to you, too, for letting me retire early. Seven and half years in London, as Head of EID, AUS (Community) and DUS (Economic), and six years in Brussels seem a long time. When I came back to London in the summer of 1972 to work again on the Community, I knew that there would be much to be done before we could become ordinary members like the others. It never occurred to me that it would take so long. But I am glad to have stayed with the UK budget problem till it was solved and therefore that your predecessors have kept my nose to the Community grindstone. Equally, I am glad that you are letting me take it off.

10. Nevertheless I expect that, in true Proustian fashion, I shall be sad no longer to be a member of the Service, to give up my pass to the Foreign Office where I have spent about half my working life! Though the old building remains much as it was, the work has changed out of all recognition, at least on the

/European



European Community side. But in my experience it is even more interesting now than it was when I was in the Western Department in the early 1950s. No longer to be part of the policy-making process at home, no longer to know on the inside what the press so inadequately describes from the outside will be strange and possibly disagreeable. However that may be, I shall not lose my interest in the Community being made to work well. It is one of the great issues of our day and I care about it as much now as I did in 1961 or 1973.

11. Though I claim no credit for it, UKRep is, as it has always been, in good shape. It is a major tribute to the British Civil and Diplomatic Services that they post such able men and women to Brussels and that once they get there they weld at once into an effective and united team, to a far greater extent than most other Permanent Representations. Perhaps it is because they are all so busy doing interesting things that team work comes naturally to them. It is the underemployed who try to weld empires or to do down their colleagues. It is nice to be able to report that the UKRep team, together with our superlative Cabinet Office co-ordination machinery at home, are considered by the cynical professionals in Brussels to be major British assets.

12. It will always be essential to send to Brussels a Permanent Representative who already knows the Community, its dreadful "dossiers" and how to get our way in it. I hope the powers that be in the Office will continue to train such officers up to

/standard



standard. You have wisely sent to succeed me just such a man, the only man in the Service who has worked on the Community as long as I have. I can hand over in the certain knowledge that there will not even be a faltering moment as the baton passes.

David Hannay will be in charge within a few hours of my departure and he will find a heavy workload waiting for him. Luckily he has bounce enough to do it all and more.

I am copying this despatch to Her Majesty's Representatives at all European Community posts and Washington and UKDel NATO.

I have the honour to be
Sir
Your Obedient Servant

Michael Birt





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU
TELEPHONE: 01-233 3000

The Hon Peter Morrison MP
Minister of State for Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

N 22/10
22 October 1985

Dear Peter,

I refer to your letter of 14 October to Malcolm Rifkind about the ERDF non-quota measures.

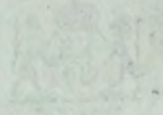
I agree with the line which you propose for Fraserburgh, ie that it should only be given up in the negotiations as the price for agreement on the measure as a whole.

If the Commission is ready to agree to the inclusion of Fraserburgh, given the European Parliament's support, but not provide any additional money, I think we should still accept. Fraserburgh has suffered considerable loss of employment in the fish processing industry as a direct consequence of the Common Fisheries Policy, and we regard it as important that Fraserburgh should be covered by the fisheries measure. The amount of resources which might be diverted from Hull and Grimsby would be small, say 10% of the allocation (£750,000), and these areas could make up any losses through application to the normal ERDF funding mechanism. Fraserburgh, since it is a non-assisted area, has no alternative avenue for gaining ERDF support.

I am copying this letter to the members of ODE and EA Committees, to Rodney Elton, Nicholas Edwards, Rhodes Boyson, Michael Joplin and to Sir Robert Armstrong.

Yours ever,
Allan
ALLAN STEWART

EURO POL
BUDGET
PT 30



1985

1985

1985

I refer to your letter of 14 October in relation to the 1985
two-point measure.
I agree with the fact that you are the first to point out that it
should only be applied to the 1985 measure as the first point of
the measure is a whole.
If the Commission is ready to agree to the inclusion of paragraph
2 in the 1985 measure, I support the Commission's proposal. However, I
must stress that the Commission should also consider the possibility
of applying the 1985 measure to the 1984 measure, as the 1984
measure is also a whole. I am aware of the Commission's position
and I am sure that the Commission will take the necessary steps
to ensure that the 1985 measure is applied to the 1984 measure.
I am copying this letter to the members of the Committee and to
the relevant departments of the Commission.

1985

cc PC



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

17 October 1985

De Pen

Wym

EUROPEAN REGIONAL DEVELOPMENT FUND

EG REGULATION 219/84: NON QUOTA AID TO TEXTILE AND FISHERIES AREAS

Thank you for copying to me your letter of 14 October to Malcolm Rifkind setting out the line which you propose to take in the final stages of the negotiations on the package of measures brought forward under the non-quota section of the European Regional Development Fund.

I would accept that so far as the UK's overall objectives are concerned we should aim to secure early agreement to funding "off the quota ranges" and in respect of the best possible UK deal which can be secured. I am therefore, in the main, content to leave decisions on the detailed handling of the package to negotiators to be decided in the light of developments, subject only to two points, both of which relate to Clwyd's inclusion under the textile measure.

As you will know from Wyn Roberts' letter to you of 27 September, the suggestion that the case for Clwyd should not be taken to the highest possible level is one which should present me with particular problems. Apart from the fact that the area so nearly satisfies the precise historical criteria devised by the Commission services, there is also, of course, an added sensitivity so far as this area is concerned as a result of the more recently announced Courtaulds closure. The County and District Councils in the area are equally likely to be at a loss as to why Clwyd should not qualify for aid given that the only criteria which the Commission appear to be prepared to acknowledge publicly (to the local MEP and others) are the subjective criteria featuring in the Regulation itself which clearly place them in scope.

/All this leads ...

The Hon Peter Morrison MP
Minister of State for Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET



All this leads me to the view that there would be some difficulty in seeking to justify a situation where the case for Clwyd was conceded without a further high level attempt to shift the Commission on the application of the criteria, and equally without a renewed effort to get them to acknowledge publicly those criteria if the attempt should fail.

Presentationally, conceding the case for Clwyd (which is a Development area where one in five are unemployed) at a stage where the case for Fraserburgh (non-assisted and with a lower rate of unemployment) was still in play might also appear strange. This situation, at least, could of course be avoided if both Fraserburgh and Clwyd were to be progressed in tandem to Council. Apart from any presentational consideration this would anyway provide us with a negotiating card under both the textiles and the fisheries measure.

If it does come to that then the Commission has suggested that Clwyd would qualify under any future round of steel measures. A minutes declaration to that effect would, of course, provide us with a final basis for compromise and I am grateful to you for the suggestion that we should press for this should the argument in favour of Clwyd finally and irrevocably fail - which I hope it will not.

/ Copies of this go, as yours, to the members of ODE and EA Committees and to Rodney Elton (Environment), George Younger (Scottish Office), Rhodes Boyson (Northern Ireland Office), Michael Jopling (MAFF) and to Sir Robert Armstrong.

[Handwritten signature]
[Handwritten signature]

EUR, POL: Budget: Pt 30





From the Minister of State for Industry

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

Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

cert

THE HON PETER MORRISON MP

Malcolm Rifkind Esq MP
Minister of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street West
LONDON SW1

CD0
15/K-

14 October 1985

Leah

The EC Commission published at the end of last year proposals for a final set of four non-quota measures under the European Regional Development Fund. These proposals have been discussed at Working Group level in Brussels, and will shortly be put to COREPER and then to the Council of Ministers of Foreign Affairs. In this letter I set out the line which I think we should take.

There are four proposed regulations. Three of them concern areas affected by the decline in the textiles, shipbuilding and fisheries industries, and the last concerns the border areas of Ireland and Northern Ireland. The Commission's proposals on shipbuilding and textiles are to extend the existing measures, which already benefit various UK areas, so as to benefit certain areas in other member states. While the UK is not therefore a beneficiary from the Commission's proposals in respect of shipbuilding and textiles it is a handsome beneficiary from the proposed Northern Ireland and fisheries measures, and a net beneficiary from the proposals as a whole. In any case our likely benefit from the package of measures is greater than our likely share of the main ERDF in the light of the changes needed to accommodate Spain and Portugal about which I wrote to you on 30 September.

In the light of this, our main aim must be to get the measures adopted before the accession of Spain and Portugal at the end of the year, and to preserve their non-quota status against attack from the Italians and Greeks, who are arguing that the measures should come under the main ERDF, and thus that expenditure on them should count towards the quota ranges of the beneficiary countries. There will be strong resistance to additional geographical coverage

1THAPJ



of any of the measures where that additional coverage would imply a need for more money. We should therefore, in order to help achieve our main objective, be prepared to drop all our requests for increased geographical coverage, with the exception of those relating to Northern Ireland, Fleetwood and Fraserburgh, if this seems sensible at COREPER as part of a move towards an overall deal. The fact is that none of our other candidates satisfy the quantitative criteria devised by the Commission. There is no chance whatever of persuading the Commission or other member states, to agree to extra areas that do not satisfy the quantitative criteria, and even if we did the Commission would certainly refuse to provide more money.

In the case of the fisheries measure our main aim is to get the measure adopted on a non-quota basis with no reduction of the money available to Hull and Grimsby. However the European Parliament also suggested the addition of Fleetwood (Blackpool TTWA) and Fraserburgh. Both satisfy the Commission's quantitative criteria but neither are assisted areas which is normally also a necessary requirement. We have nevertheless recently persuaded the Commission Services to add Blackpool Travel-to-Work-Area, together with extra money (two mecus), and our first priority must be to hold onto this gain. The Commission and other member states are unlikely in the event to agree to add Fraserburgh, together with extra money, because its unemployment rate is not sufficiently above the national average. We should, however, maintain the case for Fraserburgh, and only give it up if this is the price of ultimate agreement on the measures as a whole.

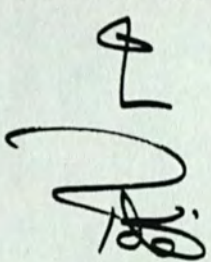
The proposed measure which benefits Northern Ireland also applies to parts of the Republic of Ireland. It comes into the category of "requests for aid relating to border problems in the most deserving regions of the Community submitted by two or more member states". Our aim has been to get all of Northern Ireland eligible but without asking for extra money to be made available. The Commission have publicly agreed to add Down and Ards to their original list in the light of the Opinion of the European Parliament, but Ards has less of a case than various excluded areas. Our aim should be to secure the inclusion of all of Northern Ireland. If this is impracticable we should first concede that the regulation should not apply to Belfast, and then, if necessary at the Council, negotiate the inclusion of as many district Council areas as possible on the basis of relative disadvantage and in the light of current unemployment levels.

In the light of our overall aims, and of the line which we shall need to take on Fleetwood, Fraserburgh and Northern Ireland we need to consider the line to take on Clwyd, about which Wyn Roberts wrote to me on 30 September. We have hitherto been arguing



unsuccessfully that Clwyd should be included in the textile measure. However there is no support from the European Parliament for Clwyd, it does not satisfy the quantitative criteria, and it is in any case an existing and likely future beneficiary from the existing steel non-quota measures. I think therefore that our representative in COREPER should have authority to cease pressure for Clwyd in return for a minutes entry that Clwyd is expected to get further ERDF aid under the steel non-quota measure.

I am copying this letter to the members of ODE and EA Committees and to Rodney Elton (Environment), Nicholas Edwards (Welsh Office), George Younger (Scottish Office), Rhodes Boyson (Northern Ireland Office), Michael Jopling (MAFF) and to Sir Robert Armstrong.



PETER MORRISON



Ref. A085/2628

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary may refer to the forthcoming Ministerial session of the Intergovernmental Conference which will coincide with the next Foreign Affairs Council on 21-22 October. The United Kingdom will be represented by the Minister of State, Foreign and Commonwealth Office (Mr Rifkind). This will be the first real stocktaking at Ministerial level of the work done by officials in the preparatory group for the Intergovernmental Conference. So far the Germans have tabled formal proposals on the European Parliament and the Commission have put forward a number of working documents, principally on the internal market, technology, the environment, the European Parliament, their own powers and the cohesion of the Community. Further proposals are expected from most other member states within the next week or two. It is not clear whether it will be possible to construct out of all this a modest and practical package, but the Presidency is likely to turn its hand to this after the Ministerial meeting on 21 October. Mr Rifkind will take the line, as we have done in the preparatory group, that we shall participate in the examination of the proposals but not take a view on the whole package until all the elements are clear. Our main criterion will be whether proposals will genuinely advance the Community objectives (eg completion of the internal market) that we have set ourselves.

2. At the Foreign Affairs Council which will follow the Ministerial session of the Intergovernmental Conference there will be a review of Community commercial policy towards Japan in preparation for the visit to Tokyo by three Commissioners in



November. It would be desirable for United Kingdom Ministers to look again at these issues before that visit (an OD discussion is provisionally planned for 28 October). The Foreign Affairs Council will also have a further discussion of trading issues with other Mediterranean countries in the light of the enlargement of the Community.

3. The Secretary of State for Trade and Industry may refer to the meeting of the Internal Market Council on 7 October, at which the Minister for Trade (Mr Channon) represented the United Kingdom. This Council decided, in line with our objectives, how to take forward the work on the completion of the internal market, in the light of the Commission's White Paper. The Council agreed to press ahead in the short term with topics already selected for action by the Presidency on the basis of the Milan European Council conclusions. Thus it did not allow itself to become enmeshed in the large number of proposals - some of which in our view are not acceptable or are not directly relevant - in the Commission's White Paper but decided to base its programme on our priorities. At its December meeting it will specifically consider a programme for action into 1987 to be drawn up by the successive Luxembourg, Dutch and United Kingdom Presidencies. This also was a United Kingdom initiative.

4. The Chancellor of the Exchequer may inform the Cabinet that the Commission have decided to issue a rectifying letter to the 1986 Community draft budget in order to increase the estimated VAT abatement for the United Kingdom. This abatement, which will be made automatically in 1986 in respect of our 1985 contribution, rises from 1400 million ecu (about ~~£206~~⁸²⁶ million) to 1664 million ecu (about £982 million). Recent Treasury calculations suggest that the final abatement (which will not be determined until autumn 1986) could be as high at 1930 million ecu (about £1139 million). Thus in the first year of the



Fontainebleau mechanism the United Kingdom will gain about £550 million more than in the last year of the ad hoc system.

5. There will be an Industry Council on 17 October, which will deal mainly with steel (Community arrangements after 1 January 1986 and the difficult negotiations with the United States on their proposed import restrictions); a meeting of Community and ASEAN Ministers in Bangkok on 17-18 October, at which the Minister for Trade (Mr Channon) will represent the United Kingdom; an Agriculture Council on 21-22 October; and an informal meeting of Research Ministers on 23 October, at which Sir Robin Nicholson will represent the United Kingdom.

RA

ROBERT ARMSTRONG

14 October 1985



CONFIDENTIAL

Qz.04661

MR POWELL

CDR 107X.

EUROPEAN COMMUNITY: WORK OF THE PREPARATORY GROUP,
INTER-GOVERNMENTAL CONFERENCE

Attached is the summary telegram (UKREP Brussels tel. No. 3270 of 8 October). This gives a good summary of the way in which, in substance, we have been able to cut back the Commission's over-ambitious proposals on the internal market and technology and we shall certainly achieve the same on the so-called cohesion of the Community. The preparatory group is at a very early stage of the discussion on the European Parliament and the process of "constructive questioning" has not yet had time to take its toll.

I am sending a copy to Sir Robert Armstrong.

D F WILLIAMSON

10 October 1985

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

FM UKREP BRUSSELS

TO IMMEDIATE FCO

TELNO 3270

OF 082015Z OCTOBER 85

INFO IMMEDIATE COPENHAGEN

INFO PRIORITY EUROPEAN COMMUNITY POSTS, LISBON, MADRID

INFO SAVING BRUSSELS

FRAME INSTITUTIONS/GENERAL

PREPARATORY GROUP FOR IGC: BRUSSELS 7/8 OCTOBER

SUMMARY

GENERAL

1. THE COMMISSION WENT THROUGH DEATH OF A THOUSAND CUTS ON MOST OF THEIR FUNCTIONAL PROPOSALS, WITH THE FRENCH, GERMANS AND BRITISH GENERALLY STRIKING AT THE SAME TARGET. BY CONTRAST THEIR PAPER ON THE EUROPEAN PARLIAMENT HAD A COMPARATIVELY FAVOURABLE RECEPTION.

INTERNAL MARKET

2. CLARIFICATION OF THE COMMISSION'S PROPOSALS HELPED TO CLARIFY THE DISLIKE OF MEMBER STATES, IN PARTICULAR THE FRENCH AND GERMANS, FOR THE COMMISSION'S DEFINITION OF THE INTERNAL MARKET AND THEIR IDEAS FOR MAJORITY VOTING OVER A WIDE RANGE OF ARTICLES, IN PARTICULAR ARTICLE 99.

TECHNOLOGY

3. THE COMMISSION'S AMENDMENTS LEFT DELEGATIONS ONLY marginally LESS DISSATISFIED. THE MORE TECHNOLOGICAL MEMBER STATES REMAIN SUSPICIOUS ABOUT THE COMMISSION'S PLANS FOR COORDINATION: WHILE THE LESS TECHNOLOGICAL ARE WORRIED ABOUT HOW TO GET IN ON THE ACTION AND THE MONEY.

EUROPEAN PARLIAMENT

4. AT FIRST SIGHT, BENELUX, ITALY AND IRELAND ALL WELCOMED THE COMMISSION'S APPROACH. GERMANY WAS RESENTFUL AT THE TABLING OF A RIVAL PAPER. FRANCE, DENMARK AND UK ALL EXPRESSED CONCERN THAT THE COMMISSION'S PROPOSALS WOULD DELAY AND COMPLICATE DECISION MAKING AND UPSET THE INSTITUTIONAL BALANCE.

5. LARGELY REPETITIVE DISCUSSIONS OF ENVIRONMENT, POWER OF THE COMMISSION, CULTURE. THE NORTHERNERS CRITICISED THE PAPER ON COHESION AS OVER-AMBITIOUS, DANGEROUSLY VAGUE AND LARGELY MISCONCEIVED WHILE IRELAND AND GREECE LAMENTED THAT IT DID NOT GO FAR ENOUGH.

CONFIDENTIAL

CONFIDENTIAL

6. I REMINDED THE GROUP OF THE DOOGUE COMMITTEE'S RECOMMENDATIONS ABOUT THE NUMBER OF COMMISSIONERS AND EUROPEAN COUNCILS.

7. DETAIL IN MY 3 IFTS.

BUTLER

YYYY

FRAME INSTITUTIONS/GENEERAL

FCO ADVANCE TO:-

FCO - RENWICK, WALL, RICHARDSON, PARKER

CAB - WILLIAMSON, JAY

FRAME INSTITUTIONAL / GENERAL

ECDC(1)

COPIES TO:

ADVANCE ADDRESSEES

CONFIDENTIAL

RESTRICTED



ccpc
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

CDP
7/11

4 October 1985

Ian

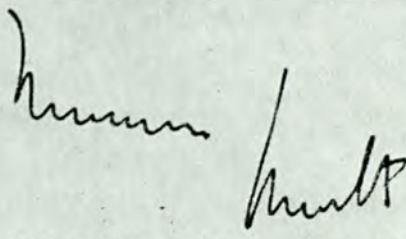
EUROPEAN COMMUNITY BUDGET FOR 1986: BUDGET COUNCIL 17-18 SEPTEMBER 1985

Thank you for sending me a copy of your minute to the Prime Minister of 12 September outlining the approach you intended to take at the Budget Council. I am sorry time did not allow me to comment before you left for Luxembourg. I was however grateful for a copy of your further minute to the Prime Minister reporting the outcome of the Council.

I share your concern to keep a check on the growth of EC spending in general and to effect proper budget discipline; and your report suggests you had some success in achieving these aims. There are, however, some unfortunate side effects, as I think you know.

The UK's objective of restraining EC non-obligatory expenditure to the maximum rate of increase of 7.1 per cent, if completely successful, would have a noticeable impact upon the availability of aid within the UK from the European Regional Development Fund (ERDF). Local and public authorities in the Assisted Areas have come to rely on it and are likely to be critical of a policy which leads to a sharp reduction in the flow of aid to them. Additionally, if the ERDF payment appropriations approved for 1986 turn out to be insufficient, legitimate UK claims for payment on approved schemes could be delayed at the end of the year. This too would cause consternation as authorities attempt to balance their budgets. I hope that we shall not be faced with this problem but we shall have to keep a close eye on it to see what can be done to minimise the damage, should it arise.

I am copying my letter to the Prime Minister, the Foreign Secretary, the Secretaries of State for Trade and Industry, Employment, Scotland, Wales and Northern Ireland, the Minister of Agriculture and the Cabinet Secretary.


KENNETH BAKER

Ian Gow Esq MP

European Policy Pt 30
Budget



RESTRICTED

cc PC



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460.....

Switchboard 01-213 3000

Ian Gow Esq MP
Minister of State
H M Treasury
Parliament Street
London SW1P 3AG

NBRN

CDD

4/K

3 October 1985

1986 COMMUNITY BUDGET: EUROPEAN SOCIAL FUND

Thank you for your letter of 30 September.

While I agree with most of your analysis about our future prospects for Social Fund assistance, I hope that the UK will continue to be a net recipient from the Fund after enlargement. But whatever the net position of either the UK as a whole or the Exchequer, we should be doing what we can to tilt the balance of the Community budget towards areas where we do best, so I welcome your assurance that the Social Fund should be a priority area for increased spending. While we do not have precise figures, it is apparent that the Social Fund is, in relative terms, a better investment for us than most other major heads of expenditure.

It seems sensible too that we should do what we can to make sure that payments arising from commitments made in the last three years, when we have done extremely well from the Social Fund, should come back to the Exchequer as quickly as possible. I am therefore a little concerned that the draft budget established by the Council would be likely to result in a further increase in the overhang of commitments. So I hope that your priority in the further discussions on the budget will be to direct any increase in payment appropriations towards the Social Fund, given that it will not be possible to reduce commitment appropriations.

RESTRICTED

RESTRICTED



I have asked my officials to keep in close touch with yours in the run-up to the next Budget Council.

I am copying this letter to the Prime Minister, Geoffrey Howe and Sir Robert Armstrong.

Car.
Hein

RESTRICTED

Community Budget - Developments in
European Community.

European Policy . Part 30.





Ref. A085/2514

PRIME MINISTER

Cabinet: Community Affairs

1. The Foreign and Commonwealth Secretary may refer to the Foreign Affairs Council of 1 October, at which the United Kingdom was represented by the Minister of State, Foreign and Commonwealth Office (Mr Rifkind). This dealt with some trading issues with other Mediterranean countries in the light of the enlargement of the Community. There was also a general discussion of Community/United States relations in view of the moves towards increased protectionism in the United States and the risks for the Community and world trade generally if the principal trading nations embark on a period of retaliation and counter-retaliation. There was no discussion by Foreign Ministers of the progress of the intergovernmental conference, the next Ministerial session being on 21-22 October. Weekly meetings of officials in the preparatory group, however, have continued satisfactorily from our point of view. The French are noticeably reticent and unenthusiastic. Our own "constructive criticism" is acting as a brake on wilder ideas. Formal proposals have been tabled by the German Government on the involvement of the European Parliament in the Community's decision-making processes but have run into flak from the Benelux (because they would reduce the Commission's role). Working documents have been put forward by the Commission, in particular on the internal market, technology, environment and their own powers. These have run into a barrage of objections or questions, in particular from the United Kingdom, France and Germany. Everything in this intergovernmental conference so far is overweight and will have to slim down. A modest package



remains likely. This will become clearer after the Ministerial session on 21-22 October, which the Foreign and Commonwealth Secretary will attend.

2. The Chancellor of the Exchequer may refer to the informal Economic and Finance Council (ECOFIN) on 20-21 September. There was a general consensus at the meeting (the Presidency alone dissenting) that monetary questions should not be pursued at the intergovernmental conference. The meeting also concluded that tax harmonisation was a politically sensitive issue and should be the subject of a political debate in ECOFIN to be held at the end of this year or early in 1986. These conclusions are fully in line with your approach at the Milan European Council.

3. The Chancellor of the Exchequer may also mention the publication on 2 October of the 1985 Community Budget White Paper. Care is being taken with the public presentation. Because 1985 is the last year before the full Fontainebleau system comes into effect the United Kingdom's net contribution to the Community Budget in 1985 is estimated at the high figure of £1.2 billion but this will give rise to a substantially higher abatement in 1986.

4. The Minister of Agriculture, Fisheries and Food may mention the discussion at the informal Agriculture Council on 23 September of the Commission's paper on Perspectives for the Common Agricultural Policy. He is due to circulate shortly a note to his colleagues reporting on the discussion there and on the way in which the matter might be pursued over the next few months. He is also likely to mention the outcome of the Fisheries Council on 27 September. The Commission proposed to reintroduce a higher limit for fish for human consumption caught as a by-product of industrial fishing of Norway pout. The United Kingdom is strongly opposed to this on conservation grounds and effectively blocked the decision. The next Fisheries Council is on 4 November.

5. The Secretary of State for Employment may refer to the informal Social Affairs Council which he attended on 24 September. Lord Young pushed hard on the initiative on deregulation within the Community. He also received an undertaking from the Commission that the Equal Treatment Directive would be looked at in the Commission's deregulation review.

6. There will be an Internal Market Council on 7 October.

RA

ROBERT ARMSTRONG

2 October 1985



MD. 21K.

Treasury Chambers, Parliament Street, SW1P 3AG

01-233-4749

Private Secretary
Secretary of State for Foreign
and Commonwealth Affairs,
Downing Street East
LONDON
SW1

2nd October 1985

Dear Sir,

The Minister of State to the Treasury has asked me to let
you have ^{advance} a copy of the Statement on the 1985 Community Budget
White Paper which is being laid before Parliament today.

It is to be published at 2.00 p.m. this afternoon.

Copies of this letter and enclosure go to all Private
Secretaries to Members of the Cabinet, Sir Robert Armstrong
and Tim Flesher at No.10

Yours faithfully,

B O DYER
Parliamentary Clerk



Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

1 October 1985

Dear Charles,

1985 COMMUNITY BUDGET WHITE PAPER

Further to my minute of 25 September I enclose an advance copy of this year's Statement on the Community Budget.

Arrangements have been made for copies of the White Paper to be presented to both houses of Parliament at 11am tomorrow. Publication has been arranged for 2pm tomorrow.

I am copying this and its enclosure to the Private Secretaries to the Foreign Secretary, the Lord Privy Seal and Sir Robert Armstrong.

*Yours ever,
Mike Norgrove*

M W NORGROVE
Private Secretary

CONFIDENTIAL—FINAL REVISE

*[to be published as Command 9633 by
Her Majesty's Stationery Office
Price £2.25 net]*



Statement on the 1985 Community Budget

THE 1985 BUDGET OF THE EUROPEAN COMMUNITIES

Introduction

1. Following a recommendation in the 28th Report (1979-80 session), by the Committee of Public Accounts (PAC), the Government agreed to present an annual statement giving details of each European Community Budget, both after its adoption and after the outturn is known. This White Paper, which is the fifth in the series, provides details of the 1985 Community Budget as adopted, the 1984 Budget as amended by the Supplementary and Amending Budget, and the outturn for 1982 and 1983. The Community's budgetary terminology is explained in the Annex.

2. In addition to providing a summary of the Community budgets for 1982 to 1985, the Statement provides information on the UK's gross and net contributions to the European Community Budget in these years. The latest Public Expenditure White Paper (Cmnd 9428-II pages 39 and 47-50) provides similar information, but on a UK financial year basis.

3. The 1985 Budget is the first to include an abatement of the UK's contributions as agreed by the European Council of June 1984 at Fontainebleau. Further details of the abatement are given in paragraph 12.

1985 Community Budget

4. The European Parliament rejected the 1985 draft Budget on 13 December 1984. From 1 January 1985 until the budget was finally adopted on 13 June 1985 the Community operated under the "provisional twelfths regime" of Article 204 of the Treaty of Rome. Under those arrangements, expenditure each month is, in general, constrained within one-twelfth of the corresponding expenditure in the budget for the previous year.

5. The 1985 Community Budget provides for expenditure of £16,778 million (28,433 million European Currency Units (ecu)), 98 per cent of which is expenditure by the Commission. Agricultural spending accounts for some £12,215 million (20,700 mecu), 73 per cent of the total budget. Regional Development Fund and Social Fund expenditure together make up a further £1,782 million (3,020 mecu), 11 per cent of the total budget.

Commitment and Payment Appropriations

6. Tables I and IA show commitment and payment appropriations in the 1985 Budget in ecus and in sterling. The tables also show the final 1984 budget appropriations.

7. The outturn figures for 1982 and 1983 shown in tables I and IA have been taken from the Court of Auditors' Annual Report and the Commission's audited accounts. The outturn figures for 1983 differ from the provisional figures shown in the Statement on the 1984 Community Budget (Cmnd 9174) because firm information is now available from the Commission.

Gross Contributions by Member States

8. Tables II and IIA show the estimated gross contributions by member states to the 1985 Budget under the Community's "Own Resources" system. The UK's share of levies and duties is estimated to be some 24.5 per cent compared with some 15 per cent for France and 27.5 per cent for Germany. The corresponding figures for VAT shares after abatement are UK 15 per cent, France 24.5 per cent and Germany 30.5 per cent.

Inter Governmental Agreements

9. Expenditure provided for in the 1984 Budget exceeded the total own resources revenue available. Member states therefore undertook to make special contributions of 1,003 mecu to the 1984 Budget under an Inter Governmental Agreement. The UK's contribution of some £119 million (201.19 mecu) was paid on 24 January 1985, following approval of an Estimate for this sum by Parliament.

10. Member states also concluded on 23 April 1985 a further Inter Governmental Agreement to help finance the 1985 budget. The total amount was 1982 mecu of which the UK's share was 423.1 mecu (about £249.7 million converted at the average exchange rate over the calendar year 1985 to mid-August of £1 = 1.6947 ecu). Parliamentary authority for payment of this sum is being sought through the European Communities (Finance) Bill. That Bill also seeks Parliament's approval of the new Own Resources Decision, which provides for an increase in the VAT own resources ceiling from 1 per cent to 1.4 per cent, with effect from 1 January 1986, together with the VAT abatement system for the UK as agreed at Fontainebleau.

Gross and Net Contributions by the UK

11. Table III shows the UK's gross contributions and receipts in 1982, 1983 and 1984 and the resulting net contributions figures. Also shown are estimates of the corresponding amounts for 1985. These are based on the financial year forecasts given in the latest Public Expenditure White Paper, adapted to a calendar year basis, but take account of the 1985 Budget as now adopted and assume an average sterling/ecu exchange rate during 1985 of 1.6947. In contrast with the figures in tables I and II these estimates are based on sums actually contributed or received by the UK during the years in question, and not on contributions and receipts associated with particular Budgets. The receipts for each year include sums carried forward from the previous year's Budget and exclude sums carried forward into the following year.

12. It was agreed at Fontainebleau that the UK's VAT contributions for 1984 should be abated by a lump-sum of 1,000 mecu. Table III assumes that this abatement will be made to our 1985 VAT contributions before the end of this year. For 1985 and later years, the new Own Resources Decision provides for the UK to receive an automatic abatement totalling 66 per cent of the difference between the UK's VAT and receipts shares of the allocated budget payable in equal monthly instalments over the following year.

13. Table III includes an estimate of some £1.2 billion for the UK's net contribution in 1985 (after allowing for the 1,000 mecu lump-sum abatement for 1984 mentioned above). This figure has been inflated by two non-recurring factors. Firstly the payments under the 1984 and 1985 Inter Governmental Agreements will *both* be made in 1985. Some £119 million of the estimate therefore relates to the 1984 Budget. Secondly the change in 1984 in the UK's system for collecting VAT on imports led to an exceptional payment of some £75 million of VAT own resources to the Community, in 1985. These additional payments will increase the UK's entitlement to VAT abatement in 1986 as will most of the other factors which have inflated our net contribution during 1985: our abatement next year is expected accordingly to be much larger than this year's lump-sum, and our net contribution after abatement is expected, correspondingly, to be much smaller. The figure of £1.2 billion also includes some £135 million in respect of the UK's contribution to the Community's overseas aid expenditure which in the Public Expenditure White Paper is attributed to the Aid programme.

14. The estimate of the UK's net contribution for the Community's year ending 31 December 1985 is some £300 million larger than the figure for the UK financial year ending 31 March 1986 shown in the Public Expenditure White Paper (Cmnd 9428-II, page 49, Table 3.2.5). The main reason for the difference is that the 1985 calendar year figure includes the period 1 January to 31 March 1985 during which our net contribution was substantially greater than that expected for the first quarter of 1986 (which is included in the 1985-86 figure). The UK paid its contribution under the Inter Governmental Agreement for 1984 in the first quarter of 1985; in contrast we expect to receive a quarter of our abatement in respect of 1985 in the first three months of 1986. In addition the 1985 budget as adopted and the requirement for funding under the 1985 Inter Governmental Agreement were higher than assumed in Cmnd 9428-II; the UK's contribution under that agreement was consequently some £85 million higher.

TABLE I
EXPENDITURE FROM THE COMMUNITY BUDGET
COMMITMENTS AND PAYMENTS BY INSTITUTION AND TYPE OF EXPENDITURE

Million ECUS

	Commitments				Payments			
	1982	1983	1984	1985	1982	1983	1984	1985
COMMISSION								
Administration	713	743	811	885	688	736	811	885
EAGGF-Guarantee	12,372	15,786	18,333	19,955	12,370	15,788	18,333	19,955
EAGGF-Guidance	734	866	724	656	638	720	596	632
Fisheries	69	88	159	154	55	55	112	112
Regional Fund	1,845	2,127	2,140	2,290	973	1,256	1,413	1,610
EMS interest rate subsidies	272	257	0	0	265	311	0	0
United Kingdom refunds	1,804	1,400	991	0	1,819	1,400	991	0
German refunds	0	271	211	0	0	271	211	0
Social fund	1,510	1,878	1,846	2,010	906	891	1,220	1,410
Energy	84	150	225	141	44	45	171	83
Research and investment	443	490	747	839	368	423	511	559
Industry and transport	19	96	151	130	16	45	98	80
Own resources refunds	908	928	1,105	1,070	909	922	1,105	1,070
Transitional refunds to Greece	98	64	45	24	90	59	45	24
Development aid	899	1,061	1,023	1,323	786	811	897	1,044
Miscellaneous	204	222	323	686	174	269	304	516
Reserves	0	0	5	5	0	0	5	5
Total Commission	21,974	26,427	28,839	30,168	20,101	24,002	26,823	27,985
OTHER INSTITUTIONS								
Parliament	199	212	239	238	173	215	239	238
Council	112	121	137	158	110	117	137	158
Court of Justice	26	28	32	33	25	27	32	33
Court of Auditors	14	15	18	19	14	15	18	19
Total other institutions	351	376	426	448	322	374	426	448
TOTAL BUDGET	22,325	26,803	29,265	30,616	20,423	24,376	27,249	28,433

TABLE IA
EXPENDITURE FROM THE COMMUNITY BUDGET
COMMITMENTS AND PAYMENTS BY INSTITUTION AND TYPE OF EXPENDITURE

£ Million

	Commitments				Payments			
	1982	1983	1984	1985	1982	1983	1984	1985
COMMISSION								
Administration	399	436	479	522	386	432	479	522
EAGGF-Guarantee	6,931	9,261	10,832	11,775	6,929	9,263	10,832	11,775
EAGGF-Guidance	411	508	428	387	358	422	352	373
Fisheries	39	51	94	91	31	32	66	66
Regional Fund	1,033	1,248	1,265	1,351	545	737	835	950
EMS interest rate subsidies	153	151	0	0	148	182	0	0
United Kingdom refunds	1,011	821	585	0	1,019	821	585	0
German refunds	0	159	125	0	0	159	125	0
Social fund	846	1,102	1,091	1,186	507	523	721	832
Energy	47	88	133	83	25	26	101	49
Research and investment	248	287	441	495	206	248	302	330
Industry and transport	11	57	89	77	9	26	58	47
Own resources refunds	508	545	653	632	509	541	653	632
Transitional refunds to Greece	55	38	26	14	50	35	26	14
Development aid	504	622	604	781	440	476	530	616
Miscellaneous	114	131	191	405	98	158	180	305
Reserves	0	0	3	3	0	0	3	3
Total Commission	12,310	15,505	17,039	17,802	11,260	14,081	15,848	16,514
OTHER INSTITUTIONS								
Parliament	111	124	141	140	97	126	141	140
Council	63	71	81	94	62	69	81	94
Court of Justice	14	16	19	19	14	16	19	19
Court of Auditors	8	9	11	11	8	9	11	11
Total other institutions	196	220	252	264	181	220	252	264
TOTAL BUDGET	12,506	15,725	17,291	18,066	11,441	14,301	16,100	16,778

TABLE II
COMMUNITY BUDGET REVENUES

Million ECUS

	Agriculture and Sugar Levies				Customs Duties				VAT/Financial Contribution			
	1982	1983	1984	1985	1982	1983	1984	1985	1982	1983	1984	1985
Belgium	283	360	403	235	404	424	467	493	461	432	473	555
Denmark	33	46	57	50	142	160	195	218	227	274	289	343
Germany	392	413	626	430	1,967	2,020	2,285	2,500	3,340	4,039	4,231	4,694
Greece	77	55	118	38	109	107	96	119	196	216	222	263
France	282	372	554	419	1,071	1,052	1,083	1,206	2,873	3,082	3,198	3,788
Ireland	13	19	23	20	88	100	124	135	107	151	136	149
Italy	369	418	536	346	660	657	716	860	1,458	1,924	2,227	2,502
Luxembourg	0	0	0	0	4	5	6	5	26	39	46	44
Netherlands	231	218	347	215	585	633	737	790	650	714	738	824
United Kingdom	548	394	394	354	1,785	1,831	2,205	2,270	2,783	2,859	2,819	2,300
TOTAL	2,228	2,295	3,058	2,107	6,815	6,989	7,914	8,596	12,121	13,730	14,379	15,462

	Inter Governmental Agreement				Total			
	1982	1983	1984	1985	1982	1983	1984	1985
Belgium	0	0	35	65	1,148	1,216	1,378	1,348
Denmark	0	0	20	40	402	480	561	651
Germany	0	0	288	571	5,699	6,472	7,430	8,195
Greece	0	0	15	31	382	378	451	451
France	0	0	229	442	4,226	4,506	5,064	5,855
Ireland	0	0	9	17	208	270	292	321
Italy	0	0	154	292	2,487	2,999	3,633	4,000
Luxembourg	0	0	2	5	30	44	54	54
Netherlands	0	0	50	96	1,466	1,565	1,872	1,925
United Kingdom	0	0	201	423	5,116	5,084	5,619	5,347
TOTAL	0	0	1,003	1,982	21,164	23,014	26,354	28,147

1. For 1985 the VAT figure for the United Kingdom reflects the abatement agreed at the Fontainebleau Council, but not the VAT adjustment.
2. United Kingdom revenue figures for 1984 reflect actual payments made to the community in that year. Other member states' contributions are derived from supplementary and amending budget number 1, 1984.
3. Miscellaneous revenue and expenditure carry-forwards account for the differences between the total expenditure shown in Tables I and the total revenue from own resources shown in Tables II.

TABLE IIA
COMMUNITY BUDGET REVENUES

£ Million

	Agriculture and Sugar Levies				Customs Duties				VAT/Financial Contribution			
	1982	1983	1984	1985	1982	1983	1984	1985	1982	1983	1984	1985
Belgium	159	211	238	139	226	248	276	291	258	254	280	327
Denmark	18	27	34	29	80	94	115	129	127	161	171	202
Germany	219	243	370	254	1,102	1,185	1,350	1,475	1,871	2,369	2,499	2,770
Greece	43	32	69	22	61	63	57	70	110	127	131	156
France	158	219	327	247	600	617	640	712	1,609	1,808	1,890	2,235
Ireland	8	11	14	12	49	59	73	80	60	88	80	88
Italy	206	245	317	204	370	386	423	507	817	1,128	1,316	1,477
Luxembourg	0	0	0	0	2	3	4	3	15	23	27	26
Netherlands	130	128	205	127	328	371	435	466	364	419	436	486
United Kingdom	307	231	233	209	1,000	1,074	1,303	1,339	1,559	1,678	1,665	1,357
TOTAL	1,248	1,347	1,807	1,243	3,818	4,100	4,676	5,072	6,790	8,055	8,495	9,124

	Inter Governmental Agreement				Total			
	1982	1983	1984	1985	1982	1983	1984	1985
Belgium	0	0	20	39	643	713	814	796
Denmark	0	0	12	24	225	282	332	384
Germany	0	0	171	336	3,192	3,797	4,390	4,835
Greece	0	0	9	18	214	222	266	266
France	0	0	135	261	2,367	2,644	2,992	3,455
Ireland	0	0	5	10	117	158	172	190
Italy	0	0	91	172	1,393	1,759	2,147	2,360
Luxembourg	0	0	1	3	17	26	32	32
Netherlands	0	0	30	57	822	918	1,106	1,136
United Kingdom	0	0	119	250	2,866	2,983	3,320	3,155
TOTAL	0	0	593	1,170	11,856	13,502	15,571	16,609

1. For 1985 the VAT figure for the United Kingdom reflects the abatement agreed at the Fontainebleau Council, but not the VAT adjustment.
2. United Kingdom revenue figures for 1984 reflect actual payments made to the community in that year. Other member states' contributions are derived from supplementary and amending budget number 1, 1984.
3. Miscellaneous revenue and expenditure carry-forwards account for the differences between the total expenditure shown in Tables I and the total revenue from own resources shown in Tables II.

TABLE III

UNITED KINGDOM CONTRIBUTIONS TO AND RECEIPTS FROM THE COMMUNITY BUDGET

		Million ECUS					£ Million				
		1982	1983	1984	1985	1982	1983	1984	1985		
GROSS CONTRIBUTION											
Agricultural and sugar levies	..	548	395	394	354	307	232	233	209		
Customs Duties	..	1,787	1,832	2,205	2,270	1,001	1,075	1,303	1,339		
VAT own resources including VAT adjustments and before abatements	..	2,775	2,845	2,819	3,545	1,555	1,669	1,665	2,092		
U.K. abatement of VAT	..	0	0	0	-1,000*	0	0	0	-590*		
Inter Governmental agreement 1984	..	0	0	0	201	0	0	0	119		
Inter Governmental agreement 1985	..	0	0	0	423	0	0	0	250		
Total Contributions	..	5,110	5,072	5,418	5,793	2,863	2,976	3,201	3,419		
RECEIPTS											
Receipts other than refunds	..	1,971	2,372	3,135	3,375	1,105	1,392	1,852	1,991		
Own resources refunds	..	239	221	280	262	134	130	165	155		
United Kingdom negotiated refunds	..	1,820	1,376	894	104*	1,019	807	528	61*		
TOTAL RECEIPTS		4,030	3,969	4,309	3,741	2,258	2,329	2,545	2,207		
NET CONTRIBUTION..	..	1,080	1,103	1,109	2,052	605	647	656	1,212		

1. For all years sterling figures reflect payments made during the year, not payments in respect of particular budgets. The corresponding ecu figures are converted from sterling at the appropriate annual average exchange rate.

2. From 1985 refunds are replaced by abatement of VAT contribution.

* In accordance with the Fontainebleau agreement, the United Kingdom's net budgetary contribution will in future be reduced by means of an abatement of our VAT contributions instead of by negotiated refunds. The VAT abatement and negotiated refunds lines in the table need therefore to be considered together.

ANNEX

European Community Budget

The detailed rules which define the structure and implementation of the Community Budget are mostly to be found in Part 5, Title II of the Treaty establishing the European Economic Community and in the Financial Regulation of 21 December 1977, as amended. There are several important differences between the Community's budgetary process and the UK's.

2. The UK presents its Public Expenditure Plans in a multi-annual form: the Community presents its expenditure plans in its annual Budget proposals, together with the necessary revenue for the year. The Community's financial year runs from 1 January to 31 December.

Commitment and Payment Appropriations

3. The Budget distinguishes between appropriations for commitments and appropriations for payments. Commitment appropriations are the total cost of legal obligations which can be entered into in the current financial year for activities which will lead to payments in the current and future financial years. Payment appropriations are the amount of money which is available to be spent in that year arising from commitments entered into in the current or preceding years.

Sterling Figures

4. The sterling figures for 1982 to 1984 are based on actual sterling cash receipts or payments where these took place and are known; elsewhere the appropriate average annual sterling/ecu exchange rate has been used¹ to convert ecu figures to sterling. The 1985 sterling figures have been constructed using the average sterling rate for the calendar year to mid-August 1985 (£1 = 1.6947 ecu).

Own Resources

5. The Community Budget is financed, apart from the exceptional Inter Governmental Agreements for 1984 and 1985, almost entirely by 'Own Resources'. These include agricultural levies and customs duties on imports into the Community from the rest of the world; sugar levies which are taxes on the production and storage of sugar; and VAT 'Own Resources' which are the product of a notional rate of VAT levied on a Community harmonised expenditure base. For all years covered by this White Paper this rate was subject to a 1 per cent ceiling; as from 1 January 1986 (subject to ratification by member states of the new Own Resources Decision) the ceiling will be 1.4 per cent.

(¹) The annual average rate for 1982 is £1 = 1.7851 ecu
The annual average rate for 1983 is £1 = 1.7045 ecu
The annual average rate for 1984 is £1 = 1.6925 ecu



HMSO publications are available from:

HMSO Publications Centre

(Mail and telephone orders only)

PO Box 276, London SW8 5DT

Telephone orders (01) 622 3316

General enquiries (01) 211 5656

HMSO Bookshops

49 High Holborn, London, WC1V 6HB (01) 211 5656 (Counter service only)

258 Broad Street, Birmingham, B1 2HE (021) 643 3757

Southey House, Wine Street, Bristol, BS1 2BQ (0272) 24306/24307

9-21 Princess Street, Manchester, M60 8AS (061) 834 7201

80 Chichester Street, Belfast, BT1 4JY (0232) 234488

13a Castle Street, Edinburgh, EH2 3AR (031) 225 6333

HMSO's Accredited Agents

(see Yellow Pages)

And through good booksellers

UNCLASSIFIED

13084 - 1

ZCZC

UNCLASSIFIED

FFFF DESKBY 011500Z TO ALL

DD ROMEE 011500Z

DD ATHEN 011500Z

FM FCOLN TO LUXEM

011125Z OCT

GRS 897

UNCLASSIFIED

FM FCO

TO IMMEDIATE LUXEMBOURG DESKBY 011500Z

TELNO 110

OF 011125Z OCT

AND TO IMMEDIATE ALL EC POSTS, MADRID, LISBON

FRAME GENERAL

Foreign Secretary's

MIPT: SPEECH IN BONN, 3 OCTOBER, EUROPE - OUR FUTURE
FOLLOWING IS TEXT OF PASSAGES ON WHICH YOU SHOULD DRAW:
EUROPEAN UNION

- WHEN THE BRITISH GOVERNMENT, OF WHICH I WAS A MEMBER, SIGNED THE TREATY OF ACCESSION TO THE COMMUNITY, WE COMMITTED OURSELVES FULLY TO THE SHARED GOAL OF CREATING, IN THE WORDS OF THE TREATY OF ROME, 'AN EVER CLOSER UNION AMONG THE PEOPLES OF EUROPE'. SUCCESSIVE BRITISH GOVERNMENTS HAVE ENDORSED THE SAME OBJECTIVE.

- BRITAIN IS NOT AFRAID OF 'EUROPEAN UNION'. IT IS A CONCEPT TO WHICH WE HAVE LONG SINCE SUBSCRIBED.

- THE BEST DEFINITION (OF EUROPEAN UNION) IS PROVIDED IN THE SOLEMN DECLARATION OF EUROPEAN UNION, BASED ON THE EFFORTS OF HANS DIETRICH GENSCHER AND OF EMILIO COLOMBO, AND SIGNED BY OUR HEADS OF GOVERNMENT AT STUTTGART IN 1983. 'EUROPEAN UNION IS

UNCLASSIFIED

*It is a
deliberate attempt
to do so*

*Prime Minister
All words used
before, but the press
may contrast them
with your known
aversion to 'union'.*

CDP 1/1

BEING ACHIEVED BY DEEPENING AND BROADENING THE SCOPE OF EUROPEAN ACTIVITIES, SO THAT THEY INHERENTLY COVER A GROWING PROPORTION OF MEMBER STATES' MUTUAL RELATIONS AND OF THEIR EXTERNAL RELATIONS.'

- THE AUTHORS OF THE TREATY OF ROME SAW EUROPEAN UNION AS A CONTINUING PROCESS: AS A COMMUNITY GROWING POLITICALLY AND ECONOMICALLY INTERDEPENDENT AS A JOURNEY TRAVELLED TOGETHER IN AN AGREED DIRECTION. IN THAT SENSE - THE SUM TOTAL OF THE EVER CLOSER RELATIONSHIP BETWEEN US - SUCH A UNION EXISTS NOW, TODAY: AND I HAVE NO DOUBT THAT IT WILL BE STRONGER TOMORROW. IT IS A REALITY AS WELL AS AN ASPIRATION. IT EXISTS IN THE DEFINITE POLITICAL AND ECONOMIC SENSE SOLEMNLY AFFIRMED AT STUTTGART, AND THE POLITICAL IMPERATIVE IS GROWING ALL THE TIME.

- EUROPEAN UNION CAN BE THE GOAL OF POLITICIANS: IT CAN ONLY BE MADE REALITY BY THE PEOPLE OF THE COMMUNITY THEMSELVES. . . WE OWE IT TO THE PEOPLE OF EUROPE TO MAKE A REALITY OF THE VISION OF EUROPE WHICH CHURCHILL, MONNET, ADENAUER AND HALLSTEIN SAW SO CLEARLY.

- I HOPE THAT WE CAN AGREE BY DECEMBER TO GIVE A TREATY BASIS TO OUR COOPERATION IN FOREIGN POLICY, AND ON THE MEANS BY WHICH WE CAN GIVE EFFECT TO THE KEY COMMITMENTS OF THE TREATY OF ROME. I HOPE, ABOVE ALL, THAT WE CAN REACH AN AGREEMENT THAT MEANS SOMETHING NOT JUST TO GOVERNMENTS AND COMMUNITY OFFICIALS, JOURNALISTS AND EXPERTS, BUT WHICH MAKES A REAL DIFFERENCE TO OUR ENTERPRISES AND ABOVE ALL TO THE PEOPLE OF EUROPE.

TECHNOLOGICAL COMMUNITY

- FOR THE COMMUNITY THE ESSENTIAL TASK MUST BE TO CREATE THE CONDITIONS IN WHICH OUR HIGH TECHNOLOGY COMPANIES CAN COLLABORATE TOGETHER AND EXPLOIT THEIR EXPERTISE. THIS REQUIRES US TO DROP THE PHILOSOPHY OF EUROPEAN NATIONAL CHAMPIONS AND TO MOVE TOWARDS OPEN COMPETITION THROUGHOUT THE COMMUNITY.

- THE COMMUNITY CANNOT TAKE OVER THE TASK OF INVENTION, OR OF COMMERCIAL EXPLOITATION. THAT MUST BE THE TASK OF THE COMPANIES THEMSELVES. THE LAST WAY TO MAKE OUR ENTERPRISES COMPETITIVE IS TO START MAKING THEM DEPENDENT ON INFUSIONS OF PUBLIC MONEY.

- THE EUREKA PROCESS NEEDS THE CONTINUED ENCOURAGEMENT OF ALL PARTICIPATING GOVERNMENTS AND THE ACTIVE CONTRIBUTION OF THE

*Churchill did
not want
us to join.*

EUROPEAN COMMISSION . . . WE NEED TO CONSIDER WHAT NEW MECHANISMS CAN BE ENVISAGED IN THE MARKET-PLACE TO FACILITATE THE FLOW OF INVESTMENT CAPITAL INTO HIGH TECHNOLOGY PROJECTS.

- THE COMMUNITY HAS AN ABSOLUTELY CENTRAL ROLE TO PLAY IN ALL THIS. FOR WITHOUT A COMMUNITY WITHIN WHICH OUR COMPANIES CAN TENDER ON AN EQUAL FOOTING FOR PUBLIC CONTRACTS, WITHIN WHICH THEY PRODUCE PRODUCTS TO THE SAME TECHNICAL STANDARDS, WE SHALL NEVER REALISE OUR FULL POTENTIAL.

DECISION TAKING/EUROPEAN PARLIAMENT

- THERE ARE SOME FORTY TREATY ARTICLES WHICH MAKE PROVISION FOR DECISION BY MAJORITY VOTING BUT WHERE CONSENSUS, NEEDLESSLY IN OUR VIEW, HAS BECOME THE NORM. THE MAJORITY VOTING PROVISIONS OF THE TREATY HAVE NOT BEEN APPLIED. WE ARE IN FAVOUR OF MORE MAJORITY VOTING.

- THE TREATY OF ROME IS NOT IMMUTABLE. THERE MAY BE CASES WHERE MAJORITY VOTING DOES NOT APPLY, AND SHOULD APPLY. THE FOUNDING FATHERS, HOWEVER, KNEW PRETTY WELL WHAT THEY WERE DOING. WE ARE NOT GOING TO FIND IT EASY TO IMPROVE ON THEIR WORK. IF WE DO, IT HAS GOT TO BE FOR A PURPOSE - NOT TO CHANGE THE RULES IN THE HOPE THAT THAT ALONE WILL BE ENOUGH TO ESTABLISH THE COMMON MARKET OR CREATE A TECHNOLOGICALLY VIABLE EUROPE. WE HAVE TO WILL, AND TO DECIDE ON, THE ENDS AS WELL AS THE MEANS.

- WE WILL JUDGE WHAT SPECIFIC PROPOSALS ARE MADE FOR ADJUSTMENT OR UP-DATING OF THE TREATY BY THE YARDSTICK OF WHETHER THEY ARE NECESSARY, WHETHER THEY WOULD HELP TO ACHIEVE THE OBJECTIVES WE HAVE SET OURSELVES: AND WHETHER THEY ARE SUSCEPTIBLE OF BEING AGREED, AS THEY WOULD HAVE TO BE, BY THE GENERALITY OF MEMBER STATES AND THEIR PARLIAMENTS.

- WE MUST DO MORE TO INVOLVE THE EUROPEAN PARLIAMENT MORE FULLY IN THE DECISIONS WE TAKE. THE COUNCIL/PARLIAMENT RELATIONSHIP NEVER WILL BE EASY. WE HAVE ALL EXPERIENCED IN OUR OWN COUNTRIES CONFLICTS BETWEEN THE EXECUTIVE AND THE ELECTED CHAMBER. IT IS THE LIFE BLOOD OF DEMOCRACY. TOTAL PEACE REIGNS BETWEEN THE TWO ONLY IN TOTALITARIAN COUNTRIES WHERE PARLIAMENTS HAVE NO GENUINE ROLE. WE ARE ALL CONSCIOUS THAT WE ARE WELL AND TRULY ACCOUNTABLE TO OUR OWN PARLIAMENTS, AND OUR ELECTORATES. THAT IS

UNCLASSIFIED

13084 - 1

NOT GOING TO CHANGE. BUT WE CAN DO MORE TO GIVE THE
EUROPEAN PARLIAMENT A PROPER ROLE IN THE EUROPEAN PARTNERSHIP. IT
IS A QUESTION OF SHARED RESPONSIBILITY AS MUCH AS OF POWER.

HOWE

OCMIAN 3084

NNNN

NNNN

DIST

FRAME GENERAL

ECD (I)

RESTRICTED



cc/c
NBN
can
30/9

Treasury Chambers, Parliament Street, SW1P 3AG

30 September 1985

Dear David,

1986 COMMUNITY BUDGET: EUROPEAN SOCIAL FUND

Thank you for your letter of 18 September. I am grateful for your agreement that a firm line was appropriate at the first Budget Council on 17 September. Given the commitment of the United Kingdom government and of all members of the Council to the budget discipline conclusions last December, and to the 1986 reference framework agreed in July, I am sure that our line was the correct one.

You will know that the Council established a draft budget with 2183 mecus commitment appropriations and 1447 mecus payment appropriations for the European Social Fund. The figures were arrived at on the basis of the 1985 totals to which an addition within the maximum rate of 7.1 per cent was made to allow for enlargement. The Parliament is almost certain to use at least some of its margin of 3.55 per cent (half the maximum rate) to increase these figures further. There is no likelihood of the 1986 budget as finally adopted containing lower appropriations for the ESF than in the draft budget, and indeed there may well be additions.

As I said in my minute of 12 September to the Prime Minister, I realise that restraint in Social Fund appropriations will be unwelcome to public sector beneficiaries in this country. However, the United Kingdom has been very successful in attracting significant support from the Social Fund in recent years, and I doubt whether, on any view, we could expect to maintain the same level in the future. After enlargement the United Kingdom's position as a net recipient from the Fund will be eroded rapidly. We are already close to a position where the United Kingdom Exchequer will become a net contributor and, because of the Fontainebleau system, the effect of any slight overall benefit from the Fund will be, in large measure, offset by a reduction in our VAT abatement the following year. For all these reasons we must be very cautious about agreeing to future increases to the Fund.

RESTRICTED

RESTRICTED



- 2 -

There is, of course, no question of proper commitments already made not being honoured, and it will be a priority to ensure that outstanding commitments are paid to the United Kingdom as speedily as possible. We shall continue to argue that, to the extent that the Commission has insufficient payment appropriations, the correct response should be to cut back on new commitments. Beyond that, within the constraints imposed by budget discipline, the Social Fund should continue to be a United Kingdom priority area for increased spending.

Our officials have remained closely in touch on the likely level of United Kingdom receipts in 1986 and the timing of future payments. I hope that they will continue to do so in the run-up to the next Budget Council.

I do understand the points which you make, but our highest priority must be to make a reality of budget discipline.

I am copying this correspondence to the Prime Minister, Geoffrey Howe, Leon Brittan, George Younger, Nicholas Edwards, Tom King, Michael Jopling, Kenneth Baker and Sir Robert Armstrong.

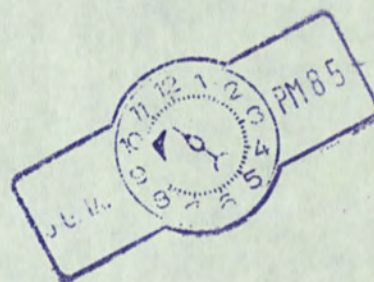
[Handwritten signature]

IAN GOW

Lord Young of Graffham
Secretary of State for Employment
Caxton House
Tothill Street
London SW1

RESTRICTED

EURO POL
COMMUNITY BUDGET
PT 30





Foreign and Commonwealth Office

London SW1A 2AH

27 September 1985

Dear Mike,

1985 Community Budget White Paper

I have seen copies of your letter of 25 September to Charles Powell and of his reply.

We agree that the presentation of these figures is going to be extremely important. In answer to questions from the press and in Parliament, and in conducting the advance briefing asked for by the Prime Minister, we hope that the following points will be made:

- that this is the last year of a flat rate correction to our contribution. From next year the full automatic abatements to our VAT contribution, as agreed at Fontainebleau, will apply. The effect will be to give us back automatically approximately two-thirds of our net contribution.
- the Fontainebleau correction, together with our receipts under the agreements will reduce our contribution under the 1985 inter-governmental agreement from £252 million to about £39 millions net.
- As a result of the Fontainebleau mechanism we shall be making a much smaller net contribution in calendar year 1986.

On a separate point, Table III as currently presented gave the impression that in 1985 our negotiated refunds dropped from 894 to only 104 mecus. In fact of course the additional 1000 mecus negotiated for that year appears in the contribution section above. It would be useful presentationally to link these two figures so as to make it clear that our total refund/abatement in 1985 will be 1104 mecus, a substantial improvement on previous years.

I am copying this letter to the recipients of yours.

Yours Sincerely,
Colin Budd

(C R Budd)
Private Secretary

M W Norgrove Esq
PS/Minister of State
HM Treasury
Parliament Street
LONDON SW1

Guano Isl., Budget Pt 30



10 DOWNING STREET

26 September 1985

From the Private Secretary

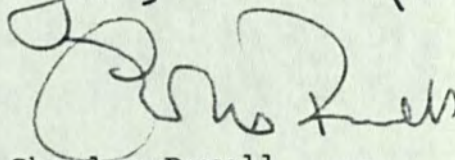
Dear Mike,

1985 COMMUNITY BUDGET WHITE PAPER

Thank you for your letter of 25 September pointing out some of the features in the 1985 Community Budget White Paper which might cause public comment.

The Prime Minister wants the difficult points to be explained carefully in advance of publication to selected newspaper correspondents as well as to television and to radio. I should be grateful if a special effort could be made to achieve this.

I am copying this letter to the recipients of yours.

Yours sincerely,

Charles Powell

Mike Norgrove Esq
HM Treasury

RESTRICTED

file

010
RESTRICTED

ccp



Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

25 September 1985

Ian Gow Esq MP
Minister of State
HM Treasury
Parliament Street
SW1P 3AG

ccp
27/9

'Dear Minister

BUDGET COUNCIL, 17/18 SEPTEMBER 1985

Thank you for sending the Foreign Secretary a copy of your minute to the Prime Minister about the outcome of the First Budget Council. In Geoffrey Howe's absence this week, perhaps I can comment on one or two points.

I think you did very well to secure such a satisfactory outcome to the Council. In particular, the financial guideline for agriculture has been made to stick, and we have avoided exceeding the agreed reference framework figure for the Ten. Our 1400 mecu abatement in respect of 1985 has been secured in the budget, in accordance with the Fontainebleau agreement.

As you point out, the Parliament will now reinstate most of the proposed non-obligatory expenditure deleted by the Council. It will be difficult to secure the necessary qualified majority in the Council in November to bring the budget back within the maximum rate. Our ability to achieve a satisfactory outcome will depend again on concerting our position with the French, Germans and Dutch, as you did so effectively before this Council. We shall be hard put, however, to achieve a final outcome on non-obligatory expenditure better than the maximum rate for the EC10 plus 540 mecu for enlargement. This would be consistent with budget discipline, since the additional 540 mecu would be covered by the Spanish and Portuguese contributions to own resources.

/For

RESTRICTED

RESTRICTED

For the longer term, your point about the Spanish and Portuguese attitudes is well taken. Enlargement will increase the pressures for additional spending from the Mediterranean countries, and it will be difficult to establish a qualified majority against them. The other side of that medal, however, is that Germany and France will be contributing substantially more to the costs of enlargement than we shall. French officials estimate that as a result of enlargement and the Fontainebleau agreement, France will overtake us as a net contributor next year. After enlargement, we France and Germany, or we, France or Germany plus the Netherlands, will constitute a blocking minority and no budget can be established without our agreement, ~~so~~ prior concertation of our positions will become even more important.

I am copying this letter, as you did yours, to Leon Brittan, George Younger, Nicholas Edwards, Tom King, Michael Jopling, David Young, Kenneth Baker and Sir Robert Armstrong.

Yours sincerely
Anthony Cury

for Malcolm Rifkind
(approved by Mr Rifkind and
signed in his absence by his
Private Secretary)

RESTRICTED

EVR. PO L: Budget, R 30





Treasury Chambers, Parliament Street, SWIP 3AG

25 September 1985

Charles Powell Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1

Dear Charles,

1985 COMMUNITY BUDGET WHITE PAPER

The Treasury is committed by a past undertaking to the PAC to publish an annual White Paper summarising the Community budget, both after its adoption and after the outturn is known, together with an estimate of the UK's net contribution. Normally we publish such a White Paper in March. With the delay in adoption of the 1985 budget, however, we are only now in a position to publish this year's White Paper. A draft text, which takes account of comments from the FCO, is attached.

2. In most years publication of this White Paper is a routine matter. There has in the past been little press interest. This year, we have one unwelcome feature which could stimulate public comment: the White Paper includes the large figure of £1.2 billion for the estimate of the UK's net budgetary contribution during 1985.

3. My Minister is concerned to do all that he can to explain the special factors which are reflected in this figure, without however drawing undue attention to it. Paragraph 13 of the White Paper explains that the figure has been inflated to the extent of nearly £200 million by non-recurring factors - two years' worth of special contributions under the recent intergovernmental agreements and the change in our system for collecting VAT - and includes some £135 million for our contribution to the Community's aid programme, which is excluded from the more familiar total of "net payments to European Community institutions" in the Public Expenditure White Papers. The text explains in addition that our high net contribution this year will be reflected in a much higher UK abatement, and consequently a much lower net contribution next year. Paragraph 14 explains, similarly, why the £1.2 billion figure is some £300-£400 million higher than the corresponding figures in the latest Public Expenditure White Paper for the two financial years 1984-85 and 1985-86.

Prime Minister
Agree to early
publication?
(The White Paper will

show an
abnormally
large net
contribution for
1985).

CDP 25/9.

All 2 this will
need to be explained
to correspondents
to the electronic
media
net

4. My Minister would like to publish the White Paper as soon as possible. He is anxious that the large net contribution figure should no longer be "news" on 22 October when the remaining stages of the European Communities (Finance) Bill are to be taken in the House of Commons. Subject to the Prime Minister's approval he would like to aim for publication on Tuesday 1 October.

5. I am copying this letter and the draft White Paper to the Private Secretaries to the Lord President of the Council, the Foreign and Commonwealth Secretary, the Lord Privy Seal, the Chancellor of the Duchy, the Minister of Agriculture, Fisheries and Food, the Chief Whip and the Secretary to the Cabinet, and to the Chief Press Secretary at No 10.

*Yours etc,
Mike Norgrove*

M W NORRGROVE
Private Secretary

THE 1985 BUDGET OF THE EUROPEAN COMMUNITIES

1. Introduction

1. Following a recommendation in the 28th Report (1979-80 session) by the Committee of Public Accounts (PAC), the Government agreed to present an annual statement giving details of each European Community Budget, both after its adoption and after the outturn is known. This White Paper, which is the fifth in the series, provides details of the 1985 Community Budget as adopted, the 1984 Budget as amended by the Supplementary and Amending Budget, and the outturn for 1982 and 1983. The Community's budgetary terminology is explained in the Annex.

2. In addition to providing a summary of the Community budgets for 1982 to 1985, the Statement provides information on the UK's gross and net contributions to the European Community Budget in these years. The latest Public Expenditure White Paper (Cmnd 9428-II pages 39 and 47-49) provides similar information, but on a UK financial year basis.

3. The 1985 Budget is the first to include an abatement of the UK's contributions as agreed by the European Council of June 1984 at Fontainebleau. Further details of the abatement are given in paragraph 12.

1985 Community Budget

4. The European Parliament rejected the 1985 draft Budget on 13 December 1984. From 1 January 1985 until the budget was finally adopted on 13 June 1985 the Community operated under the "provisional twelfths regime" of Article 204 of the Treaty of Rome. Under those arrangements, expenditure each month is, in general, constrained within one-twelfth of the corresponding expenditure in the budget for the previous year.

5. The 1985 Community Budget provides for expenditure of £16,778 million (28,433 million European Currency Units (ecu)), 98 per cent of which is expenditure by the Commission. Agricultural spending accounts for some £12,215 million (20,700 mecu), 73 per cent of the total budget. Regional Development Fund and Social Fund expenditure together make up a further £1,782 million (3020 mecu), 11 per cent of the total budget.

Commitment and Payment Appropriations

6. Tables 1 and 1A show commitment and payment appropriations in the 1985 Budget, in ecus and in sterling. The tables also show the final 1984 budget appropriations.

7. The outturn figures for 1982 and 1983 shown in tables 1 and 1A have been taken from the Court of Auditors' Annual Report and the Commission's audited accounts. The outturn figures for 1983 differ from the provisional figures shown in the Statement on the 1984 Community Budget (Cmnd 9174) because firm information is now available from the Commission.

Gross Contributions by Member States

8. Tables II and IIA show the estimated gross contributions by member states to the 1985 Budget under the Community's 'Own Resources' system. The UK's share of levies and duties is estimated to be some 24.5 per cent compared with some 15 per cent for France and 27.5 per cent for Germany. The corresponding figures for VAT shares after abatement are UK 15 per cent, France 25 per cent and Germany 31 per cent.

Inter Governmental Agreements

9. Expenditure provided for in the 1984 Budget exceeded the total own resources revenue available. Member states therefore undertook to make special contributions of 1003 mecu to the 1984 Budget under an Inter Governmental Agreement. The UK's contribution of some £119 million (201.65 mecu) was paid on 24 January 1985, following approval of an Estimate for this sum by Parliament.

10. Member states also concluded on 23 April 1985 a further Inter-Governmental Agreement to help finance the 1985 budget. The total amount was 1982 mecu of which the UK's share was 423.1 mecu (about £249.7 million converted at the average exchange rate over the calendar year 1985 to mid-August of £1 = 1.6947 ecu). Parliamentary authority for payment of this sum is being sought through the European Communities (Finance) Bill. That Bill also seeks Parliament's approval of the new Own Resources Decision, which provides for an increase in the VAT own resources ceiling from 1 per cent to 1.4 per cent, with effect from 1 January 1986, together with the VAT abatement system for the UK as agreed at Fontainebleau.

Gross and Net Contributions by the UK

11. Table III shows the UK's gross contributions and receipts in 1982, 1983 and 1984 and the resulting net contributions figures. Also shown are estimates of the corresponding amounts for 1985. These are based on the financial year forecasts given in the latest Public Expenditure White Paper, adapted to a calendar year basis, but take account of the 1985 Budget as now adopted and assume an average sterling/ecu exchange rate during 1985 of 1.6947. In contrast with the figures in tables I and II these estimates are based on sums actually contributed or received by the UK during the years in question, and not on contributions and receipts associated with particular Budgets. The receipts for each year include sums carried forward from the previous year's Budget and exclude sums carried forward into the following year.

12. It was agreed at Fontainebleau that the UK's VAT contributions for 1984 should be abated by a lump-sum of 1000 mecu. Table III assumes that this abatement will be made to our 1985 VAT contributions before the end of this year. For 1985 and later years, the new Own Resources Decision provides for the UK to receive an automatic abatement totalling 66 per cent of the difference between the UK's VAT and receipts shares of the allocated budget payable in equal monthly instalments over the following year.

13. Table III includes an estimate of some £1.2 billion for the UK's net contribution in 1985 (after allowing for the 1000 mecu lump-sum abatement for 1984 mentioned above). This figure has been inflated by two non-recurring factors. Firstly the payments under the 1984 and 1985 Inter Governmental Agreements will both be made in 1985. Some £119 million of the estimate therefore relates to the 1984 Budget. Secondly the change in 1984 in the UK's system for collecting VAT on imports led to an exceptional payment of some £75 million of VAT own resources to the Community, in 1985. These additional payments will increase the UK's entitlement to VAT abatement in 1986, as will most of the other factors which have inflated our net contribution during 1985: our abatement next year is expected accordingly to be much larger than this year's lump-sum, and our net contribution after abatement is expected, correspondingly, to be much smaller. The figure of £1.2 billion also includes some £135 million in respect of the UK's contribution to the Community's overseas aid expenditure which in the Public Expenditure White Paper is attributed to the Aid programme.

14. The estimate of the UK's net contribution for the Community's year ending 31 December 1985 is some £300 million larger than the figure for the UK financial year ending 31 March 1986 shown in the Public Expenditure White Paper (Cmnd 9428-II, page 48, Table 3.25). The main reason for the difference is that the 1985 calendar year figure includes the period 1 January to 31 March 1985 during which our net contribution was substantially greater than that expected for the first quarter of 1986 (which is included in the 1985-86 figure). The UK paid its contribution under the Inter Governmental Agreement for 1984 in the first quarter of 1985; in contrast we expect to receive a quarter of our abatement in respect of 1985 in the first three months of 1986. In addition the 1985 budget as adopted and the requirement for funding under the 1985 Inter Governmental Agreement were higher than assumed in Cmnd 9428; the UK's contribution under that agreement was consequently some £85 million higher.



Charles Power Esq



~~Charles~~

1985 COMMUNITY BUDGET WHITE PAPER

Please add the enclosed to my
letter to you earlier today.

With the Compliments + Apologies
of the

Minister of State's

Private Secretary

Mike Maggart

25.9.

PS / Mr
Ian
Gow MP

Treasury Chambers,
Parliament Street,
SW1P 3AG

TABLE 1

EXPENDITURE FROM THE COMMUNITY BUDGET
COMMITMENTS AND PAYMENTS BY INSTITUTION AND TYPE OF EXPENDITURE

	MILLION ECUS							
	COMMITMENTS				PAYMENTS			
	1982	1983	1984	1985	1982	1983	1984	1985
COMMISSION								
ADMINISTRATION	713	743	811	885	688	736	811	885
EAGGF GUARANTEE	12372	15786	18333	19955	12370	15788	18333	19955
EAGGF GUIDANCE	734	866	724	656	638	720	596	632
FISHERIES	69	88	159	154	55	55	112	112
REGIONAL FUND	1845	2127	2140	2290	973	1276	1413	1610
EMS INTEREST RATE SUBSIDIES	272	257	0	0	265	311	0	0
UNITED KINGDOM REFUNDS	1804	1400	991	0	1819	1400	991	0
GERMAN REFUNDS	0	272	211	0	0	271	211	0
SOCIAL FUND	1510	1878	1846	2010	906	891	1220	1410
ENERGY	84	150	225	141	44	45	171	83
RESEARCH AND INVESTMENT	443	490	747	839	368	423	511	559
INDUSTRY AND TRANSPORT	19	96	151	130	16	45	98	80
OWN RESOURCES REFUNDS	908	928	1105	1070	909	922	1105	1070
TRANSITIONAL REFUNDS TO GREECE	98	64	45	24	90	59	45	24
DEVELOPMENT AID	899	1061	1023	1587	786	811	897	1044
MISCELLANEOUS	204	221	330	686	174	269	304	516
RESERVES	0	0	5	5	0	0	5	5
TOTAL COMMISSION	21974	26427	28846	30432	20101	24002	26823	27985
OTHER INSTITUTIONS								
PARLIAMENT	199	212	239	238	173	215	239	238
COUNCIL	112	121	137	158	110	117	137	158
COURT OF JUSTICE	26	28	32	33	25	27	32	33
COURT OF AUDITORS	14	15	18	19	14	15	18	19
TOTAL OTHER INSTITUTIONS	351	376	426	448	322	374	426	448
TOTAL BUDGET	22325	26803	29272	30880	20423	24376	27249	28433

TABLE 1A
EXPENDITURE FROM THE COMMUNITY BUDGET
COMMITMENTS AND PAYMENTS BY INSTITUTION AND TYPE OF EXPENDITURE

	£ MILLION							
	COMMITMENTS				PAYMENTS			
	1982	1983	1984	1985	1982	1983	1984	1985
COMMISSION								
ADMINISTRATION	397	436	477	522	386	432	477	522
EEAGF GUARANTEE	6931	9261	10832	11775	6929	9263	10832	11775
EEAGF GUIDANCE	411	508	428	387	358	422	352	373
FISHERIES	39	51	94	91	31	32	66	66
REGIONAL FUND	1033	1248	1264	1351	545	737	835	950
EMS INTEREST RATE SUBSIDIES	153	151	0	0	148	182	0	0
UNITED KINGDOM REFUNDS	1011	821	586	0	1019	821	585	0
GERMAN REFUNDS	0	160	125	0	0	159	125	0
SOCIAL FUND	846	1102	1071	1186	507	523	721	832
ENERGY	47	88	133	84	25	26	101	49
RESEARCH AND INVESTMENT	248	287	441	495	206	248	302	330
INDUSTRY AND TRANSPORT	11	57	89	77	9	26	58	47
OWN RESOURCES REFUNDS	508	545	653	632	509	541	653	632
TRANSITIONAL REFUND TO GREECE	55	38	26	14	50	35	26	14
DEVELOPMENT AID	504	622	604	736	440	476	530	616
MISCELLANEOUS	114	130	195	405	98	158	180	305
RESERVES	0	0	3	3	0	0	3	3
TOTAL COMMISSION	12310	15605	17043	17958	11260	14081	15848	16514
OTHER INSTITUTIONS								
PARLIAMENT	111	124	141	140	97	126	141	140
COUNCIL	63	71	81	94	62	69	81	94
COURT OF JUSTICE	14	16	19	19	14	16	19	19
COURT OF AUDITORS	8	9	11	11	8	9	11	11
TOTAL OTHER INSTITUTIONS	196	220	252	264	181	220	252	264
TOTAL BUDGET	12506	15725	17295	18222	11441	14301	16100	16778

TABLE 11
COMMUNITY BUDGET REVENUES

	MILLION ECUS											
	AGRICULTURE AND SUGAR LEVIES				CUSTOMS DUTIES			VAT/FINANCIAL CONTRIBUTION				
	1982	1983	1984	1985	1982	1983	1984	1985	1982	1983	1984	1985
BELGIUM	283	360	403	235	404	424	467	493	461	432	473	555
DENMARK	33	46	57	50	142	160	195	218	227	274	289	343
GERMANY	392	---	626	430	1967	2020	2285	2500	3340	4039	4231	4694
GREECE	77	55	118	38	109	107	96	119	196	216	222	263
FRANCE	282	372	554	419	1071	1052	1083	1206	2873	3082	3198	3788
IRELAND	13	19	23	20	88	100	124	135	107	151	136	149
ITALY	369	418	536	346	660	657	716	860	1458	1924	2227	2502
LUXEMBOURG	0	0	0	0	4	5	6	5	26	39	46	44
NETHERLANDS	231	218	347	215	585	633	737	790	650	714	738	824
UNITED KINGDOM	548	394	394	354	1785	1831	2211	2270	2783	2859	2819	2300
TOTAL	2228	2295	3058	2107	6815	6989	7920	8596	12121	13730	14379	15462

	INTER GOVERNMENTAL AGREEMENT				TOTAL							
	1982	1983	1984	1985	1982	1983	1984	1985				
BELGIUM	0	0	35	65	1148	1216	1378	1348	0	0	0	0
DENMARK	0	0	20	40	402	480	561	651	0	0	0	0
GERMANY	0	0	288	571	5699	6472	7430	8195	0	0	0	0
GREECE	0	0	15	31	382	378	451	451	0	0	0	0
FRANCE	0	0	229	442	4226	4506	5064	5855	0	0	0	0
IRELAND	0	0	9	17	208	270	292	321	0	0	0	0
ITALY	0	0	154	292	2487	2999	3633	4000	0	0	0	0
LUXEMBOURG	0	0	2	5	30	44	54	54	0	0	0	0
NETHERLANDS	0	0	50	96	1466	1565	1872	1925	0	0	0	0
UNITED KINGDOM	0	0	201	423	5116	5084	5625	5347	0	0	0	0
TOTAL	0	0	1003	1982	21164	23014	26360	28147	0	0	0	0

1. UNITED KINGDOM REVENUE FIGURES FOR 1984 REFLECT ACTUAL PAYMENTS MADE TO THE COMMUNITY IN THAT YEAR.
OTHER MEMBER STATES CONTRIBUTIONS ARE DERIVED FROM THE SUPPLEMENTARY AND AMENDING BUDGET NUMBER 1, 1984

2. ~~NATIONAL CONTRIBUTIONS ARE THE MAJOR PART OF THE COMMUNITY'S REVENUE.~~ MISCELLANEOUS ^{revenue and expenditure} ~~AND~~ CARRY-FORWARDS
ACCOUNT FOR THE DIFFERENCES BETWEEN THE TOTAL EXPENDITURE SHOWN IN TABLES 1 AND THE TOTAL REVENUE FROM
OWN RESOURCES SHOWN IN TABLES 11.

TABLE 11A

COMMUNITY BUDGET REVENUES

£ MILLION

	AGRICULTURE AND SUGAR LEVIES				CUSTOMS DUTIES				VAT/FINANCIAL CONTRIBUTION			
	1982	1983	1984	1985	1982	1983	1984	1985	1982	1983	1984	1985
BELGIUM	159	211	238	139	226	248	276	291	258	254	280	327
DENMARK	18	27	34	29	80	94	115	129	127	161	171	202
GERMANY	219	243	370	254	1102	1185	1350	1475	1871	2369	2497	2770
GREECE	43	32	69	22	61	63	57	70	110	127	131	156
FRANCE	158	219	327	247	600	617	640	712	1609	1808	1870	2235
IRELAND	8	11	14	12	49	59	73	80	60	88	80	88
ITALY	206	245	317	204	370	386	423	507	817	1128	1316	1477
LUXEMBOURG	0	0	0	0	2	3	4	3	15	23	27	26
NETHERLANDS	130	128	205	127	328	371	435	466	364	419	436	486
UNITED KINGDOM	307	231	233	209	1000	1074	1306	1339	1559	1678	1665	1357
TOTAL	1248	1347	1807	1243	3818	4100	4679	5072	6770	8055	8495	9124

INTER GOVERNMENTAL AGREEMENTS

TOTAL

	1982	1983	1984	1985	1982	1983	1984	1985				
BELGIUM	0	0	20	39	643	713	814	796	0	0	0	0
DENMARK	0	0	12	24	225	282	332	384	0	0	0	0
GERMANY	0	0	171	336	3192	3797	4390	4835	0	0	0	0
GREECE	0	0	9	18	214	222	266	266	0	0	0	0
FRANCE	0	0	135	261	2367	2644	2992	3455	0	0	0	0
IRELAND	0	0	5	10	117	158	172	190	0	0	0	0
ITALY	0	0	91	172	1393	1759	2147	2360	0	0	0	0
LUXEMBOURG	0	0	1	3	17	26	32	32	0	0	0	0
NETHERLANDS	0	0	30	57	822	918	1106	1136	0	0	0	0
UNITED KINGDOM	0	0	119	250	2866	2983	3323	3155	0	0	0	0
TOTAL	0	0	593	1170	11856	13502	15574	16609	0	0	0	0

1. UNITED KINGDOM REVENUE FIGURES FOR 1984 REFLECT ACTUAL PAYMENTS MADE IN THE COMMUNITY IN THAT YEAR. OTHER MEMBER STATES' CONTRIBUTIONS ARE DERIVED FROM SUPPLEMENTARY AND AMENDING BUDGET NUMBER 1, 1984.

2. NATIONAL CONTRIBUTIONS ARE THE MAJOR PART OF THE COMMUNITY'S REVENUE. MISCELLANEOUS AND CARRY-FORWARDS ACCOUNT FOR THE DIFFERENCES BETWEEN THE TOTAL EXPENDITURE SHOWN IN TABLES I AND THE TOTAL REVENUE FROM OWN RESOURCES SHOWN IN TABLES II.

Revenue
and
expenditure

TABLE III

UNITED KINGDOM CONTRIBUTIONS TO AND RECEIPTS FROM THE COMMUNITY BUDGET

	MILLION ECUS				£ MILLION			
	1982	1983	1984	1985	1982	1983	1984	1985
GROSS CONTRIBUTION								
AGRICULTURAL AND SUGAR LEVIES	548	395	394	354	307	219	233	209
CUSTOMS DUTIES	1787	1829	2211	2270	1001	1073	1306	1339
VAT OWN RESOURCES INCLUDING VAT ADJUSTMENTS AND BEFORE ABATEMENTS	2775	2844	2818	3545	1555	1669	1665	2092
U.K. ABATEMENT OF VAT	0	0	0	-1000	0	0	0	- 590
INTER GOVERNMENTAL AGREEMENT 1984	0	0	0	201	0	0	0	119
INTER GOVERNMENTAL AGREEMENT 1985	0	0	0	423	0	0	0	250
TOTAL CONTRIBUTIONS	5110	5068	5423	5793	2863	2974	3204	3419
RECEIPTS								
RECEIPTS OTHER THAN REFUNDS	1971	2372	3134	3375	1105	1392	1852	1991
OWN RESOURCES REFUNDS	239	221	280	262	134	130	165	155
UNITED KINGDOM NEGOTIATED REFUNDS	1820	1376	894	104	1019	807	528	61
TOTAL RECEIPTS	4030	3969	4308	3741	2258	2329	2545	2207
NET CONTRIBUTION	1080	1099	1115	2052	605	645	659	1212

FOR ALL YEARS FIGURES REFLECT PAYMENTS MADE DURING THE YEAR ,NOT PAYMENTS IN RESPECT OF PARTICULAR BUDGETS.
FROM 1985 REFUNDS ARE REPLACED BY ABATEMENT OF VAT CONTRIBUTIONS.

EUROPEAN COMMUNITY BUDGET

The detailed rules which define the structure and implementation of the Community Budget are mostly to be found in Part 5, Title II of the Treaty establishing the European Economic Community and in the Financial Regulation of 21 December 1977, as amended. There are several important differences between the Community's budgetary process and that of the United Kingdom.

2. The UK presents its Public Expenditure Plans in a multi-annual form: the Community presents its expenditure plans in its annual Budget proposals, together with the necessary revenue for the year. The Community's financial year runs from 1 January to 31 December.

Commitment and Payment Appropriations

3. The Budget distinguishes between appropriations for commitments and appropriations for payments. Commitment appropriations are the total cost of legal obligations which can be entered into in the current financial year for activities which will lead to payments in the current future financial years. Payment appropriations are the amount of money which is available to be spent in that year arising from commitments entered into in the current or preceding years.

Sterling Figures

4. The sterling figures for 1982 to 1984 are based on actual

sterling cash receipts or payments where these took place and are known; elsewhere the appropriate average annual sterling/ecu exchange rate has been used¹ to convert ecu figures to sterling. The 1985 sterling figures have been constructed using the average sterling rate for the calendar year to mid-August 1985 (£1=1.6947 ecu).

Own Resources

5. The Community Budget is financed, apart from the exceptional Inter Governmental Agreements for 1984 and 1985, almost entirely by 'Own Resources'. These include agricultural levies and customs duties on imports into the Community from the rest of the world; sugar levies which are taxes on the production and storage of sugar; and VAT 'Own Resources' which are the product of a notional rate of VAT levied on a Community harmonised expenditure base. For all years covered by this White Paper this rate was subject to a 1 per cent ceiling; as from 1 January 1986 (subject to ratification by member states of the new Own Resources Decision) the ceiling will be 1.4 per cent.

¹ The annual average rate for 1982 is £1 = 1.7851 ecu
The annual average rate for 1983 is £1 = 1.7045 ecu
The annual average rate for 1984 is £1 = 1.6925 ecu

Extract From Hansard 2 July 1985

Vol. 52 No. 146 Cols. 140-141

New Clause 13

REPORT ON COMMISSION CALCULATIONS

'Within one calendar month of receipt of the calculations made by the Commission under section 5 of Article 3 of the Decision, a paper will be presented by Her Majesty's Government to both Houses of Parliament explaining the financial consequences of these calculations for the Consolidated Fund.'—[Mr. Teddy Taylor.]

Brought up, and read the First time.

Mr. Teddy Taylor: I beg to move, That the clause be read a Second time.

The Second Deputy Chairman: With this it will be convenient also to consider the following new clauses: No. 17—*Report on Operation of the Decision*—

'A Report shall be placed before each House of Parliament annually on the financial liability placed on the Consolidated Fund of the implementation of the Decision.'

No. 19—*Report on additional revenues*—

'A Report shall be submitted to both Houses of Parliament by Her Majesty's Government in the event of any additional revenues being agreed in terms of Article 2 of the Decision.'

Mr. Taylor: The new clause proposes annual reports. We have found to our distress previously that the High reports have not always been shown in what has happened. With regard to the Government's estimates on contributions and so on, it would be helpful to have a regular system of reporting back. I wonder whether my hon. Friend sees any scope for agreeing something along those lines.

Dr. McDonald: I shall be as brief as the hon. Member for Southend, East (Mr. Taylor). I have no doubt that the Economic Secretary will reply that the information is readily available, but such information should be clearly available so that we understand exactly what the abatement mechanism involves and the amounts of money that we pay in terms of the various articles and decisions to which the new clauses refer. Information should be less misleadingly available than is evidenced in the parliamentary replies which the Economic Secretary has given to the hon. Member for Southend, East.

Mr. Ian Stewart: The Government will endeavour to provide the necessary information in as clear a form as possible. Calculations relating to abatement will be included in the preliminary draft budget, the draft budget and the budget as adopted, all of which will be laid before the House with explanatory memorandums. I shall ensure, as I always try to do, that that information is made available as soon as possible after those documents are in our hands. There is further information in the public expenditure White Paper and in the Autumn Statement.

Those documents should provide the information that hon. Members need. It is especially difficult to deal with parliamentary questions about refunds and abatements at the moment, because we are at the point of transition from the old system to the new, so the manner of presentation is not always straightforward. I think, however, that I can respond favourably to the spirit of the remarks that have been made.

Mr. Teddy Taylor: In view of that answer, which I greatly appreciate, I beg to ask leave to withdraw the motion.



RESTRICTED

PRIME MINISTER

BUDGET COUNCIL, 17-18 September 1985

The Budget Council at Luxembourg went about as well as could be expected from the UK's point of view. I fear, however, that difficult times still lie ahead.

2. In close collaboration with the German, French and Dutch delegations, we were able to block a Presidency proposal to establish a draft budget providing for increases of over 12% in payment appropriations and nearly 16% in commitment appropriations, for non-obligatory expenditure. The Council finally established by qualified majority, despite strong objections from the big-budget proponents, Italy, Greece and Ireland, a draft budget which respects the Budget Discipline Conclusions and the reference framework agreed by ECOFIN in July, with only limited additions for enlargement. The main features of the draft budget are:

- an increase of 5.3% in agricultural guarantee expenditure (within the financial guideline) for the existing ten member states, with a further 567 mecu for Spain and Portugal: there was no opposition to our suggestion that there should be early discussion in ECOFIN on extending the financial guideline to cover a Community of Twelve;
- an increase of just under the full maximum rate of 7.1% in commitment and payment appropriations for non-obligatory expenditure (which the European Parliament will have the right under the Treaty to raise to 10.65%). Our starting position was to argue for an increase

② cefc
Prime Minister
to note particularly
the warning in
paragraph 4
ms
21/9.

of half the maximum rate (3.55% or some 217 mecu), as envisaged in the December 1984 budget discipline conclusions, with Spain and Portugal as well as the Ten being accommodated within the resulting total; but there was no prospect of reaching agreement on this, and the second half-maximum-rate increase of some 217 mecu added by the Council is much smaller than the total non-obligatory expenditure of some 600 mecu proposed by the Commission for Spain and Portugal next year. To a considerable extent, therefore, non-obligatory expenditure in Spain and Portugal would, on these proposals, be accommodated by reining back expenditure in existing member states. By keeping the total increase in non-obligatory expenditure below the full maximum rate, the Council avoided the necessity for setting a new (and much higher) maximum rate by co-decision between the Council and the Parliament;

- no special increase to deal with the so-called "cost of the past" (overhang of past commitments) problem but a remit to the Presidency to review the problem in conjunction with the Commission and bearing in mind the views of the Parliament. We argued strongly for a lower increase in commitment appropriations than payment appropriations but there was no prospect of a qualified majority for this given the number of new commitments needed for Spain and Portugal;
- a token entry rather than substantive provision for a food aid reserve, following the Milan European Council conclusions. Several member states noted that the rains in Africa had been more plentiful than expected at the time of Milan, and the Council undertook to review the disposition of aid allocations in the light of circumstances;
- compatibility with the reference framework. Even allowing for the Parliament's right, within the Treaty, to add a further half-maximum-rate increase of some 217 mecu

to the total of non-obligatory expenditure, the excess of budgetary provision over the reference framework limits is less than the extra own resources (net of transitional refunds) which Spain and Portugal will be contributing.

3. Reasonably satisfactory as this outcome was, there will be further battles at the Council's second reading of the budget in November or December. Our objective then will be to find a qualified majority for a budget limited to the existing draft budget total plus the European Parliament's statutory margin of some 217 mecu; but this will be extremely difficult to achieve.

4. Looking ahead to next year, the prospects are even gloomier. The Spaniards and Portuguese, who attended this week's Council as observers, criticised the draft budget with some vehemence. It is a sobering thought that if they had been voting members this week there would have been no qualified majority for the draft budget as established (or indeed for the Presidency's more prodigal initial proposals). In next year's budgetary process, when the UK has the Presidency, Spain and Portugal will almost certainly join Italy and Greece in arguing for big budgets with a heavy Mediterranean/less prosperous country emphasis, and the four countries between them will have a blocking minority (as indeed would Italy, Spain and Portugal or Greece). In these circumstances it will, I fear, be extremely difficult to find a qualified majority for a draft budget which is even moderately satisfactory from the UK's point of view. We shall need to consider this problem carefully with German, French and Dutch colleagues early next year.

5. I am copying this minute to Geoffrey Howe, Leon Brittan, George Younger, Nicholas Edwards, Tom King, Michael Jopling, David Young, Kenneth Baker and Sir Robert Armstrong.

mmn

for IAN GOW
approved by the Minister of State
and signed in his absence





Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460

Switchboard 01-213 3000

cc PS/Faynastey General
 PS/Mr. Gellmanley
 Mr. Dawe
 Mr. Bayliss
 Mr. Robinson
 Mr. Lambert
 Mr. Gellmanley
 Mr. Atwin
 18/9/85

Ian Gow Esq MP
 Minister of State
 HM Treasury
 Great George Street
 London SW1

18 September 1985

1986 COMMUNITY BUDGET COUNCIL (17-18 SEPTEMBER 1985)

A copy of your letter of 12 September to the Prime Minister reached me on 16 September.

I believe that there is a strong case for allowing an increase in excess of the maximum rate in the case of the European Social Fund payments budget. We have no reason to question the Commission's assessment of the problem of the 'weight of the past', at least as far as the European Social Fund is concerned. As members of the Council we allowed Fund allocations to increase, and there is a resulting payments obligation. The UK was allocated more than any other member state from the Social Fund in 1983 and 1984. A large proportion of the payments resulting from these allocations (about 28%) is due to the UK. Most of this will come to the Exchequer. We are therefore considerable net beneficiaries from this part of the Community budget.

If there are serious restraints on the Community's ability to pay its commitments to employment and training schemes in 1986, this will not only damage credibility in a sensitive area where the Community is making a positive contribution. It will affect the estimates in the Public Expenditure White Paper, where Community receipts are counted as offsetting the cost of Manpower Services Commission programmes. About £100 million is due for this in 1986 on final payments from 1984 allocations alone.

I accept that at this stage in the negotiations it may be appropriate to take a strong line across the board on budget restraint. However, I would not want to see this rigidly maintained at the expense of the UK's real interest. Some



relaxation of the payments budget to cope with the problem need not have long term effects if the allocations budget is reasonably restrained.

I hope that you will take account of these points in the continuing negotiations.

cc Prime Minister

FCO

DTI

Yours,
Haw

Euro for: Budget A 30.



1. CDD - Jan?
2. pa.

To: PS/SoS

cc PS/Prime Minister ✓
PS/Sir Brian Hayes
Mr Dell
Mr Cammell, ID

From: B D WINKETT
Hd/ID2
Room 424
Kingsgate House
212-8748

17 September 1985

10TH ANNIVERSARY OF COMMUNITY REGIONAL POLICY AND THE
EUROPEAN REGIONAL DEVELOPMENT FUND

Problem

The Private Secretary to the Secretary of State for Wales wrote to the PS to the Foreign Secretary saying that Mr Edwards does not propose to attend the celebrations of the above Anniversary.

Recommendation

2 No action is needed.

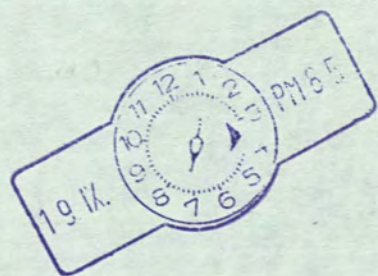
Explanation

3 We understand that the proposed "celebrations" will consist of a series of lectures by senior Commission officials, and the advice of UK officials is that no UK Minister should attend, but that appropriate officials should do so.

4 The Secretary of State for Wales received an invitation because Wales is a "region". No DTI Minister has received an invitation, and it is at present unclear whether any will be offered.

5 Mr Dell has been invited, as he is a member of the EC Regional Policy Committee. I shall probably be invited as a member of the European Regional Development Fund Committee.

B D WINKETT





Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

The Rt Hon Douglas Hurd MP
Secretary of State for the Home Department
Queen Anne's Gate
LONDON SW1

17 September 1985

Dear Douglas,

*NBPM
archive*

EUROPEAN COMMUNITY MIGRATION POLICY

Thank you for copying David Young your letter of 12 September to Geoffrey Howe.

As you know, we have an EC interest ~~in~~ in social affairs matters and a domestic interest in the work permit system. We therefore share your concern about the Commission Decision and support your intention of challenging it.

I am copying this letter to recipients of yours.

J. C.

KENNETH CLARKE

END PDI PT30

Budget





CGR

3 PPS

FCS/85/243

CDD 16/9.

SECRETARY OF STATE FOR THE HOME DEPARTMENTEuropean Community Migration Policy

1. Thank you for your letter of 13 September proposing that we should challenge the Commission Decision on migration policy before the European Court, provided that at least one other member state does so.
2. I agree with the views set out in your minute and that, subject to the opinion of the Law Officers, we should take the Commission to the Court. The Commission is at present attempting to put together some form of compromise statement which would restrict the effective application of the Decision. This, however, would not alter the fact that, if the Decision is not successfully challenged before the Court, it will stand as a legally binding instrument which could have adverse implications for our own immigration policy and set a very unwelcome precedent for the Community in other fields.
3. It looks as if Denmark, Germany and the Netherlands will be taking the Commission to court. If so, we should cooperate with them so that we act in parallel.
3. I understand that Commissioner Sutherland has issued an

/invitation

CONFIDENTIAL



invitation to a ministerial meeting to consider action under the new Directive. In view of our position and the prospective Court action, I think we should decline the invitation. We understand other member states who share our view will also decline.

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

A handwritten signature in dark ink, appearing to be 'G. Howe'.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

16 September 1985

CONFIDENTIAL

Euro Pd
fr 30
Budget





RESTRICTED

CCPC

FCS/85/245

NBPM

MINISTER OF STATE, HM TREASURY

Community Budget for 1986:
Budget Council 17-18 September 1985

1. Thank you for sending me a copy of your minute of 12 September to the Prime Minister.
2. I have no difficulty with the general line you propose on enlargement and the cost of the past, subject to one or two points. I assume that the additional 540 mecu non-obligatory expenditure in respect of enlargement is additional to the maximum rate. As you point out, this additional sum would be more than covered by the Spanish and Portuguese own resources contribution and would not affect budget discipline. Spain and Portugal are competing for the same budget credits as the existing member states. If provision is not made for them in this way, available Funds would in practice be inadequate to meet outstanding contract obligations to recipients in the UK.
3. In dealing with the problems of the Commission reserve of 235 mecu for Spain and Portugal, no doubt you will bear in mind the undertakings given during the enlargement negotiations that Spain would be in net balance on her contributions and Portugal in small net benefit.
4. On the commitments side, I agree that we should seek to limit new commitments as far as possible with a view to reducing the long term size of the "cost of the past". We shall need the support of Germany and France to achieve this and I understand you have been in touch with them. I am sceptical as to whether the Commission could be persuaded subsequently not to spend commitment appropriations entered into the budget (your para 11).

.../5.

RESTRICTED

RESTRICTED



5. On a separate point, I understand that the question of staffing after enlargement might come up at the Council. I believe that we should aim for the minimum of new posts and early retirements consistent with our desire to achieve a higher level of British staffing through the early retirement process.

6. I am copying this minute to the Prime Minister, the Secretaries of State for Trade and Industry, Employment, Environment, Scotland, Wales and Northern Ireland, the Minister of Agriculture and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G. Howe'.

GEOFFREY HOWE

Foreign and Commonwealth Office
16 September 1985

RESTRICTED



RESTRICTED



hle ea
bc PC

10 DOWNING STREET

From the Private Secretary

15 September 1985

**COMMUNITY BUDGET FOR 1986:
BUDGET COUNCIL, 17/18 SEPTEMBER 1985**

The Prime Minister has noted the minute by your Minister of State setting out the approach which he intends to take when the Budget Council meets in Luxembourg on 17/18 September for its first reading of the 1986 Community Budget.

The Prime Minister is content with what is proposed.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), John Mogg (Department of Trade and Industry), John Graham (Scottish Office), Colin Williams (Welsh Office), Jim Daniell (Northern Ireland Office), Leigh Lewis (Department of Employment), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), Robin Young (Department of the Environment) and Michael Stark (Cabinet Office).

(Charles Powell)

Mike Norgrove, Esq.,
H.M. Treasury.

RESTRICTED

ls

CONFIDENTIAL

Ech



bc PC

10 DOWNING STREET

From the Private Secretary

15 September 1985

**EUROPEAN COMMUNITY:
INTER-GOVERNMENTAL CONFERENCE**

The Foreign and Commonwealth Secretary minuted the Prime Minister on 13 September on the outcome of the first meeting of the Inter-Governmental Conference to discuss the development of the Community.

The Prime Minister has noted this without comment.

I am sending copies of this letter to the Private Secretaries to members of OD(E) and to Michael Stark (Cabinet Office).

(Charles Powell)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

1



HOUSE OF LORDS,
SW1A 0PW

13 September 1985

cipl
NBPM
CDn 23/9

My dear Geoffrey:

European Community Migration Policy

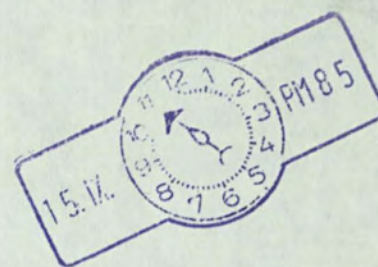
I have seen your letter of 12 September 1985 to the Home Secretary, and I agree that, subject to the views of the Law Officers, the United Kingdom should challenge the decision of the European Commission by bringing proceedings under Article 173 EEC Treaty. It seems to me that we have nothing to lose, and perhaps much to gain, by bringing such proceedings.

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

yrs:

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

Euro Pd Pt 30
BUDGET





Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Tel No: 233 3299
7471

13 September 1985

copy
N BPN
COM
23/9

The Rt Hon Douglas Hurd MP
Secretary of State for the Home Department
Home Office
Queen Anne's Gate
London
SW1H 9AT

D Douglas.

EUROPEAN COMMUNITY MIGRATION POLICY

Thank you for copying to me your letter of 12 September to Geoffrey Howe.

I agree with your view that, subject to the views of the Law Officers,
the European Commission's Decision should be challenged in the European Court.
I also agree that we should seek to act in parallel with other member states.

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

NORMAN TEBBIT

Europa Pr30
Budget

CCPE.
②

Prime Minister

CDP
13/9.PM/85/81PRIME MINISTER

ms.

European Community: Inter-Governmental Conference

1. In Luxembourg on 9 September I attended the first meeting of the inter-governmental conference to discuss the development of the Community. The evening before I had had a long and useful talk with Delors over dinner in Brussels. He was critical of the French and German manoeuvrings just before Milan and said that he regarded Britain as becoming progressively more European, while the Germans were becoming more difficult to deal with. I have kept in close touch also with the Luxembourg Foreign Minister, who is showing a real determination to try to re-establish common ground and work towards agreement at the European Council in December.

The didn't
give much
evidence of
this at
Milan.

2. On procedure it was agreed that sessions of the conference will be held when Foreign Ministers are due to meet anyway at Foreign Affairs Councils and political cooperation meetings. Preparatory work is being carried forward in two groups at senior official level. The

/Political



CONFIDENTIAL

Political Directors have started work on the draft treaty on political cooperation and a text is likely to be agreed on the lines we proposed.

3. On possible treaty amendment, the ideas of most other member states are still extremely vague. In our contacts with the Luxembourg Presidency before the meeting, we insisted on the need for extremely thorough and methodical preparation if this process were to have any chance of producing useful results. In particular we made clear that we would not be able to consider the ideas of others until these were put forward in much more specific form. The Luxembourg Presidency insisted at the meeting that any proposals for treaty amendment must be specific and should be presented by mid-October.

4. Most of the other member states have only now begun to undertake the thorough study of Articles 57(2) and 100 which we carried out before Milan. This process is already leading the others to much more modest proposals on decision taking. There is a pretty general recognition that radical amendment of Article 100 would be impossible. More limited proposals are likely to be made, in an attempt to accelerate work on the internal market. One of the concepts being considered is that on matters to do with the internal market, unanimity should

/continue

CONFIDENTIAL



CONFIDENTIAL

continue to be required for framework regulations, but not necessarily for measures of implementation. The Commission may put forward more ambitious ideas. As we insist on others being more specific, differences are emerging between Commission and Benelux thinking and that of the Germans and French.

5. As others now see difficulties in substantial changes in existing Articles, more attention is being focussed on the idea of up-dating the treaty by including references to actions already being undertaken, in particular on the environment and technology. The French and Germans want this to be done in a way which enables joint actions to continue to be taken where agreed, but recognise that the Community's role will remain limited in either field. On technology any reference would be likely to emphasize that the role of the Community must be to open up a genuine common market for high technology products and services. There is a desire on the part of most member states for some form of "Final Act" which might cover both the political cooperation treaty and any treaty changes which could be agreed, but firm agreement with our view that political cooperation cannot be brought within the Community framework.

/6.

CONFIDENTIAL



CONFIDENTIAL

6. On the European Parliament, there is a desire to try to do something to enable it to play a more constructive role, but a clear recognition that the Council must have the last word. The Germans have ideas in this area which would not help decision-taking, but these are already encountering resistance from the French.

7. There will now be a period of considerable confusion while member states who favour treaty amendment have to try to put forward more precise ideas. The Greeks and Irish will put forward amendments to stress economic convergence, to which the French and Germans will not agree. Despite the confusion, there will be a desire on the part of most participants to try to reach conclusions at the heads of government meeting in Luxembourg as the French elections will intervene before the next European Council.

8. In my talks with Delors, Genscher and Van den Broek I said that we remained to be convinced that treaty amendment was necessary. It certainly was going to be a difficult course. But our approach would be an empirical one. We should consider specific proposals on their merits and judge them on whether they would be likely actually to promote improved decision-taking and completion of a genuine common market.

CONFIDENTIAL



CONFIDENTIAL

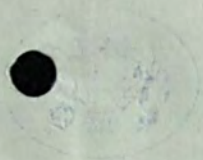
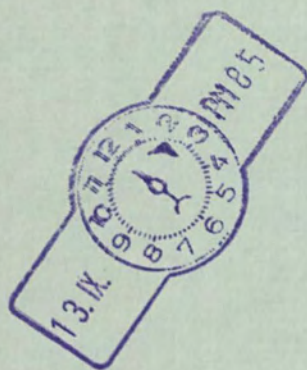
9. I am convinced that we should maintain this questioning approach. As you made clear to M. Fabius, we should wait and see what others are in practice prepared to do. We should not allow others, particularly the French, but now also the Germans, to shelter behind us. I will report further when there are specific proposals to be considered and when we can judge which of these are likely to attract a fair measure of support.

10. I am sending copies of this minute to the members of OD(E), the Secretary of State for the Environment and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
13 September 1985

CONFIDENTIAL





10 DOWNING STREET

From the Private Secretary

MR WILLIAMSON
Cabinet Office

EUROPEAN COMMUNITY MIGRATION POLICY

Thank you for your minute of 13 September.
I am sure that the Prime Minister would agree
with the intention to challenge the Commission's
decision in the European Court.

CHARLES POWELL

13 September 1985

88



cell

Mr ~~Powell~~ (10 Downing Street)

EUROPEAN COMMUNITY MIGRATION POLICY

The Prime Minister has had a copy of a letter of 12 September from the Home Secretary to the Foreign and Commonwealth Secretary asking for colleagues' views.

We believe that the Commission's Decision is ultra vires, would be a significant extension of Community competence and should be challenged by the United Kingdom in the European Court. It is very probable that the Federal Republic of Germany, the Netherlands and Denmark will also do so.

The challenge will certainly make the Commission think twice in similar cases in the future and has a good chance of success.

I am sending a copy to Sir Robert Armstrong.

Df Williamson

D F WILLIAMSON

13 September 1985

EUR. POL: Budget: P 30



010
RESTRICTED

Prime Minister
Prospect of further
trouble over the

copy
2



FROM: Minister of State

DATE: 12 September 1985

Community budget.

CDD 13/9.

PRIME MINISTER

COMMUNITY BUDGET FOR 1986: BUDGET COUNCIL, 17-18 SEPTEMBER 1985

The Budget Council meets in Luxembourg on 17-18 September for its first reading of the 1986 Community Budget. This minute outlines the approach which I propose to take.

2. The 1986 budget will be more than usually important in two respects. It will cover Spain and Portugal for the first time; and it will be the first to be covered by the budget discipline agreement of December 1984 in whose adoption UK Ministers played such a key role. In accordance with that agreement, the ECOFIN Council adopted in July a reference framework for the 1986 budget. This provided for agricultural guarantee expenditure to be contained within the agreed financial guideline and for other expenditure, including non-obligatory expenditure, to be contained within the maximum rate of increase of 7.1 per cent. The ECOFIN Council's conclusions noted, however, that provision for enlargement and the so-called 'cost of the past' (the overhang of commitments from previous years) would need to be considered during the budgetary process.

3. My key objective at the Council will be to make the budget discipline agreement and the reference framework stick, in the sense of establishing a draft budget which is as close as possible to the reference framework figures.

4. So far as agricultural guarantee expenditure is concerned, the Commission's proposals for the existing 10 member states are within the financial guideline and the reference framework. I propose nevertheless to argue for some savings, notably deletion of a proposed provision of 423 mecu for stock depreciation.

5. As to enlargement, the Commission has proposed additional agricultural guarantee expenditure for Spain and Portugal, outside

the guideline, of ⁵⁷⁰~~750~~ mecu. This figure accounts for less than half of the net own resources revenues which Spain and Portugal will be providing and does not appear open to serious challenge. I propose therefore to agree to it on the basis that the Council must take an early opportunity to extend the existing financial guideline to cover the Community of 12.

6. The Commission has proposed non-obligatory expenditure in Spain and Portugal of some 540 mecu. This too is less than half the own resources revenues which the two countries will be contributing, and I see no advantage in contesting the figure. The transitional arrangements for Spain and Portugal envisaged that Spain should be in broad budgetary balance, and Portugal a small net beneficiary, over the next few years.

7. The major difficulty in the Commission's proposals relates to the so-called 'cost of the past'. The Commission argues that the Community has no option but to spend 4.4 billion ecus during 1986 to discharge a massive overhang of commitments entered into in previous years. It will be possible to discharge a substantial amount of commitments within the reference framework figures. But the Commission argues that in the Regional Development and Social Funds extra provision of some 1350 mecu will be needed over and above the normal 'maximum rate' increase of 7.1 per cent and the 540 mecu proposed for Spain and Portugal. The Commission's proposals, if accepted, would involve expanding these Funds by something of the order of 60 per cent and 70 per cent respectively (see the accompanying summary table). These proposals, taken as a whole, would bring total Community expenditure in the first year of the new 1.4 per cent VAT own resources ceiling to within a bare 750 mecu of that ceiling.

8. Acceptance of the Commission's proposals on the commitments overhang would make a mockery of budget discipline and the reference framework. It would reward the Community institutions for past irresponsibility by extra spending now. The maximum rate provisions, moreover, would ensure that this massive increase of some 50 per cent in the total level of provision for non-obligatory expenditure would be carried forward to future years.

9. I propose to resist most strongly any additional provision, over and above the normal maximum rate increase, for this purpose. Specifically I propose:

- to question whether the problem is, in reality, anything like as serious as the Commission suggests;
- to call for a full review by the Commission of all commitments outstanding;
- to argue that, to the extent that the Commission can establish the existence and scale of the problem, the solution must anyway lie in reducing new commitments next year (and adjusting payment profiles) and not in the provision of vast extra sums of money; and
- to argue strongly in the meantime for a reduction, or at least a standstill, in commitments next year, though it could prove necessary to join a qualified majority for a limited increase if the alternative would be an even larger increase.

I recognise that any restraint in Regional and Social Fund commitments and payments will be unwelcome to public sector beneficiaries in this country, including local authorities. However, our priority must be to make a reality of budget discipline.

10. If the UK succeeds in holding this line it would be clear that the Council's draft budget respected budget discipline and the reference framework for the existing 10 member states. The addition of a limited amount of expenditure for enlargement would be covered by the additional own resources revenues brought to the Community by Spain and Portugal.

11. Looking further ahead, there is likely to be continuing trouble throughout the autumn over the 'cost of the past'. Whatever the Council decides, the Assembly will almost certainly exercise its right to raise commitment appropriations by the maximum rate of 7.1 per cent. In that event, the UK and other like-minded countries may have to say to the Commission that, whatever commitment appropriations the Assembly may write into

the budget, the Commission must not enter into commitments which it will not be able to honour within the payments appropriations, likely to be available within the framework of the budget discipline agreement.

12. I will of course report to you on the outcome of the Council.

13. I am copying this minute to Geoffrey Howe, Leon Brittan, George Younger, Nicholas Edwards, Tom King, David Young, Michael Jopling, Kenneth Baker and Sir Robert Armstrong.

2.6.

IAN GOW

1986 PRELIMINARY DRAFT BUDGET SUMMARY

(CA = commitment appropriations

PA = payments appropriations

<u>Expenditure</u>	<u>1985</u>		<u>1986</u>		<u>% change</u>	
	<u>CA</u>	<u>PA</u>	<u>CA</u>	<u>PA</u>	<u>CA</u>	<u>PA</u>
1. Agricultural guarantee	9673	9673	10509	10509	8.64	8.64
2. Agricultural guarantee	10282	10282	10503	10503	2.15	2.15
3. Agricultural guidance	713	688	1020	946	43.06	37.50
4. Fisheries policy	150	105	253	209	68.67	99.05
5. Regional policy	2588	1698	3844	2867	48.53	68.85
6. Social policy	2229	1625	2574	2523	15.48	55.26
7. Energy, research, industry etc	1028	700	970	763	-5.64	9.0
8. Repayments and aid to member states	1267	1267	3293	3293	159.91	159.91
9. Aid	1284	1039	1253	1320	-2.41	27.05
10 Reserves	69	23	472	450	584.06	1856.5
Commission administration	885	885	1098	1098	24.07	24.07
Total Commission	30168	27985	35789	34481	18.63	23.21
Other institutions	448	448	570	570	27.23	27.23
Total including other institutions	30616	28433	36359	35051	18.76	23.28

Memorandum items

FEOGA guarantee expenditure

Total	19955	19955	21012	21012	+5.3	+5.3
Total covered by guideline	N/A	N/A	20445	20445		
Guideline limit	N/A	N/A	20619	20619		

Other obligatory expenditure

Total*	2366	2345	4801	5017	+103	+114
Total covered by reference framework	N/A	N/A	4600	3000		
Reference framework limit			2558	2536		

Non-obligatory expenditure

Total	8295	6133	10547	9022	+27.1	+47.1
Reference framework/ maximum rate limit	N/A	N/A	8782	6537		
Own resources limit (1.4%)	N/A	N/A	-	35800		
UK VAT abatement	-	1000	-	1400		+40

*Includes refunds for Spain and Portugal



S/1537/85.

ask



Y SWYDD FA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Llinell Union)

ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)
FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

CO 2/14.

12 September 1985

Dear Mr. Appleyard,

10TH ANNIVERSARY OF COMMUNITY REGIONAL POLICY AND THE EUROPEAN REGIONAL DEVELOPMENT FUND

... I attach a copy of a letter which my Secretary of State has sent to the Commission in response to the invitation to attend the 10th Anniversary Celebrations of the European Regional Development Fund on 28 November 1985.

In view of the pressure on diaries around that time, my Secretary of State has also decided not to proceed with plans for general meetings with Commissioners on the preceding day about which I wrote on 16 August. The Secretary of State does, however, still intend to visit Brussels to meet with Commissioners in the near future and will, in any event, be giving evidence to the European Parliamentary Committee on Economic and Monetary Affairs and Industrial Policy enquiry on Steel crisis regions if a mutually convenient date can be agreed. I will therefore be in touch with you again, once a suitable alternative date has been found.

/ Copies of this letter go the Private Secretaries to the Prime Minister, the Lord Privy Seal, Chancellor of the Exchequer, the Secretaries of State for Scotland, Northern Ireland, Environment, Trade and Industry and Employment, the Minister of Agriculture, Fisheries and Food, and to Dr E Jones Parry and Mr I Knight Smith, in the United Kingdom's Permanent Representation in Brussels.

Yours sincerely,

17. R C WILLIAMS

L Appleyard Esq
Private Secretary to
The Secretary of State for Foreign and
Commonwealth Affairs

S/1537/85.



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Llinell Union)

ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

12 September 1985

Der M. Dotto,

**10TH ANNIVERSARY OF COMMUNITY REGIONAL POLICY AND THE EUROPEAN REGIONAL
DEVELOPMENT FUND .**

My Secretary of State has asked me to thank you for your kind invitation to attend the forthcoming celebrations which mark the 10th Anniversary of Community Regional Policy and of the European Regional Development Fund.

Unfortunately, the Secretary of State will be unable to attend the Seminar planned for 28 November due to Ministerial business. However, he would welcome the opportunity for a senior official of the Department - Mr H R Bollington - to attend on his behalf.

Yours sincerely,

R C Williams

p.p.

R C WILLIAMS

M Sergio Dotto
Secretariat
Commission of the European Communities (DG XVI)
200 Rue de la Loi
B. 1049 BRUSSELS
BELGIUM





cc Sir P. C.

QUEEN ANNE'S GATE LONDON SW1H 9AT

12th September 1985

Dear Geoffrey,

Await reaction
of colleagues.
cm.

EUROPEAN COMMUNITY MIGRATION POLICY

As you will know, on 8 July the European Commission adopted a Decision setting up a mandatory prior communication and consultation procedure on migration policies in relation to non-Member countries. The Decision would require Member States to give prior notification to the Commission and to other Member States of draft measures concerning third country workers and their families in the immigration field. Issues such as integration and voluntary repatriation would also be covered. On notification it would be open to the Commission to institute a consultative process among Member States, and other Member States could themselves seek such a process.

The Decision has serious implications for the formulation and implementation of immigration policy, which would become subject to prior Community scrutiny. The recent changes in the marriage rules and the earlier change imposing a visa requirement on Sri Lankan citizens would have been subject to this procedure. Even where the Commission did not seek to express views on the substance of changes in our immigration policy, compliance with the procedure would considerably limit our freedom of action as regards timing and presentation. The scope of the Decision is not entirely clear, but it could cover some measures in the employment, education and social security fields as well as immigration policy.

The basis of the Commission's Decision in community law is, I understand, very doubtful. It refers to Article 118 of the Treaty of Rome, but, while that Article gives the Commission the task of promoting close co-operation between Member States in the social field, by means of among other things consultations, it

The Rt Hon Sir Geoffrey Howe, QC., MP.

/cont

does not provide any power to make a binding decision. Accordingly, it appears that the Decision is ultra vires. Quite apart from the subject matter of the Decision, it could set a very unwelcome precedent for Commission activity in other fields, if it goes unchallenged.

I believe that it would be right to challenge the Decision in the European Court and I invite colleagues' agreement to this course of action, subject to the views of the Law Officers who, because time is so short, we are consulting separately.

I understand that most other Member States take a similar view of the Decision. It has been proposed that the Council itself should contest it by seeking an opinion from the European Court. An approach to the Court by the Council would be the best way of challenging the Decision, but as a few Member States are opposed to this procedure and as only a few days remain for the Council to prepare and agree a case, it seems unlikely that it will be possible to proceed in this way. Any challenge is likely to have to come from individual Member States. The Germans, the Dutch and the Danes seem prepared to put a case to the Court and I propose that, if at least one other Member State is prepared to do so, we should act in parallel. If other countries dropped out, we would need to consider whether we wish to go to the Court on our own and I would consult colleagues again about this.

I should be grateful for colleagues' views as soon as possible. If we are to challenge the Decision, we need to consult the Council, prepare the case and deposit by the end of next week. In the absence of comments by close of play on Monday, 16 September, I shall assume that, subject to the views of the Law Officers, colleagues are content with the course proposed.

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

Yours,
Douglas

Ref. A085/2316

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the first meeting of the Intergovernmental Conference which was held on 9 September. Two preparatory groups at official level had already been set up - one to deal with the political co-operation texts and the other with proposed Treaty amendments and other ways of improving the working of the Community. The first Ministerial meeting was concerned with procedural matters and with setting the scene for the work which will be carried out by Foreign Ministers in three or four further sessions of the Conference and by the official groups. Despite their political statements at Milan and afterwards, no member state has yet tabled an amendment of the Treaty. The work on political co-operation is going ahead well on our lines. The Luxembourg Presidency, in a refreshing contrast to the Italian performance, is making a real effort to put some order into proceedings and to insist on deadlines (15 October for any Treaty amendment) and proper preparation of the European Council. In consequence, the meeting was business-like and did not go over old ground. From extensive contacts which we have had in the last week or two, it is evident that member states are now having to face up to realities as they decide how far and in what areas they might wish to propose changes in the Treaty of Rome, in the Council's procedures and in working arrangements affecting the European Parliament. Differences are already emerging between the Benelux and the Commission and the French and Germans, the French being particularly cautious on substance. It is therefore far too early to say what the final package - if one can be constructed - will look like. The Foreign and Commonwealth Secretary made clear that the aim



should be to reach limited and realistic objectives and that the United Kingdom would judge other member states' proposals by the criterion whether they would actually improve the working of the Community and, in particular, the completion of the internal market.

2. The Foreign and Commonwealth Secretary will have reported under Foreign Affairs about South Africa, which was discussed at the meeting of Community Foreign Ministers on 10 September. In the Foreign and Commonwealth Secretary's absence in Nigeria, the Minister of State, Foreign and Commonwealth Office (Mr Rifkind) represented the United Kingdom.

3. The Chancellor of the Exchequer may refer to the forthcoming meeting of the Budget Council on 17-18 September which will be the first Ministerial discussion of the Community's 1986 preliminary draft budget. The Minister of State, Treasury (Mr Gow) will be sending to you and colleagues later this week a letter setting out the line which he proposes to follow at the Budget Council. The main areas of difficulty are likely to be the provision to be made in the budget for the cost of enlargement and for liquidating certain outstanding commitments, particularly in the Regional Fund, overhanging from previous years (the so called "cost of the past").

4. There will be meetings of the Agriculture Council on 16-17 September and of the Foreign Affairs Council on 1 October. It is possible that there will be a short Ministerial session of the Intergovernmental Conference also on 1 October; if not, the next meeting will be on 21-22 October.

ROBERT ARMSTRONG

11 September 1985

ao



cc. R.

(2)

Prime Minister

Qz.04608

C.D.P.

2/9

MR. POWELL

Deputy

PROPOSED UNITED KINGDOM ACTION AGAINST THE COMMISSION IN THE EUROPEAN COURT OF JUSTICE

I should let you know that, subject to the agreement of the Foreign and Commonwealth Secretary (which is expected to be given), it is proposed that the United Kingdom should take the Commission to the European Court of Justice on a point in dispute about the annual premium for sheep. The nub of the matter is that we claim that we have been underpaid £7 million under this premium for 1984/85. The Law Officers have advised that this is an appropriate case for Article 173 proceedings. We consider that we have a reasonable chance of winning.

This is in line with our more aggressive policy in a recent period both in relation to challenging Commission decisions and to intervening in other European Court cases in our interest.

I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

2 September 1985

EW
2/9.

CONFIDENTIAL

Qz.04606

NOTE FOR THE RECORD

EUROPEAN COMMUNITY, INTERGOVERNMENTAL CONFERENCE: DISCUSSIONS
WITH M. SANTER AND M. DONDELINGER, 30 AUGUST 1985

Mr Renwick (FCO) and I, accompanied by Mr Miles (H M Ambassador, Luxembourg) had a meeting today with M. Santer, Prime Minister of Luxembourg and current chairman of the European Council, and more extensive discussions with M. Dondelinger, chairman of the official group preparing the intergovernmental conference. Mr Renwick is recording separately what was said about South Africa.

2. M. Santer said that the Luxembourg Presidency would be working for a result from the intergovernmental conference which would be acceptable to all member states. He had been impressed with some of the practical ideas put forward by the United Kingdom before and at the Milan European Council, including the text on political cooperation. During his holidays he had also been reading the Commission's communication on completing the internal market ("the Cockfield White Paper") and, in the light of this, he could well understand that amendment of the Treaty to introduce majority voting for some articles might be necessary in order to achieve the common market within the timescale proposed. He would himself be making a tour of capitals in good time before the European Council in Luxembourg and hoped that he would see the Prime Minister.

3. We said that the Prime Minister would be pleased to see him and that H M Ambassador was in touch about a date (5pm on 21 November - Mr Flesher's letter of 7 August to Mr Ricketts (FCO)). We wished also to stress two points. First, Milan had shown the difficulties of the course being followed

CONFIDENTIAL

through an intergovernmental conference. Nonetheless, the United Kingdom would play a constructive role in order to see whether an agreement acceptable to all could be achieved. We expected, however, that the United Kingdom would not necessarily take a view separately on individual proposals which might be put forward but would judge the results when the shape of any package became clear. Secondly, we urged the Luxembourg Presidency to lay down and to maintain clear rules for the better organisation of the next European Council. It was essential that there should be adequate time for proper consideration of proposals in capitals. In our view this meant that there should be in good time a single report of the work of the intergovernmental conference, either from the Foreign Ministers or, if they could not agree, from the Presidency. A deadline should be respected. There should not be last minute papers either from member states or from the Commission. It was not good enough that, as had happened at Milan, important documents were only available in capitals after some heads of government had boarded the plane or that the European Council should be asked to approve voluminous policy statements distributed at the last minute. M. Santer said that they intended to apply a deadline.

4. In the discussions with M. Dondelinger we did get some further information both about the Presidency's thinking and about the possible proposals to be submitted by other member states. There has been a Benelux coordinating meeting this week and at least some contact with the French. It is interesting that M. Dondelinger had no knowledge at all of Italian intentions and, until asked by us, never referred once to the Italian position. The main points were:-

(i) political cooperation. M. Dondelinger said that the Commission was still trying to find some way of incorporating the new agreement into the existing Treaty. M. Noel had given notice that M. Delors would press for this at the first meeting of the intergovernmental conference. The Presidency had advised strongly against such an intervention,

CONFIDENTIAL

which was doomed to failure. It was quite clear that most, if not all, member states were not prepared to bring political cooperation within Community rules but were prepared to formalise in a separate treaty the existing cooperation between member states;

(ii) procedure of the intergovernmental conference. The Presidency was planning on the assumption that the Foreign Affairs Council on 19 November would conclude the work of the intergovernmental conference and submit a report to the European Council. The Presidency expected to set a deadline of mid-October for the last submission to the conference of proposals for Treaty amendment;

(iii) possible Treaty changes: Presidency views. M. Dondelinger's reflections had already led him to recognise the problem of those who wanted Treaty amendment that, on the one hand, it would be difficult to propose majority voting for article 100 as a whole but, on the other hand, a complicated and partial amendment would not sound like a ringing declaration of progress in Europe. He therefore suggested that it might be possible to leave article 100 as it is (unanimity) but to insert new articles on the internal market, on technology and on the environment. Questioned by us about the basis for decision taking in the new articles, he suggested that on the internal market the framework regulations should require unanimity but the implementing regulations majority voting. On technology and the environment he was not entirely clear but seemed to be thinking in terms of majority voting. He did not, however, rule out the "variable geometry" possibility that a member state which could not support the majority might have an assurance that it could have a derogation subject to review. It is not possible at this early stage to know whether any of these ideas will see the light of day. There are some obvious difficulties such as the definition of the matters covered by the internal market. This is also,

/however,

CONFIDENTIAL

however, a potential method of leaving unchanged the decision-taking (unanimity) on certain important taxation or other issues under article 100;

(iv) possible proposals of other member states.

M. Dondelinger said that

(a) the Germans are working on a paper containing specific proposals

(b) the French would probably put forward some proposals for Treaty amendment on the European monetary system (presumably article 107), the social dimension and the commercial defence of the Community

(c) the Netherlands had some draft proposals on institutional questions but had not yet decided whether to table them

(d) he was not aware of any Italian proposals;

(v) institutions. The discussion about the European Parliament was inconclusive. M. Dondelinger appears to favour the view that there should be a greater role for the European Parliament within a few very strictly circumscribed fields but he repeated that the last word must rest with the Council. He mentioned for the first time that the Benelux had been thinking about a possible amendment of article 155 (role of the Commission).

D F Williamson

D F WILLIAMSON

30 August 1985

cc: Mr Powell (10 Downing Street) Sir Michael Butler (UKREP,
Mr Braithwaite)) FCO Brussels)
Mr Renwick)
Mr Lavelle, Treasury
Mr Williams (DTI) Mr Miles (H M Ambassador,
Luxembourg)
Mr Hatfield
Mr Holroyd
Mr Jay, o/r

010
Y SWYDDFA GYMREIG

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Llinell Union)

ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU



WELSH OFFICE

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

27th August 1985

Dear Len,

My Secretary of State has received an invitation from the European Parliament's Committee on Economic and Monetary Affairs and Industrial Policy to give evidence on the situation in South Wales, as part of an examination by the Committee of 4 Community Steel regions. This follows a general hearing on the European Steel Industry held on 24 April. The Committee's intention is to examine specific problems of regions particularly hard hit by what the invitation describes as the 'steel crisis'. He understands that invitations have also gone to the Minister-President of the Saarland, the Prefect of the Department of Lorraine and the Regional Authority of Wallonia. In addition invitations have gone to the trade unions and the steel companies in the 4 areas. The dates proposed for the hearing are 18/19 September.

I think there is general agreement that we should not decline to contribute to the Committee's work. The Secretary of State, however, already has unavoidable commitments in September at the time of the suggested Committee session in Brussels. The possibility remains of arranging for officials to represent the Secretary of State at the hearing, but subject to the agreement of his colleagues and to an alternative date being found convenient to both sides, he would prefer to give evidence himself.

I am accordingly writing to seek early agreement to our asking UKRep to investigate the possibilities with the Committee.

/ Copies go to the Private Secretaries to the Prime Minister, the Secretaries of State for Trade and Industry, Employment, Environment, Scotland, Northern Ireland, the Lord Privy Seal and Sir Robert Armstrong.

Yours sincerely

Paul Skellon

PAUL SKELLON

The Private Secretary to the Secretary of State
for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL



From the Minister of State for Industry

NBPM AT 1/8 SCNO
DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

Norman Lamont MP

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe MP
Foreign Secretary
Foreign and Commonwealth Office
Downing Street
LONDON SW1A 2AL

31 July 1985

Dun Golly

EC REGIONAL AID CEILINGS

I am writing to you as Chairman of OD(E) about the Commission's imposed ceilings on regional aid grants in Member States.

Under the present regime, these ceilings are fixed at 75% net grant equivalent (NGE) in Ireland, Northern Ireland and the Mezzogiorno, and 30% NGE in the GB development areas. The Commission may well allow 75% ceilings in substantial parts of Spain and in the whole of Portugal except Lisbon.

All the Commission's published statements on the manner in which they apply regional aid ceilings clearly state that the main determining factors are GDP per head and structural unemployment. Yet their own table, based on these criteria, and published at the end of Chapter 7-1 of their second periodic report on the regions of Europe (COM(84)40 final dated 13 March 1984), shows that Merseyside; Dumfries, Galloway and Strathclyde; Northumberland and Tyne and Wear; and Cleveland and Durham are all worse off than 4 comparable Italian regions which enjoy 75% NGE ceilings. Merseyside in particular is shown to be worse off than every Italian region except Calabria and Sardinia. West Berlin, which also enjoys a 75% NGE limit, is shown to be the fifth most prosperous of the 131 Community regions.

None of the Member States appear to have schemes which permit them to reach these maxima. But I have little doubt that published domestic maxima are disregarded in individual cases especially where mobile inward investment projects are involved. Individual problems caused by the differentials are frequently brought to my

JO6ABC



attention by UK industrialists. I have no answer to these criticisms, especially given the contradictory data published by the Commission itself, and I expect further representations when ceilings for Spain and Portugal are announced.

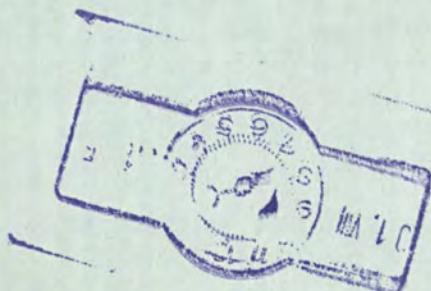
I think we should now make strong representations to the Commission about the unjustifiable differential between the ceilings in GB and those obtaining in other Member States. Our objective should be not to get the GB ceilings raised, but to get the others lowered. This would fit well with our general policy towards industrial aids in the Community.

I recognise, of course, the implications for Northern Ireland. We could maintain that Northern Ireland was a special case, but it would be difficult to secure reductions in other countries' NGE ceilings without some reduction in Northern Ireland's. However we would expect other countries' ceilings - and in particular that in the Republic of Ireland - to fall as far or further. It would clearly be unacceptable for the Republic's ceiling to be higher than Northern Ireland's.

If you and the others to whom I am copying this letter agree that we should make representations, I suggest that our officials meet to decide on the manner of approach.

I am copying this letter to members of OD(E), the Secretaries of State for Scotland, Wales and Northern Ireland, and to Sir Robert Armstrong.

NORMAN LAMONT



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T145/85



cc FCO
Sir P C.

subject a master
aff.

10 DOWNING STREET

THE PRIME MINISTER

31 July 1985

Dear Prime Minister,

Thank you for your message of 12 July about how we should follow up our discussion at Milan on the value of launching a European Action Programme against cancer.

I agree that the best way to take this forward would be to bring together a small team of experts practising in this field. I also agree that prevention and treatment are the areas where there may well be scope for a concerted approach. The experts would no doubt wish to draw on the work already done by the European organisations which have led the way in the fight against cancer. As you know, there are a number of these, including not only those which you mention, but also the European Organisation for Co-operation in Cancer Prevention studies.

I look forward to hearing the reaction of our other colleagues to your ideas and to learning how, in particular, M. Santer envisages taking this initiative forward during Luxembourg's Presidency. We shall propose a nominee for the expert group in due course.

Yours sincerely
Margaret Thatcher

H. E. Onorevole Bettino Craxi.

EU



Ref. A085/1979

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 22-23 July, at which he was accompanied by the Minister for Trade (Mr Channon). This discussed the follow-up to the Milan European Council and, in particular, the arrangements for the proposed intergovernmental conference. This will take place at Foreign Minister level, the first meeting being on 9 September. Preparatory work will be carried out by Political Directors, as the United Kingdom proposed, for political co-operation matters and by a separate group, probably at official level, for treaty aspects. This arrangement properly reflects the fact that the draft on political co-operation would be a formalisation of existing arrangements outside the Treaty (it is worth noting that, despite their attempt at Milan to hijack the United Kingdom draft and to label it a Treaty on European Union, France and the Federal Republic of Germany agreed at the Foreign Affairs Council to a text which described their own version as a draft "concerning political co-operation"). The Council also adopted the regulation for the integrated Mediterranean programmes, after a conciliation meeting with the European Parliament, and adopted the reference framework for the Community's draft 1986 budget - part of the new budgetary discipline arrangement - without a meeting with the European Parliament which declined to come.

2. There are a number of trade problems, particularly because of further United States restrictions, ahead. The Commission was authorised to make a further effort to resolve the difficulties with the United States over their imports of



certain Community steel products. The United States are seeking to hold these down to 25 per cent below the 1984 levels, while the Commission had offered no more than 1984 minus 10 per cent. If the United States imposes a cut unilaterally, the Community may be forced to retaliate. There is also no assurance that the United States may not extend restrictions later to other products, in particular semi-finished products which would be of even more direct importance to the British Steel Corporation. The outcome of the further negotiations will, if possible, be presented to the Industry Council on 25 July, but the Commission believe that a further special Council on 30 July may also be needed.

3. The Chancellor of the Exchequer may refer to the realignment of European currencies on 20 July following a sharp fall in the value of the Italian lira. The real reason was the state of the Italian economy, in particular the budget and trade deficits, but the immediate cause was the buying of dollars by the Italian state enterprise (ENI) "at any price". The outcome was an effective devaluation of the lira by about 8 per cent, of which 2 per cent was made by a revaluation of other currencies in the exchange rate mechanism.

4. The Industry Council meets on 25 July to consider steel issues. Unless there is a special Steel Council on 30 July, the next Community Ministerial meeting will be the opening session of the intergovernmental conference on 9 September.

RTA

ROBERT ARMSTRONG

24 July 1985

FCO

REDRAFT

APPROVED

Jan 17

Lo 3A IJ

DRAFT REPLY TO SIGNOR BETTINO CRAXI

Thank you for your message of 12th July about how we should follow up our discussion at Milan on the value of launching a European Action Programme against cancer.

I agree that
The best way to take this forward ^{would be} might be as you suggest to bring together a small team of experts practising in this field. I agree with you that prevention and treatment are the areas where there may well be scope for a concerted approach. ^{who} If such a group were to be set up it might well reflect this, ^{is experts} and the Group would no doubt wish to draw on the efforts ^{work already done by} of the European Organisations which have led the way in the fight against cancer. As you know, there are a number of these, including not only those which you mention, but also the European Organisation for Cooperation in Cancer Prevention studies.

I look forward to hearing the reaction of our other colleagues to your ideas and to learning how, in particular, ^{n.} Jacques Santer envisages taking this initiative forward during Luxembourg's Presidency. We ~~would be~~ ^{shall} happy to propose a nominee for the expert group in due course.

Thank you also for your personal good wishes which I am very happy to reciprocate.

Ch.



CONFIDENTIAL



FILE

Ry

10 DOWNING STREET

From the Private Secretary

22 July, 1985

AMENDMENTS TO THE TREATY OF ROME

You mentioned to me last week that some concern had been expressed that the Prime Minister had taken a position firmly opposed to any amendments to the Treaty of Rome. I told you that I did not think this was the case. I now enclose a copy of a note which I put to the Prime Minister on the subject. She has expressed herself "more or less" content with it.

(C.D. Powell)

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

CONFIDENTIAL



TREATY AMENDMENT

As I said in the House on 2 July, we shall consider what proposals are made at the inter-governmental conference.

PROPOSALS BY OTHERS FOR TREATY AMENDMENT

We have put forward proposals which could be implemented without it. Our attitude to any specific proposals will depend on whether these would in fact help achieve the reforms which are necessary in the way in which the Community works. One proposal we have made - for a reduction in the number of Commissioners - would, for instance, bear directly on a provision of the Treaty.



FW REKA.

10 DOWNING STREET

Prime Minister

I think that he
will report quite
optimistically on his
talks with the
German, saying that
Woerner at least is
continuing to work for
a 5 or 4. power
project and not
go in alone with the
French. CDP



W0543

CR
MR POWELL - No.10

18 July 1985

EUREKA - PRIME MINISTER'S QUESTIONS.

You will have seen the telegram describing the satisfactory outcome of yesterday's Eureka meeting in Paris. I imagine that it is possible that the UK's approach to Eureka will be raised in Prime Minister's Questions this afternoon.

2. Today's Financial Times carries an accurate report of President Mitterand's pledge of FF 1bn state funding for Eureka projects in 1986 and Herr Genscher's similar pledge of DM 300m. I think it is important that the Prime Minister does not rule out the possibility of re-allocating existing Departmental spend to Eureka projects in the UK. Our industrialists have so far responded quite well to the thought of privately funded Eureka projects with continental partners, and it will be disappointing for them if they feel that their partners will have highly favourable treatment with state cash.

3. I suggest the following line:

"I was pleased to hear that the UK's advocacy of a market-led approach to Eureka received widespread approval from other countries at yesterday's meeting in Paris. Our European partners clearly accept the UK's diagnosis of the problem of Europe's lack of competitiveness with the USA and Japan as being a failure to **exploit** our great strengths in science and technology. Our companies are discussing with their continental counterparts various initiatives which they might take to overcome this problem in the context of the Eureka proposal. And our financiers are already looking at how the City's financial strengths can be harnessed to meet the problem. On the question of public finance, it will be for Departments to decide whether their resources can be more effectively utilised in support of some Eureka activities than for their present uses."

RBN

SIR ROBIN NICHOLSON
Chief Scientific Adviser

100-100000-100000

FOR DOM

CONCERNED



①



10 DOWNING STREET

Prime Minister

Were you content
with this?

— CDD
10/7

More news

mf

cebi ①

PRIME MINISTER

Amendments to the Treaty of Rome

I am told that at a meeting of the Conservative back-bench Foreign Affairs Committee yesterday it was suggested that you and the Foreign Secretary had different views on amendment to the Treaty of Rome. It was felt that while the Foreign Secretary had carefully not closed the door to amendment, you had comprehensively ruled it out. You have certainly said in The House that you do not see a need to amend the Treaty in order to improve the functioning of the Community. You have also spoken against specific proposals for amendment to Articles 57(2), 99 and 100. On article 100 you said, for instance, that "most of us would wish to keep the unanimity role on directives which could be quite vital to many of our industries". But I cannot find any record of you having absolutely excluded amendment.

In my view, this is wise. We do not want to go into an inter-governmental conference with our hands completely tied. Even in relation to the three Articles which have been mentioned, it is not impossible that some amendment might at the end of the day be acceptable to Article 100 and just possibly to Article 57(2) (though certainly not to Article 99). One could envisage, for instance, amending Article 100 so as to preserve unanimity for one or more categories of issue on which directives could be made (eg those vital to our industries) while allowing majority voting for some others; or to preserve unanimity for the basic decisions of principle while introducing majority voting for implementing decisions.

In a sense this is theoretical because there is no immediate need for any comment or statement. But it would be helpful to have confirmation that your view is that we see no present need for Treaty amendment and do not support the rather sweeping proposals for amendments to some Treaty Articles made at Milan. But we are ready to examine any

proposals which may be put forward in future on their merits.

C.D.P.

C.D. Powell
17 July 1985



Ref. A085/1935

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Ministerial meeting, which he is attending in Paris today (17 July), to follow up the Milan European Council conclusions on European technological co-operation. The Minister for Information Technology (Mr Pattie) and the Chief Scientific Adviser (Sir Robin Nicholson) are also present. In addition to Community member states, seven other Western European countries are represented. The meeting has been called to decide how to carry forward various collaborative projects in high technology under the "EUREKA" label and to consider the United Kingdom's suggestions on opening up the market for high technology products, including our Eurotype market guarantee proposal. The United Kingdom is pressing hard the ideas you put forward at the Milan European Council, in particular the need for a market-led approach. We have distributed to all countries represented at the meeting a paper setting out our approach in relation to product sectors identified in discussion with United Kingdom industrialists. We are also proposing that industrialists should be associated with future work.

2. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 15-16 July. The Commission maintained their proposal for a 1.8 per cent cut in cereals and rapeseed support prices. The Germans again blocked agreement. The cut will now be applied on the Commission's own authority. At the same time the Commission will be making some changes in supporting measures which it considers to fall within its own competence, eg by reducing the delay in payment for wheat sold into intervention and by offering to buy in up to 3 million



tonnes of any unsold breadmaking wheat at the end of the marketing year in May 1986. The Minister of Agriculture, Fisheries and Food sought assurances that these measures could be financed within the budget provisions but did not approve the changes, so that the United Kingdom will be free in the Cereal Management Committee to oppose them or to seek detailed amendments. The Commission intends before October to put forward further proposals for a wider reform of the cereals regime. This may be linked with the Commission's new Green Paper on the future direction of the common agricultural policy. This document has proved to be firmer than expected in stressing the necessity for continuing price restraint but the difficulties with other member states will be considerable.

3. The Agriculture Council agreed, after nearly 15 years of discussion, the directive setting Community health standards for pasteurised milk. The Community standards in the first stage, to be introduced in 1990, will be below the United Kingdom's own health standards but we shall of course maintain our higher standards, which will have to be met by all milk, whether home produced or imported. It will not be until 1994, when the second tier of standards is introduced, that milk meeting them will be able to enter the United Kingdom freely. We understand that United Kingdom milk producers, manufacturers and distributors are content with the arrangement. The adoption of the directive should lead the Commission to drop its European Court action against the United Kingdom for refusing to import milk which does not comply with British health standards.

4. The Budget Council is meeting on 17-18 July to give a first reading to the Community's preliminary draft budget for 1986. The Foreign Affairs Council on 22-23 July will be considering the follow-up to the Milan European Council and, in preparation

CONFIDENTIAL



for this, the Foreign and Commonwealth Secretary will be having prior meetings with the Luxembourg and German Foreign Ministers. The Industry Council meets on 26 July.

ReA

ROBERT ARMSTRONG

17 July 1985

CONFIDENTIAL

BRIAAN



Foreign and Commonwealth Office

London SW1A 2AH

16 July 1985

an-

Private Secretaries to
All Government Ministers

Dear Private Secretary,

FUTURE DEVELOPMENT OF THE COMMUNITY

/ I attach a short note of HMG's line on the Future Development of the Community in the aftermath of the Milan European Council.

I hope this will serve to keep Ministers briefed on a subject of considerable current interest, and help them explain HMG's position in any contacts they may have, especially with other Europeans.

yours sincerely
Anthony Cary

Anthony Cary
Private Secretary to
Malcolm Rifkind

Future Development of the Community

General

It is regrettable that substantive decisions on future development of the Community were not taken at the Milan European Council. The Council nevertheless made useful progress by agreeing priorities for action to remove barriers to trade and to strengthen high technology.

We will play a positive role at the proposed inter-governmental conference with the aim of strengthening the unity of the European Community in practical ways.

Detail

- Some important decisions were taken at Milan:
 - * priorities were agreed for action to complete the internal market in goods and services. This will improve the climate for enterprise and employment;
 - * urgent action was set in hand on technological collaboration;
 - * work will now go ahead on an agreement on political co-operation, on the basis of UK and Franco-German texts.
- Other decisions were unfortunately shirked. It should have been possible, for example, to reach agreement at Milan on positive improvements in decision taking, based on realistic proposals.

- HMG is disappointed that a majority of member states preferred instead to convene an inter-governmental conference. This has meant delaying improvements which the EC badly needs.

- But we will naturally attend the conference and play a full and positive part.

[As necessary]

- We hope that proposals put to the conference will be ones which stand a real chance of implementation, bearing in mind that amendments to the EC Treaty must be unanimously agreed. It would be a great pity if the conference served only to disunite us (eg because of the wide gap between Italian and Danish positions on the European Parliament).

- It is hard to see why the improvements we all seek in the operation of the Community cannot be achieved within the existing Treaties. We are willing, nevertheless, to look at any proposals put before the conference.



file SH
CCPC

10 DOWNING STREET

16 July 1985

From the Private Secretary

BS/1
Thank you for your letter of 15 July about the possibility of the Prime Minister seeing David Hannay before he takes up his post as Permanent Representative to the European Communities. The Prime Minister could see Mr Hannay from 4.30 pm to 5.00 pm on 30 September.

C D POWELL

Len Appleyard, Esq.,
Foreign and Commonwealth Office

cy



Foreign and Commonwealth Office

London SW1A 2AH

15 July 1985

Dear Charles,

David Hannay is due to take up his post as Permanent Representative to the European Communities in Brussels in mid-October and we are starting to arrange a briefing programme for the fortnight 30 September - 11 October. We hope to arrange for David Hannay to call on all those Ministers with direct responsibility for EC issues.

Sir Geoffrey Howe would be grateful if you could ask the Prime Minister if she would see David Hannay as well. He is likely to be heavily engaged in the work of the inter-governmental Conference and it would be useful for him to discuss it with the Prime Minister.

If the Prime Minister is able to see David Hannay, perhaps you could let me know a date and time in the 30 September - 11 October period. Thereafter, we can start to fix other calls.

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

Yours,

Le Appleyard
(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street





lv

10 DOWNING STREET

From the Private Secretary

12 July, 1985.

I enclose a copy of a message to the Prime Minister from Signor Craxi containing proposals for following up the decision of the European Council in Milan to launch a programme of European action to combat cancer.

BF

I should be grateful for a draft reply in due course.

I am sending copies of this letter and enclosure to Steve Godber (Department of Health and Social Security), and to Sir Robin Nicholson and David Williamson (Cabinet Office).

(C.D. Powell)

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

6

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 135C/85

SUBJECT
cc Master
Ops

*Italian Embassy
14, Three Kings Yard,
London, W.1.*

12th July, 1985

05686

Dear Charles,

I take pleasure in enclosing herewith the text of a message from Signor Bettino Craxi addressed to the Prime Minister, together with a rough translation of the same.

Yours always,

Umberto

Umberto Vattani,
Chargé d'Affaires a. i.

Encs.

Charles Powell, Esq.,
Private Secretary to the Prime Minister
(Overseas Affairs)
10, Downing St.,
London S W 1

ROUGH TRANSLATION

Dear Prime Minister and dear Friend,

At the European Council in Milan we agreed on the opportunity to pursue a series of proposals set in the framework of the Europe of the Citizens. In this context it was agreed in particular to launch a programme of European action to combat cancer.

It is an initiative that could stand to symbolize the concrete possibilities of action open to the joint efforts of the Community in the fields of advanced research. I therefore believe that such an initiative deserves all possible support.

During the initial phase of the project a restricted committee of distinguished oncologists should be set up, whose task would be to study the aims, the times, the modalities and the costs of the programme. Members of such committee could be the President of the European Organisation for Research and Treatment of Cancer (EORTC), Prof. Umberto Veronesi, the President of the International Union against Cancer, the Director of the International Agency against Cancer of Lyon, the Chairman of the forthcoming Conference of Oncology to be held in Madrid, the Director of the Cancer Institute of Paris. The activities of the committee could be coordinated by Prof. Veronesi.

I have already contacted Prof. Veronesi, who has submitted to me a plan of action I consider to be pragmatic and concrete and which, in its initial stages, would not entail supplementary financial costs to the budget of the Community.

I look forward to receiving your comments on the matter and send you my warmest personal regards.

Signed: Bettino Craxi.

FROM: Signor Bettino Craxi
TO: The Rt. Hon. Margaret Thatcher, MP
Date: Rome, 12th July, 1985

TEXT OF MESSAGE

Primo Ministro e cara amica,

al Consiglio Europeo di Milano abbiamo convenuto sull'opportunità di approfondire una serie di proposte che si collocano nella prospettiva dell'Europa dei cittadini. In questo contesto è stato in particolare convenuto di lanciare un programma di azione europea contro il cancro.

Si tratta di un'iniziativa certo suscettibile di simboleggiare con efficacia le concrete possibilità di azione che si offrono al comune impegno della Comunità in settori di ricerca avanzata. Riterrei quindi che all'iniziativa debba essere dato tutto il possibile sostegno.

In una prima fase progettuale potrebbe utilmente procedersi alla costituzione di un comitato ristretto di oncologi ad alto livello per lo studio degli obiettivi, dei tempi, delle modalità e dei costi dell'iniziativa. Il comitato potrebbe essere composto dal Presidente dell'European Organisation for Research and Treatment of Cancer (EORTC), Prof. Umberto Veronesi, dal Presidente dell'Unione Internazionale contro il Cancro, dal Direttore della Agenzia Internazionale contro il Cancro di Lione, dal Presidente della prossima Conferenza di Oncologia di Madrid, dal Direttore dell'Istituto del Cancro di Parigi. Le attività del comitato potrebbero essere coordinate dal Professor Veronesi.

Ho già provveduto a contattare il Prof. Veronesi, che mi ha sottoposto un piano di azione pragmatico e concreto che, nelle prime fasi, non comporta oneri finanziari supplementari per il bilancio della Comunità.

Resto in attesa di conoscere le Sue eventuali osservazioni in merito, e Le invio molti cordiali saluti.

Bettino Craxi.



2

Prime Minister

CDD
15/7.

W0538

PRIME MINISTER

12 July 1985

EUREKA MEETING 17 JULY - ATTENDANCE.

The meeting on Eureka, which France agreed to convene at the European Council, has now been fixed for 17 July. The meeting will be opened by President Mitterand.

2. The French have asked for Ministers for Foreign Affairs and for Research to attend whilst accepting that the European Council communique gave some latitude to countries on attendance. They will be represented by Dumas who will chair the meeting and Curien. We understand that Genscher will be coming and probably Andreotti as well.

3. In the circumstances the Foreign Secretary has decided that he has no alternative but to attend and he will be accompanied by Mr Pattie and by me. This departs somewhat from our thoughts immediately after Milan, but I think it is the right representation given the nature of the meeting which the French have decided on.

RBN

mt

SIR ROBIN NICHOLSON
Chief Scientific Adviser

GRS 500

CONFIDENTIAL

CONFIDENTIAL

AMENDED DISTRIBUTION

FM PARIS 111655Z JUL 85

12/7

TO PRIORITY F C O

TELEGRAM NUMBER 598 OF 11 JULY

INFO MODUK (FOR DUSP), BONN, UKDEL NATO

MY TELNO 578: EUROPEAN SECURITY AND ANGLO-FRENCH RELATIONS

SUMMARY

1. FRANCO-GERMAN DEFENCE CO-OPERATION MAY FEATURE AT THE INFORMAL MITTERRAND/KOHL MEETING IN AUGUST. NEED FOR CARE IN PRESENTING BRITISH POLICY TO EUROPEANS ON RELATED ALLIANCE ISSUE SUCH AS UK PARTICIPATION IN US SDI RESEARCH.

DETAIL

2. MOREL (POLITICAL DIRECTOR) HAS CONFIRMED THAT THERE WILL BE ANOTHER IN THE SERIES OF PERSONAL ENCOUNTERS BETWEEN KOHL AND MITTERRAND DURING AUGUST. WHILE THERE IS APPARENTLY NO EXPLICIT INTENTION ON THE FRENCH SIDE TO DISCUSS AT THIS MEETING THE IDEAS IN THE FRENCH SOCIALIST PARTY DOCUMENT ON EXTENDING THE FRENCH NUCLEAR GUARANTEE FOR THE BENEFIT OF THE FRG (MY TUR), WE KNOW THAT THE GERMANS HAVE TRIED TO GET TO GRIPS WITH THIS WHOLE COMPLEX OF SECURITY ISSUES WITHIN THE EXISTING BILATERAL FRAMEWORK AND MORE PARTICULARLY AT THE MEETING BETWEEN GERMAN AND FRENCH FOREIGN AND DEFENCE MINISTERS IN BONN ON 26 JUNE. IT WOULD THEREFORE BE NATURAL FOR THEIR PROCCUPATIONS TO BE REFLECTED AT THE AUGUST MEETING IF KOHL'S PRESS CONFERENCE REPLY IS TO BE TAKEN AT FACE VALUE. AND WE GET THE IMPRESSION FROM CONTACTS THAT THE FRENCH DO EXPECT THE SUBJECT TO COME UP.

3. AS THE LATEST FRENCH SOCIALIST PARTY DOCUMENT SHOWS, THERE IS GRUDGING ACKNOWLEDGEMENT HERE THAT ONE CANNOT SENSIBLY TALK ABOUT THE EUROPEAN CONTRIBUTION TO WESTERN DEFENCE (INCLUDING NUCLEAR DETERRENCE) WITHOUT RECOGNISING THE IMPORTANCE OF THE BRITISH ROLE. BUT THERE IS A TENDENCY TO SUPPOSE THE THE BRITISH CONTRIBUTION TO EUROPEAN THINKING ON DEFENCE AND SECURITY POLICY MAY BE INHIBITED BY OUR RELATIONSHIP WITH THE UNITED STATES.

4. IT WILL BE OF PARTICULAR IMPORTANCE IN THE AFTERMATH OF MILAN FOR THE NOTE THAT WE STRIKE ON EUROPEAN DEFENCE AND SECURITY QUESTIONS TO BE IN TUNE WITH OUR WIDER POLICY APPROACH IN THE RUN-UP TO THE LUXEMBOURG EUROPEAN COUNCIL. ONE ELEMENT OF THIS WLL BE TO PRESENT EFFECTIVELY TO THE FRENCH (AND PERHAPS OTHER CLOSE EUROPEAN COLLEAGUES ANY CONCLUSIONS WE MY REACH ON WIDER ALLIANCE QUESTIONS, SUCH AS WHERE WE GO NEXT IN THE QUESTION OF UK PARTICIPATION IN THE AMERICAN SDI RESEARCH PROGRAMME. IT WILL BE WELL WORTH TAKING A

CONFIDENTIAL

LITTLE

[This suggests
we get the
worst of both
worlds. The
Americans
French take
us for
granted: e
the others
assume we
are America's
Trojan Horse]
C.D.P.

CONFIDENTIAL

LITTLE EXTRA TROUBLE BILATERALLY WITH THE FRENCH BEFOREHAND, IF WE ARE CONTEMPLATING ANY NEW DECISIONS IN THE AUTUMN. IN SUBSTANCE OUR POSITION ON SDI RESEARCH IS APPARENTLY QUITE CLOSE TO THAT OF THE FRG, BUT THE SHADE OF DIFFERENCE COULD TRANSLATE INTO HEADLINES SUGGESTING THAT WE HAVE CHOSEN THE US WHILE THE GERMANS HAVE CHOSEN EUROPE. WITHOUT MODIFYING THE SUBSTANCE OF OUR POLICIES WE COULD AIM TO AVOID EXPOSING OURSELVES TO ANY SUCH MIS-REPRESENTATION WHILE WE ARE GETTING EUROPEAN DEBATE BACK ONTO SENSIBLE LINES IN THE NEXT SIX MONTHS.

FRETWELL

(PALACE)
FCO/WH

WED

2
CONFIDENTIAL



Lord Advocate's Chambers
Fielden House
10 Great College Street
London SW1P 3SL

Telephone Direct Line 01-212 0100
Switchboard 01-212 7676

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

NBM 10 July 1985

CDP
14/7.

EEC PRODUCT LIABILITY DIRECTIVE

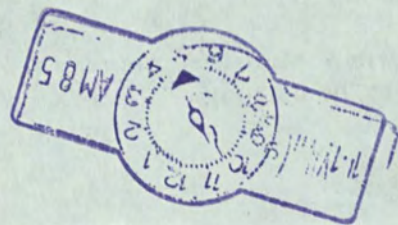
Quintin Hailsham's letter of 8/ July discusses the request by the food industry for an assurance that they will not be liable for inherent defects in the raw materials used in processing food in the absence of negligence on the part of the processor.

I am in complete agreement with his conclusion that such a situation would not be compatible with the principle of strict liability which the Directive follows, and I cannot see that the presence or absence of negligence by the processor in choosing his raw materials would (or should) be relevant in deciding whether he was liable for a defective end product.

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

CAMERON OF LOCHBROOM

EUR. POL: Budget: Pt 30



CONFIDENTIAL



Ref. A085/1876

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer will report on the outcome of the Economic and Finance Council (ECOFIN) on 8 July at which there was substantive agreement on the reference framework for the 1986 budget. The framework is an important part of the budgetary discipline procedures adopted at the European Council in Dublin in December 1984, and the agreement is satisfactory to the United Kingdom. Some uncertainty remains about the arrangements for the European Parliament to discuss the reference framework, but this is unlikely to delay its adoption at the Foreign Affairs Council (or at a special ECOFIN Council) on 22-23 July.

2. The Agriculture Council will meet on 15 and 16 July.

REA

ROBERT ARMSTRONG

10 July 1985

CONFIDENTIAL

BRIAACK



HOUSE OF LORDS,
SW1A 0PW

8 July 1985

NBM
ODJ

My dear Norman:

EEC Product Liability Directive

I have been following with interest and with some anxiety what should be the closing stages in the negotiations of this Directive before its final adoption.

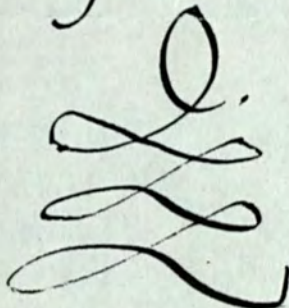
I understand that the only remaining reservation is the United Kingdom's reservation seeking the exclusion from the scope of the Directive, not only of primary agricultural products (which we have already been fortunate to achieve) but also of processed foodstuffs. As I said in my earlier letter of 12th June, I believe that any attempt to include any such further derogation would not only be wrong in principle, but could well upset the whole delicate compromise.

It seems from Michael Jopling's letter of 4th July that what the industry are seeking is an assurance that, if they have not been negligent in their selection and handling of the products which they have processed, they will not be liable under the Directive. I do not see how this is compatible with a Directive which is entirely based on the principle of strict liability. There will of course be times when it will be hard to draw a dividing line between a primary agricultural product and one which has been processed; but that is another question. The issue which confronts us is whether, once the

The Right Honourable
Norman Tebbit MP
Secretary of State for
Trade and Industry

products have been processed, there can be any escape for the manufacturer simply on the grounds that he has not been negligent in the selection and handling of the primary products; and to this there can surely be only one answer.

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

Yrs:


LORD HAILSHAM OF ST. MARYLEBONE CH, F.R.S, D.C.L.

Euro PR: Budget Pt 30

CONFIDENTIAL

CONFIDENTIAL

FM PARIS 051513Z JUL 85

TO PRIORITY FCO

TELEGRAM NUMBER 575 OF 5 JULY

INFO ATHENS, BONN, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE,
LUXEMBOURG, ROME, UKREP BRUSSELS, MADRID, LISBON,
INFO SAVING MOSCOW, WASHINGTON.

FOLLOW-UP TO MILAN EUROPEAN COUNCIL.

1. IN A ROUTINE CALL ON MME LALUMIERE THIS MORNING I ASKED HOW SHE ENVISAGED THE FOLLOW-UP TO MILAN. SHE SAID THAT THE FRENCH WOULD CONTINUE TO BASE THEMSELVES ON THE IDEAS IN THE MEMORANDUM THEY CIRCULATED SHORTLY BEFORE MILAN, IN PARTICULAR:

- (A) IMPROVEMENTS IN THE RUNNING OF THE COUNCIL OF MINISTERS. THESE DID NOT INVOLVE TREATY CHANGES AND COULD BE PUT INTO EFFECT EVEN IF ONE OR TWO MEMBER STATES DID NOT WISH TO SUSCRIBE TO THEM, THOUGH IT WOULD OBVIOUSLY BE PREFERABLE IF ALL AGREED TO FOLLOW THE SAME RULES. SHE HOPED THESE IDEAS COULD BE ADOPTED AT THE NEXT FOREIGN AFFAIRS COUNCIL.
- (B) THE STRENGTHENING OF POLITICAL COOPERATION, ON THE BASIS OF THE FRANCO-GERMAN TREATY PROPOSAL, WHICH SHE ACKNOWLEDGED INCORPORATED MOST OF THE BRITISH IDEAS. THE FRENCH CONSIDERED THAT A NEW TREATY WAS REQUIRED AND THAT THIS PROPOSAL SHOULD THEREFORE GO TO THE INTER-GOVERNMENTAL CONFERENCE. (I ARGUED THAT IT SHOULD GO TO FOREIGN MINISTERS AND POLITICAL DIRECTORS. SHE CLAIMED THAT AN IGC WAS EFFECTIVELY THE SAME THING.)
- (C) PROPOSALS TO REVIEW THE TREATY UNDER ARTICLE 236. THE ONLY IDEAS OF WHICH SHE WAS AWARE RELATED TO ARTICLES 57(2), 99 AND 100, BUT THE CONFERENCE WOULD PRESUMABLY BE EMPOWERED TO CONSIDER MORE FAR-REACHING SUGGESTIONS FROM OTHER MEMBER STATES.
- (D) IDEAS FOR ENHANCING THE ROLE OF THE EUROPEAN PARLIAMENT. SHE SUGGESTED, WITHOUT MUCH ENTHUSIASM, THAT MORE WOULD HAVE TO BE DONE TO AVOID SERIOUS TROUBLE WITH THE PARLIAMENT. SHE HAD MET A NUMBER OF MEMBERS YESTERDAY AND BEEN IMPRESSED BY THE UNANIMITY OF MEMBERS FROM ALMOST ALL PARTIES AND COUNTRIES IN PRESSING FOR SIGNIFICANT CHANGES.

2. IN SUBSEQUENT DISCUSSION I NOTED THAT ON PRACTICAL MATTERS BRITISH AND FRENCH POSITIONS WERE NOT FAR APART. IT WOULD BE FOOLISH TO ALLOW A NEW MYTHOLOGY TO BE CREATED, DIVIDING THE SEVEN SUPPOSEDLY KEEN EUROPEANS FROM THE THREE SUPPOSEDLY BACKWARD ONES SIMPLY BECAUSE THE ITALIANS AND ONE OR TWO OTHERS HAD BEEN CARRIED AWAY BY DREAMS OF A NEW MESSINA. WHEN THE DISCUSSION GOT UNDER WAY IN LUXEMBOURG OUR VIEWS WOULD BE SEEN TO BE AS PRACTICAL AND CONSTRUCTIVE AS ANYONE ELSE'S.

CONFIDENTIAL

CONFIDENTIAL

3. Musing aloud, MME LALUMIERE suggested that it would nevertheless be possible for some countries to decide to associate themselves under a new treaty eg on the basis of the Franco-German draft. I said that it would be very peculiar to try to put the UK in a minority on political cooperation where we had always taken a lead and where our ideas were in some respects in advance of those in the Franco-German draft, eg on the mutual obligations to be undertaken in the United Nations. MME LALUMIERE referred with a smile to the 'Falklands clause' and said she thought it went a bit too far for present circumstances. I said it could equally well be called the Chad clause or the New Caledonia clause; if one was serious about moving towards a common foreign policy, a commitment not to vote against a member state when its important interests were at stake in the United Nations seemed a minimal constraint.

4. On possible treaty amendment I said we would of course advance our ideas along with everyone else at the conference in Luxembourg. We should be looking for agreements and others should not assume that they could shelter behind us to hide their own difficulties. But if in fact the intention was to amend two articles of the treaty so as to provide for majority voting it hardly seemed essential to go to the length of treaty revision and acceptance by 12 parliaments when the practical objective could be attained simply by the member governments agreeing to abstain when in a minority.

5. MME LALUMIERE went on to talk about the two different concepts of European Union: the sweeping ideas of the European Parliament for a new organisation to envelop the community and political cooperation, with increased roles for the parliament and the commission and reduced status for the council of ministers; and what she termed the Franco-German draft treaty of mini-union. This was what France envisaged and would prefer, although account had to be taken of more far-reaching ideas from elsewhere.

6. I emphasised the importance of maintaining the close contacts we have had with the French government over the last year on all these matters to ensure that we were not somehow dragged into opposing camps when we were really seeking similar practical objectives. MME LALUMIERE agreed, though I sensed some uncertainty about quite how the French government might want to play their hand in terms of broad political objectives: they would clearly not wish to appear less idealistic than Italy, Germany or Benelux.

CONFIDENTIAL

17

CONFIDENTIAL

7. FINALLY I ASKED WHETHER THERE WAS ANY TRUTH IN THE RUMOUR THAT GORBACHEV WOULD BE INVITED TO ADDRESS THE EUROPEAN PARLIAMENT. MME LALUMIERE SAID SHE HAD NOT HEARD OF THIS, BUT THOUGHT IT WOULD BE A STRIKING POLITICAL GESTURE IN TERMS OF RECOGNITION BY THE SOVIET UNION OF THE REALITY OF THE EUROPEAN COMMUNITY. IN THIS RESPECT IT FITTED WITH THE RECENT APPROACHES MADE ON BEHALF OF THE CMEA, BUT WENT MUCH FURTHER. I NOTED THAT THE RUSSIANS HAD ALREADY DEALT WITH THE COMMUNITY ON MATTERS SUCH AS FISHERIES WHEN IT SUITED THEM AND THAT THE IMPLICATIONS OF A VISITATION BY GORBACHEV PERHAPS CALLED FOR SOME THOUGHT. MME LALUMIERE DID NOT SEEM TO THINK THERE WAS MUCH THE FRENCH GOVERNMENT COULD DO TO ENCOURAGE OR DISCOURAGE A SPEECH BY GORBACHEV IN STRASBOURG, BUT HER OWN FIRST REACTION WAS POSITIVE.

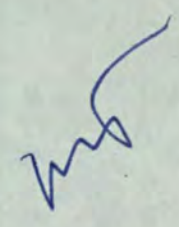
FCO PLEASE PASS SAVING ADDRESSEES.

FRETWELL

FRAME GENERAL
ECD (1)

-3-
CONFIDENTIAL

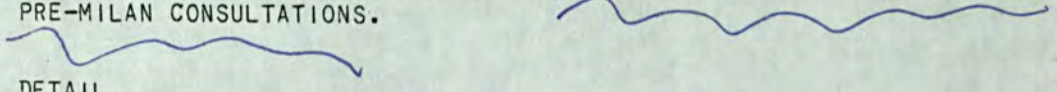
GRS 880
UNCLASSIFIED
FM BONN 051530Z JULY 85
TO PRIORITY FCO
TELEGRAM NUMBER 692 OF 05 JULY
INFO SAVING MADRID LISBON OTHER EC POSTS



MILAN EUROPEAN COUNCIL: FURTHER GERMAN PRESS REACTIONS

SUMMARY

1. HMG'S IRRITATION WITH GERMANY MADE THE HEADLINES AT THE BEGINNING OF THE WEEK, TO BE REPLACED WITH MORE MEASURED ARTICLES ABOUT OUR REASONABLE APPROACH. SOME PAPERS CONTINUE TO QUESTION KOHL'S HANDLING OF EUROPEAN POLICY AND THE TRUE EUROPEAN CREDENTIALS OF THE MILAN MAJORITY. OTHERS REFLECT REMARKS BY KOHL AND HIS OFFICIALS ABOUT FRANCO-GERMAN UNITY AND BRITAIN'S RELUCTANCE TO TAKE PART IN PRE-MILAN CONSULTATIONS.



DETAIL

2. HMG'S IRRITATION WITH THE GERMANS MADE THE HEADLINES EARLIER IN THE WEEK OVER ARTICLES ABOUT THE PRIME MINISTER'S POST-MILAN BBC INTERVIEW AND INGHAM'S ALLEGED REMARKS ABOUT VOLCANIC FURY. SINCE THE PRIME MINISTER'S STATEMENT IN THE HOUSE OF COMMONS ON 2 JULY GERMAN CORRESPONDENTS IN LONDON HAVE REMARKED ON THE REASONABLE AND CONSTRUCTIVE LINE WHICH WE ARE TAKING, AND OUR WISH TO PROVE OUR EUROPEAN CREDENTIALS. HILL IN THE STUTTGARTER ZEITUNG ON 4 JULY COMMENTED 'THE BRITISH ARE THE MOST LIKELY TO BE ABLE TO BUILD A BRIDGE BETWEEN THE MINORITY AND THE MILAN MAJORITY. BRITISH FOREIGN POLICY IS NOW ENTIRELY ORIENTED TOWARDS THE COMMUNITY. THE BRITISH ARE NOT HALF-HEARTED OR LUKEWARM EUROPEANS, BUT EUROPEANS OF A DIFFERENT SORT, WHO BELONG TO THE DIVERSITY OF EUROPE. AFTER THEIR LATE ACCESSION THEY IRRITATED CONTINENTAL EUROPEANS SO GREATLY WITH THEIR BUDGET DISPUTE THAT AFTER THE SETTLEMENT OF THIS PROBLEM ONE COULD HARDLY COME TO TERMS WITH THEIR NEW ROLE AS 'GOOD' EUROPEANS. THE CAREFULLY PREPARED BRITISH ACTION PROGRAMME FOR MILAN SEEMED ALMOST TOO GOOD TO BE TRUE. BRITAIN WILL TAKE PART IN THE INTERGOVERNMENTAL CONFERENCE FOR BETTER OR FOR WORSE. BY THEN MRS THATCHER WILL HAVE TO DECIDE WHETHER SHE WANTS TO PRESENT HER CONCEPTION OF EUROPEAN UNITY AS AN ALTERNATIVE OR AS AN EXTENSION TO THE EUROPE WHICH THE OTHERS HAVE IN MIND'. GRUDINSKI IN AN ARTICLE IN THE FRANKFURTER ALLGEMEINE ON THE SAME DAY TALKS OF THE PRIME MINISTER'S STATESMANLIKE MANNER IN THE COMMONS, AND DESCRIBES THE BRITISH PRE-MILAN PACKAGE, WHICH AVOIDED A FUTILE ATTEMPT TO PRESENT TREATY AMENDMENTS TO 12 NATIONAL PARLIAMENTS, AS 'SHEER COMMONSENSE, BORN OF SOBER EXPERIENCE'.

3. TODAY'S PRESS REFLECTS CHANCELLOR KOHL'S PRESS BRIEFING (MY TELNO 687), PICKING UP IN PARTICULAR HIS POINTS ON FRANCO-GERMAN COOPERATION, AND ON RELATIONS WITH BRITAIN, INCLUDING THE CLAIM THAT WE HAD BEEN RELUCTANT TO TAKE PART IN DISCUSSIONS BEFORE MILAN. AN ARTICLE IN TODAY'S RHEINISCHER MERKUR BY ONE OF KOHL'S UNOFFICIAL ADVISER'S, WEIDENFELD, GOES FURTHER: 'THE OVERALL PERSPECTIVE OF THE FEDERAL GOVERNMENT HAD BEEN KNOWN BY ITS PARTNERS FOR MONTHS. DETAILED COORDINATION TOOK PLACE BILATERALLY, INCLUDING FIVE FRANCO-GERMAN WORKING MEETINGS AT OFFICIAL LEVEL IN WHICH MANY AMBITIOUS GERMAN PROPOSALS WERE SACRIFICED TO FRENCH RESERVES. THERE WERE ALSO DETAILED DISCUSSIONS WITH THE ITALIAN PRESIDENCY, INCLUDING THREE TRILATERAL WORKING MEETINGS BETWEEN THE GERMANS, ITALIANS AND FRENCH. ENGLAND REFUSED TO BE INCLUDED IN THIS PROCESS OF CONSULTATION. THE BRITISH PRIME MINISTER WAS HOWEVER INFORMED AND HER IDEAS INCLUDED IN THE NEGOTIATIONS. THE BENELUX COUNTRIES WERE INFORMED BY KOHL HIMSELF AT THE EUROPEAN PEOPLE'S PARTY MEETING IN ROME. THE FINAL VERSION OF THE FRANCO-GERMAN DRAFT WAS HOWEVER DELAYED BECAUSE THE FRENCH GOVERNMENT FIXED ITS FINAL POSITION ONLY THREE DAYS BEFORE MILAN'. HIS CONCLUSION IS THAT FRANCE AND GERMANY ALONE CAN PROVIDE THE IMPULSE FOR EUROPEAN UNION, IF NECESSARY ON A TWO-SPEED MODEL.

4. SOME PAPERS ARE MORE SCEPTICAL. TODAY'S DIE ZEIT SAYS THAT ONCE AGAIN THE EUROPEAN COUNCIL DISAPPOINTED THOSE WHO HAD HOPED THAT IT WOULD PROVE A FINAL COURT OF APPEAL. INSTEAD OF REACHING FINAL DECISIONS, IT DELEGATED THEM TO OTHER BODIES. THE DIFFERENCES OF OPINION WHICH THE ITALIAN PRESIDENCY PROVOKED SIGNIFIED A RIFT IN THE COMMUNITY. BUT EVEN WITHOUT THE BRITISH, DANES AND GREEKS THERE WAS NO 'DIRETTISSIMA' FROM MILAN LEADING TO EUROPEAN UNION. THE DIFFICULTY LAY RATHER IN THE FACT THAT THE SEVEN CHAMPIONS OF FINALITY WERE NOT INVULNERABLE AGAINST THEIR FEAR OF A SUPRANATIONAL EUROPE AND LOSS OF NATIONAL SOVEREIGNTY. OR HAD PARIS PERHAPS MADE UP ITS MIND TO ACCEPT A STRONGER PARLIAMENT? WAS THE PAYMASTER BONN READY TO BOW TO THE MAJORITY OVER FINANCIAL DECISION? COULD ONE CONCEIVE OF A ROME WHICH WOULD REALLY OBEY THE INSTRUCTIONS OF A COMMISSION CAPABLE OF IMPOSING ITS WILL? AFTER MILAN IT WAS BY NO MEANS AS CLEAR AS THE FRENCH PRESIDENT CLAIMED THAT SOME MEMBER STATES WANTED A STRONG, UNITED EUROPE, AND THE OTHERS A WEAK EUROPEAN COMMUNITY. THE TEST WOULD COME WHEN THE INTERGOVERNMENTAL CONFERENCE WENT INTO DETAILS AND PAINFUL SACRIFICE RATHER THAN GENEROUS RHETORIC WAS CALLED FOR. WAS IT NOT OF ALL PEOPLE THE BRITISH WHO HAD APPEARED IN MILAN WITH A CONCEPT WHICH COULD HAVE PRODUCED RAPID RELIEF FOR MANY OF EUROPE'S ILLS? THEIR IDEAS ON THE

INTERNAL MARKET, TECHNOLOGY AND DECISION-MAKING WERE NOT SO DIFFERENT FROM THOSE OF THE CARD-CARRYING EUROPEANS. KOHL'S CONVICTION WAS ON THE OTHER HAND NOT ENTIRELY AT ONE WITH THE PICTURE WHICH OTHER PARTNERS HAD HAD OF BONN RECENTLY. IT WAS ONLY AT FIRST SIGHT THAT THE FRANCO-GERMAN TEAM HAD WORKED WITHOUT FRICTION AS A MOTOR FOR EUROPEAN UNION. ON CLOSER INSPECTION THERE HAD BEEN A NUMBER OF FALSE STARTS, WITH FRENCH INDECISIVENESS AS A PRIME CAUSE. A TWO-SPEED EUROPE MIGHT BE POSSIBLE FOR THE EMS OR POLITICAL COOPERATION, BUT WHEN IT CAME TO THE TREATY OF ROME THE SAME SPEED FOR ALL WAS REQUIRED.

FCO PLEASE PASS SAVING ADDRESSEES

BULLARD

FRAME GENERAL

ECD(1) [-]



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

From the Minister

4 July 1985

Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
1-19 Victoria Street
LONDON SW1

Norman Tebbit

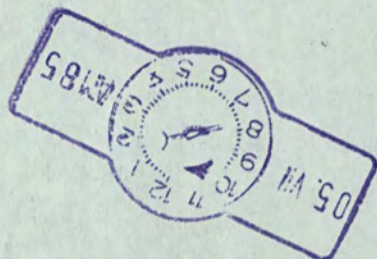
NRAM
CDD
5/7

EC DIRECTIVE ON PRODUCT LIABILITY

I have now had an opportunity to put before the food industry recent developments on this proposed Directive, and to explain the Government's stance. Like other sectors of industry, they are far from happy with the Directive in its present form and are disturbed at being suddenly presented with what is, in effect, a fait accompli. I have, however, explained to them that, in the absence of a Directive, there would be a risk of stricter and increasingly divergent systems of liability in other Member States, and that the present package is, in general form, the best that is negotiable.

I accept that the food industry cannot expect more favourable treatment than the other sectors with particular problems to which you refer in your letter of 1 July. The food industry have, however, asked me - and this is not an unreasonable request - to establish that they are not worse treated than other sectors, and that, in particular, it is clear that they will not be liable for inherent defects in their raw materials which are in no way attributable to the processing they have undergone, and over which they have no control. There is a form of words which, I understand, is to be included in the Directive, specifying that the food sector products for which liability exists are those "which have undergone a processing of an industrial nature which could cause a defect in these products". I hope that this would mean that in a case where, for example, vegetables that have been processed only to the extent of being frozen or canned were found to contain chemicals introduced at the primary production stage, there would be no liability under this Directive for the manufacturer if he had exercised due care in the selection and handling of the primary products, because the defect was not caused by the manufacturing process. I understand, however, that there is some doubt about this. It is essential, in my view, that a formal interpretation of the legal position should be given, and if it is unfavourable, that we should insist on an amendment to the Directive.

Sent by of CC. Leg. Port of London May 80



I shall make this point in replying to Lord Cockfield, and would be grateful if you would raise it at the Council on Monday.

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

Michael Jopling
M. Jopling

MICHAEL JOPLING



Ref. A085/1814

PRIME MINISTER

Cabinet: Community Affairs

You will wish to report on the European Council in Milan on 28 and 29 June, at which you and the Foreign and Commonwealth Secretary represented the United Kingdom. Much of the discussion, and most of the subsequent press reporting, was about decision taking. A real chance of agreement on a package of practical measures (including our ideas for a formal agreement on political co-operation, more majority voting under existing treaties, more use of abstention, and procedures to discourage abuse of the Luxembourg compromise) was lost when the Italian Presidency, determined that the Council should agree to convene an intergovernmental conference to consider treaty amendment, proceeded to a vote on the issue. A vote was unprecedented in the European Council, and unnecessary in Milan. Without it, agreement on more moderately worded conclusions could probably have been reached. Despite appearances to the contrary, and despite the extraordinary behaviour of France and the Federal Republic of Germany in presenting on the eve of the conference a draft treaty on European Union which consisted mainly of a watered-down version of our ideas on political co-operation, embellished with a good deal of rhetoric, the French and German positions on substance were not far from ours. As it was, member states divided during the vote as might have been expected, and an intergovernmental conference will be convened by the Luxembourg presidency. The United Kingdom will attend, and will continue to press for practical steps to improve decision taking. But at best there will be delay, and at worst there will be the risk of serious divisions within the Community, though there can be no question of the United



Kingdom, as a major European power, being in any second rank. At Milan a real opportunity for the Community to move forward was lost.

2. Discussion on institutional questions overshadowed discussions on completing the internal market on which the Council agreed that priority should be given to a number of issues which accord closely with our own priorities; technology on which there will be a meeting shortly to consider how to carry forward the so-called EUREKA proposal and our own ideas for the exploitation of high technology in the market; trade with Japan; the economic and social situation in the Community, including deregulation; terrorism and hijacking; and famine in Africa.

3. The Secretary of State for Foreign and Commonwealth Affairs may report on the Committee Stage of the European Communities (Finance) Bill on 1 July. Because of pressure from backbenchers the conclusion of the Committee Stage was postponed until after your statement on the outcome of the Milan European Council. The present intention is that the Committee should resume on the same day as the Bill has its Third Reading.

4. The Secretary of State for the Environment may report briefly on the Environment Council held on 26-28 June, at which the United Kingdom was represented by the Parliamentary Under Secretary of State, Department of Environment (Mr Waldegrave) and by the Parliamentary Under Secretary of State, Department of Trade and Industry (Mr Butcher). The main item for discussion was vehicle emissions, and in particular the Commission's proposed figures for medium range cars (1400cc to 2000cc). After lengthy discussion, agreement was reached (ad referendum in the case of the United Kingdom and subject to a Danish reserve) on figures which included an HC + NOx level of 8 grammes per ECE test. At a meeting which you chaired



subsequently, it was agreed that the United Kingdom's agreement would be given, but this is subject to the clarification at working group level of some outstanding technical points.

5. The Council of Economic and Finance Ministers meets on 8 July.

RA

ROBERT ARMSTRONG

3 July 1985

<u>FCO</u> PS PS/LADY YOUNG PS/MR RIFKIND PS/PUS MR BRAITHWAITE MR RENWICK	<u>RESIDENT CLERK</u> HD/ECD(I) (3) HD/NEWS DEPT HD/ HD/ HD/	<u>PLUS FCO</u>
<u>CABINET OFFICE</u> MR D WILLIAMSON MR STAPLETON MISS SJ LAMBERT MR M H JAY	<u>DTI (Victoria St)</u> MR R WILLIAMS MR JB INGRAM(IC DIV)	
<u>HM TREASURY</u> MR JG LITTLER MR JB UNWIN MR GW HOPKINSON	<u>M A F F</u> PERMAMENT SECRETARY	OGD'S MR Powell 19 DOWNING ST

301.85

PP DUBLIN

PP PARIS

PP BONN

PP LUXEMBOURG

PP ATHENS

PP LISBON

PP MADRID

GRS600

CONFIDENTIAL

DESKBY 021215Z FCO

FM UKREP BRUSSELS 021110Z JUL 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 2448 OF 2 JULY

INFO PRIORITY COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG
ATHENS LISBON AND MADRID.

INFO SAVING BRUSSELS.

FOLLOW UP TO EUROPEAN COUNCIL : INSTITUTIONAL QUESTIONS

1. I HAD AN INFORMAL TALK WITH MY LUXEMBOURG COLLEAGUE THIS MORNING.
HE SPOKE VERY FRANKLY (PLEASE PROTECT).

2. HE MADE IT CLEAR THAT LUXEMBOURG MINISTERS HAD NOT YET MADE UP
THEIR MINDS HOW TO PROCEED. BUT THEY DO CONSIDER THAT THEY HAVE A
RESPONSIBILITY TO MAKE PROPOSALS UNDER PARAGRAPH 3 OF THE COUNCIL
CONCLUSIONS. HIS OWN IDEAS ARE SUBJECT TO POOS' APPROVAL.

3. WEYLAND SAID THAT THE LUXEMBOURGERS WERE CONCERNED TO MINIMISE
THE SCOPE FOR DISAGREEMENT AND FRICTION AT THE INTERGOVERNMENTAL
CONFERENCE.

THEY WOULD PREFER TO LIMIT IT TO DISCUSSION OF ARTICLES 57 (11), 99
AND 100. THEY WERE AFRAID THAT THERE MIGHT BE A HOST OF PROPOSALS
WHICH STOOD NO CHANCE OF SUCCESS, PARTICULARLY ON THE POWERS OF THE
PARLIAMENT. THEY WERE THEREFORE EXAMINING WHETHER IT COULD BE
MAINTAINED THAT A DECISION TO HOLD THE CONFERENCE HAD ALREADY BEEN

PARLIAMENT. THEY WERE THEREFORE EXAMINING WHETHER IT COULD BE MAINTAINED THAT A DECISION TO HOLD THE CONFERENCE HAD ALREADY BEEN TAKEN ON THE BASIS OF THE COMMISSION'S SUGGESTION TO AMEND THESE ARTICLES. WHILE WARMLY SUPPORTING HIS AIM TO LIMIT THE SCOPE OF THE CONFERENCE AND RECOGNISING THAT THIS MIGHT BE DIFFICULT IF A NEW PROPOSAL WERE MADE AND SUBMITTED TO THE EUROPEAN PARLIAMENT, FOR AN OPINION, I EXPRESSED SOME DOUBT AS TO WHETHER IT COULD SERIOUSLY BE ARGUED THAT A VOTE IN ACCORDANCE WITH ARTICLE 236 HAD BEEN TAKEN. FROM YOUR ACCOUNT AT MILAN I HAD UNDERSTOOD THAT EVEN THE ITALIANS HAD NOT MAINTAINED THIS. WEYLAND RECOGNISED THE DIFFICULTIES BUT CONTINUED TO HARP ON THE DANGERS OF WIDENING THE SCOPE OF THE DISCUSSION.

4. WEYLAND AGREED WITH ME THAT, ALTHOUGH IT HAD NOT BEEN WIRTTEN DOWN IN THE CONCLUSIONS, THE EUROPEAN COUNCIL HAD AGREED THAT THE POLITICAL COOPERATION AGREEMENT AND THE ARTICLE 236 AMENDMENTS SHOULD BE HANDLED SEPARATELY. HE SAID THAT HE WAS PROPOSING TO RECOMMEND THAT FOREIGN MINISTERS SHOULD CHARGE THE POLITICAL DIRECTORS WITH WORKING ON THE DRAFT POLITICAL COOPERATION AGREEMENT.

5. HE ALSO SAID THAT THE LUXEMBOURGERS WANTD TO CONTINUE TO WORK ON THE QUESTION OF IMMEDIATE ACTION ON DECISION-MAKING PROCEDURES, THE MANAGEMENT POWERS OF THE COMMISSION AND PARLIAMENT/COUNCIL RELATIONS. THEY INTERPRETED PARAGRAPH 3 OF THE CONCLUSIONS AS POINTING IN THAT DIRECTION RATHER THAN PUTTING THESE QUESTIONS INTO THE INTERGOVERNMENTAL CONFERENCE. THEY WERE THINKING OF SUGGESTING THAT THE FOREIGN MINISTERS SHOULD TAKE UP SECTION 1 OF THE FINAL PRESIDENCY DRAFT OF 1600 HOURS WHERE IT HAD BEEN LEFT OFF WHEN PAPANDREOU HAD OBJECTED TO IT. I AGREED WITH HIM THAT THESE QUESTIONS

SHOULD BE KEPT OUT OF THE INTERGOVERNMENTAL CONFERENCE AND SAID THAT I SAW NO REASON WHY WE SHOULD NOT FALL IN WITH HIS APPROACH.

FCO ADVANCE TO POWELL (NO10).

FCO - RENWICK PS

CAB - WILLIAMSON

BUTLER

NNNN



CONFIDENTIAL

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

1 July 1985

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
LONDON
SW1

Dear Michael,

EC DIRECTIVE ON PRODUCT LIABILITY

When you spoke to Alex Fletcher on Wednesday I understand you felt unable to agree to our request to lift your reserve on the inclusion of manufactured food stuffs in the Directive until you had consulted representatives of the industry.

2 I appreciate the difficulty that this request, made at such short notice, caused you but it has become essential to lift the reserve if we are not to lose the Directive. As you will see from the report of COREPER's meeting on 26 June the UK reserve is the only thing preventing agreement on the Directive. All other Member States want manufactured food-stuffs included. They all have important food and drink processing industries. Evidently they feel that any particular problems which this sector of their economy may experience with the Directive are not so serious as to outweigh its benefits to consumers and to the move towards an integrated internal market.

3 I have also come under pressure from industry on the Directive. On 26 June Alex Fletcher received a delegation from the CBI, whose views on the Directive have been expressed in two recent letters to us. The reasons for our rejection of the CBI's arguments against support for the compromise Directive are set out in my letter to Sir James Cleminson of 26 June.

4 I understand that at the meeting on 26 June with the CBI they rehearsed their arguments, and raised a number of concerns which particular sectors of industry feel to be important. Aerospace,

JH5BEM



CONFIDENTIAL

building materials and industrial components were among those mentioned. Nevertheless the CBI reluctantly accepted that the Government now supports the Directive. They were therefore told that the Government hoped for agreement on any outstanding points as soon as possible.

5 I therefore hope that your consultations with the industry can be completed and the reserve lifted as quickly as possible.

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

NORMAN TEBBIT

JH5BEM



Ref. A085/1746

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the special Foreign Affairs Council on 25 June, at which the United Kingdom was represented by Sir Michael Butler. This was held in order to resolve outstanding points of difficulty on the approval and financial procedures for the Integrated Mediterranean Programmes (IMPs). The agreement reached met the United Kingdom's objective of ensuring that the draft regulation did not permit any form of additionality and was consistent with the conclusion of the European Council that the Structural Funds would continue to operate normally.

2. The Foreign and Commonwealth Secretary may also comment on the Second Reading debate on the European Communities (Finance) Bill in the House of Commons on 25 June. The Bill covers the revised Own Resources decision providing for the lasting system of reductions in the United Kingdom's VAT contribution to the Community and for the increase in the VAT Own Resources limit to 1.4 per cent. During the debate the Foreign and Commonwealth Secretary and the Economic Secretary, Treasury were able to bring out that, as a result of the Fontainebleau mechanism, the United Kingdom's adjusted contribution will be much less than 1 per cent of VAT and that the net cost to the United Kingdom of the ad hoc intergovernmental agreement covering the budget overrun in 1985 will be reduced to about £40 million. In spite of criticism from a group of backbenchers, the Bill was given its Second Reading with a Government majority of 168.



3. The Minister of Agriculture, Fisheries and Food may report the latest development on prices and related measures for cereals and rapeseed following the Commission's decision, in spite of German opposition, to manage the market broadly in line with the proposal for a support price reduction of 1.8 per cent. In a pre-emptive strike against the possibility that Germany may take the Commission to the European Court, Commissioner Andriessen has written to Mr Andreotti, as President of the Council, noting the Council's failure to act, making it clear that the Commission considers the Council to be in breach of the Treaty, requesting the Council to take the necessary decisions with all due speed, and reserving the right to take action against the Council before the European Court for its failure to act.

4. The Secretary of State for Energy may report on the Energy Council on 20 June. This agreed two four-year regulations on support for energy demonstration projects and technological developments in oil and gas. Following pressure from the United Kingdom and others the financing was cut back to 90 million ecu a year for the first and 35 million ecu for the second.

5. The Secretary of State for Transport may report on the Transport Council on 24 June. This agreed the main lines of the drivers' hours regulations, providing for more flexible use of drivers and longer rest periods. The Council also agreed a declaration on terrorism against civil aircraft and airports, condemning any criminal interference, expressing the hope that the problem would be considered at the European Council, and resolving to implement the necessary measures to ensure the highest possible level of security in civil aviation. In generally welcoming the Commission's proposals for a common shipping policy to improve conditions of competition in the Community, the United Kingdom stressed that our priority was freedom to provide services and that action should be taken by the end of this year.



6. There was a routine meeting of the Joint Council of the European Communities and of the African, Caribbean and Pacific countries on 21 June, at which the United Kingdom was represented by the Minister for Overseas Development (Mr Raison), but this reached no decisions requiring a report to Cabinet.

7. The Environment Council meets on 27 June. You and the Foreign and Commonwealth Secretary are attending the European Council on 28-29 June.

RIA

ROBERT ARMSTRONG

26 June 1985



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

Telephone (Direct dialling) 01-215 5662

GTN 215

(Switchboard) 215 7877

From the Parliamentary Under Secretary of State
for Corporate and Consumer Affairs

NBPM
CDP
25/6

Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries
and Food
Whitehall Place
LONDON
SW1A 2HH

25 June 1985

John Michael

DRAFT EC DIRECTIVE ON PRODUCT LIABILITY

see p 29
You wrote to Norman Tebbit on 20 May supporting the proposal for flexibility by the UK in the forthcoming negotiations but reminding him that the exclusion of manufactured foodstuffs has been part of the UK's negotiating brief on the scope of the draft Directive, and that you attach importance to this issue. There is now a great deal of pressure in the working group to resolve all outstanding points of uncertainty quickly, since it is feared that the impetus towards a settlement may be lost for good if Member States' representatives are permitted to go on arguing about the details beyond this week.

Our negotiators have reported by telephone that the only outstanding UK reserve is on the question of manufactured foodstuffs, and furthermore that we are entirely alone in making this reservation. In the circumstances, may I ask you urgently to consider the points made by Quentin Hailsham in his letter to Norman Tebbit of 11 June, especially the third paragraph. This argument against the exclusion of any specific industries, given that the draft Directive now includes a development risks defence, appears to me compelling.

The Committee of Permanent Representatives will be considering product liability yet again at its meeting this week (on Wednesday). I very much hope that our representative can be instructed to lift the UK reservation about the inclusion of manufactured foodstuffs in the scope of the Directive. The urgency with which we are asked to reconsider this issue is not of my choosing and I am sorry to trouble you for a decision in such a hurry; but the point seems to be about difficulties in definition rather than one of substantial



importance to UK industry. So I cannot believe that we should risk holding up agreement at the eleventh hour for this reason.

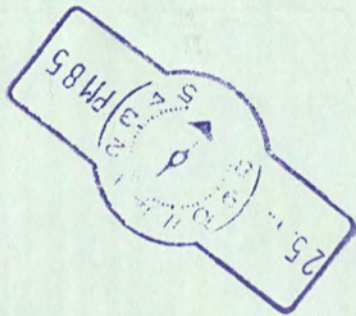
I am sending copies of this letter to the Prime Minister, Members of OD(E), the Lord Chancellor, the Lord Advocate, Tom King and Sir Robert Armstrong.

[Handwritten signature]
[Handwritten signature]

ALEX FLETCHER

PS/Secretary of State
PS/Minister for Trade
PS/Lord Lucas
PS/Sir Brian Hayes
Mr Caines
Mr Burbridge
Mr Wright - GP
Miss Lackey - ECIP
Mr Mathers - Sol
Mr Michell - Air
Mr Salvidge - I
Mr Gatland - CA
Miss Bell - V
Mr Seeborn - CTP
Mr Hayter - MEE
Mr Cheesman - SF
Mr Hope - on file

Buko Pa: Budget Pt 2





From the Minister of State
for Industry and Information Technology

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

Telephone (Direct dialling) 01-215)
GTN 215) 5147
(Switchboard) 215 7877

CC

GEOFFREY PATTIE MP

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

20 June 1985

*Please put on file
but return a copy
to me on 26 June
CDP.
29/6.*

Dear Geoffrey

UNITED KINGDOM RESPONSE TO EUREKA: HIGH TECHNOLOGY PRODUCT
WARRANTY SCHEME

will request required.
On my return from the Far East, I saw Robin Nicholson's letter to you of 6 June and thought I should make one or two comments.

I am always cautious about advancing proposals on the basis that they have not been fully researched and their authors are not in any way committed to them because inevitably they tend to generate a momentum of their own. Nonetheless I am sure you will have mentioned them at Stresa in exactly the right tone and I shall be trying them out on our industrialists in the course of this week.

I recognise the advantages of being able to canvass United Kingdom proposals in the Eureka exchanges, particularly if these would help to lead discussions into market orientated action. Certainly Robin Nicholson's scheme has that flavour. Nonetheless I think it might help anticipate some of the probing questions which may be put to us if we had a critical look at some of the considerations set out in the attached note. They

JE2/JE2AAJ



seem to me to justify Robin Nicholson's description that this is not a fully researched proposal and that we are not at this stage in any way committed to it but that this merits further consideration.

I am sending copies of this letter to other members of OD(E) and to Sir Robert Armstrong and Sir Robin Nicholson.

for am
[Signature]

GEOFFREY PATTIE

M12/M12AES



EUROTYPE PRODUCT WARRANT: SOME ISSUES FOR FURTHER CONSIDERATION

- (i) The proposition is for a system for "awarding" a Eurotype warrant.

Seemingly the "award" would be granted at a relatively early stage in a product's development. Decisions on the suitability of an award will thus be made largely on the basis of technological considerations rather than on assessments of marketability. Of itself the award will mean moving only a little way from technology push to market pull. The critical factors will therefore rest with the obligations resting on the holder of such a warrant and the advantages which he will receive - of which more later.

- (ii) Meantime the decision to grant an award will depend on "novelty" and "superiority".

One approach would be strictly objective by developing detailed criteria and a data bank of information (patents being the nearest analogy). Do we really accept the time that this would take and the bureaucracy entailed? Alternatively trust is placed in the subjective judgement and personal knowledge of wise men - who would be arbitrators and not consultants. Are we prepared for the considerable act of faith involved by potential applicants, potential users and by governments? [Do we envisage a situation in which Frenchmen would have endorsed EMI's NMR scanner?]

- (iii) There is a price to be paid for the award of a warrant, namely the readiness to negotiate in good faith with other enterprises to forward the research, development, production and marketing of the product on a risk-sharing basis.

Would warrant holders be able to do this without broadcasting their ideas to the world at large including their actual and potential competitors? And would they want to delay exploitation while "negotiating" for partners?² What about allegations of bad faith by either side? Who would adjudicate and perhaps demand withdrawal of the warrant and therefore its benefits?



(iv) The holder of a warrant would be entitled to a number of rewards.

First, such manufacturer would be eligible for domestic innovation support schemes in all participating countries regardless of the country of production. Are we prepared to use and to justify using British taxpayers money to support eg a Franco-German scheme deemed worthy of a warrant (probably while rejecting UK applicants because funds are limited)? Would it be believed that governments treated such applications for support on all fours with domestic applicants?

How does such a concept fit in with our attitude - made explicit in the 9th round for North Sea oil licensing - of encouraging the new technologies of British based companies? The Commission may also be expected to have something to say about the accumulation of financial support from a variety of national sources.

A warrant holder would be able to insist on his product being treated as a domestic product for public procurement purposes in all participating countries. This, of course, he should be able to do under the terms of the Rome Treaty. The problem is not discrimination based on nationality but governments framing requirements in ways that domestic manufacturers find it easier to meet. We must therefore ask whether potential warrant holders will believe that the warrant will guarantee them what the Treaty has failed to achieve or accept that on occasion public sectors purchasers preferences for competing technology solutions is a matter of genuine consumer preference.

Finally it is proposed that such a product would be eligible for any new self-financing Community scheme for demonstration and pre-production orders. Are we prepared to incite the Commission to make such proposals? And do we expect manufacturers to be greatly motivated by those possibilities where such a scheme is not already in place or at least formally in prospect?



Ref. A085/1681

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 18-19 June, at which the main business was preparation for the Milan European Council. The United Kingdom proposals on practical ways of improving decision taking and for a binding agreement on political co-operation gained a good deal of ground. The discussion also showed considerably more emphasis, both from France and Germany as well as the United Kingdom, on the importance of taking concrete decisions at the European Council rather than on the Presidency's preference for an open-ended intergovernmental conference. At the United Kingdom's request, the Foreign Affairs Council also discussed EC/Japan commercial relations, when the Foreign and Commonwealth Secretary emphasised the need for suitably strong language to be included in the conclusions of the European Council. The draft directive on frontier controls was not agreed.

2. The Foreign and Commonwealth Secretary will also report on Lord Cockfield's launching on 15 June of the Commission's White Paper on the completion of the common market. As OD(E) had agreed, since the White Paper reflected many of our own priorities for the internal market, the United Kingdom generally welcomed it, expressing the hope that the Milan European Council would now be able to agree on an action programme for completing the common market, with priority being given to areas where quick progress was needed and possible. In our view, these include freedom of capital movements, the harmonisation of industrial standards, integrated financial services, and the liberalisation of inland, air and sea transport. They do not include the



proposals for tax approximation or for removing all frontier controls, which we shall aim to shunt off for further detailed study.

3. The Foreign and Commonwealth Secretary will report that, following the European Parliament's approval on 13 June of the Community's 1985 budget providing for the United Kingdom's 1,000 million ecu abatement for 1984, the European Communities (Finance) Bill has received its first reading in the Commons. The Bill covers the revised Own Resources Decision providing for the lasting system of reductions in the United Kingdom's VAT contribution to the Community and for the increase in the VAT own resources limit to 1.4 per cent. It does not seem to have been fully understood by United Kingdom public and Parliamentary opinion that, because of the Fontainebleau agreement, what is being proposed in substance is that other member states should be allowed to increase their VAT contribution to 1.4 per cent; Treasury forecasts show that, even with the new higher limit of 1.4 per cent and for as long as it remains in effect, the United Kingdom's adjusted contribution is unlikely to exceed 0.8 per cent of VAT. This is because the reductions in the United Kingdom's VAT contribution will be substantial. We estimate that, following ratification of the revised Own Resources Decision, the United Kingdom will get between December 1985 and December 1984 reductions of at least £2,300 million (3,800 million ecu) in our contribution to the Community, ie the ad hoc 1,000 million ecu payable in 1985 and at least 1,400 million ecu in 1986 and in 1987. The Bill also covers the ad hoc intergovernmental agreement covering the budget overrun in 1985 (cost to the United Kingdom - about £250 million (gross) or about £40 million (net)). The second reading of the Bill is expected to be on 25 June.

4. The Secretary of State for Employment may report on the Social Affairs Council on 13 June, which reached agreement on the main elements in the draft directive on the protection of workers



from noise in an amended form to take account of our requirements. Mr King confirmed the United Kingdom's opposition to the draft parental leave directive, which was remitted to officials for further work. He also pressed the Commission, with support from the Presidency, to study the burdens imposed on small firms by the Equal Treatment Directive. It was agreed that two other proposals to which the United Kingdom is opposed - the draft directives on consulting employees and on part-time work - should be set aside for the time being.

5. The Energy Council meets on 20 June, the Joint Council of the European Communities and of the African, Caribbean and Pacific (ACP) countries on 21 June, the Transport Council on 24 June and the Environment Council on 25 June. You will be attending the European Council on 28-29 June.

Rx

Approved by
ROBERT ARMSTRONG
and signed this document

19 June 1985

CONFIDENTIAL



NSM
CDP
12/6

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

12 June 1985

Sir Robin Nicholson F.Eng. FRS
Chief Scientific Adviser
Cabinet Office
70 Whitehall
London SW1A 2AS

Dear Sir Robin,

will request if require
UNITED KINGDOM RESPONSE TO EUREKA: EUROTYPE

I have seen your letter of 6 June to Geoffrey Howe suggesting that it is now time to float your Eurotype idea more widely.

It is clearly important to get Eureka on the right track. I agree that to work towards this and avoid possible criticism for foot-dragging we will need to come up with a new measure of this kind before Milan. I am content for the idea of Eurotype now to be floated in informal discussions on the basis you suggest, ie without commitment and also subject to a number of conditions and observations.

As I understand it, the aim of Eurotype is to improve competition in Europe for the benefit of European manufacturers of high technology goods by opening up public procurement in individual countries. I can see that the strengthened collaboration requirement in your latest outline, while working against competition in a narrow sense, is likely to enhance the acceptability and therefore effectiveness of Eurotype. It should therefore stimulate collaboration between companies, encourage a measure of industrial rationalisation and in a broader sense add to competition. It should also help to carry those who in their approach to Eureka place particular emphasis on co-operation in R&D. Indeed, the Eurotype idea may be most useful in bringing others around to our way of thinking about Eureka and weaning them from more expensive and less well targeted schemes.

Eurotype does, however, contain the potential to develop in a way which would be anti-competitive. Equal treatment -

X



its stated intention - is an essential feature. But it would be counter productive if it were to lead to preferential treatment or to de facto monopolies. There could also be undesirable value for money consequences. We must ensure, therefore, that Eurotype confers no more than equal treatment on the products to which it will apply. We should also consider whether safeguards on this point are needed.

As for the specification of the benefits of a Eurotype warrant to manufacturers, I am unhappy with two elements. First, I think it unwise to raise the possibility of any new Community schemes, self-financing or otherwise. We should not encourage the Commission in their aims for an innovation venture loan scheme and more R&D spending generally. I must ask you, therefore, to delete item (c) from your outline.

Second, while I understand why you propose that a Eurotype product would be eligible for national SFI-type schemes, I do wonder if this is not unrealistic. Community action on state aids is surely more promising and appropriate.

Norman Tebbit will no doubt have views, but I could certainly not agree to make more money available for SFI if it was being extended to other countries.

Finally, more thought has in my view to be given to the administrative arrangements for awarding the Eurotype warrant and we should be careful to avoid premature commitment to the European Patent Office.

I am copying this to colleagues at the recent OD(E) discussion of Eureka.

Yours sincerely,

Philip Wynn Owen.

pp. NIGEL LAWSON

(Approved by the Chancellor and signed in his absence)

Econ Pol: Summits "; p719

12/10



Ref. A085/1594

PRIME MINISTER

Cabinet: Community Affairs

1. The Foreign and Commonwealth Secretary will report on the signature of the Spanish and Portuguese Accession Treaty in Madrid and Lisbon on 12 June.

2. The Foreign and Commonwealth Secretary will also report on the preparatory discussions for the Milan European Council at the informal meeting of Foreign Ministers in Stresa on 8-9 June. The Italian Presidency argued for an intergovernmental conference to conclude a new treaty on progress towards European union, covering a juridical basis for political co-operation; the completion of the common market; changes on decision taking; greater involvement of the European Parliament; and an extension of Community competence. This attracted explicit approval only from Belgium and Luxembourg. The support of France and Germany was noticeably more muted. Monsieur Delors said the Commission would be putting forward specific ideas for the Milan European Council, in particular on the completion of the common market and on reinforcement of technological and monetary co-operation. He too was less than enthusiastic about a conference. The Foreign and Commonwealth Secretary recalled that the United Kingdom had already put forward our own ideas for a precise timetable for action to complete the internal market, to which we attached high importance. He circulated for discussion at Milan the United Kingdom's proposals for a binding agreement on the existing informal arrangements on political co-operation; and suggestions for improved decision taking without amendment of the Treaty. He also explained the procedural ways in which the discussions between the Council and the European Parliament could be made more effective, again without amendment of the



Treaty or the European Parliament's powers. If conclusions on all these points were reached at the Milan European Council, which was the proper forum for taking decisions on these major issues, the European Council at the end of the year could then act as a conference of heads of government to give them final endorsement. There is no doubt that the United Kingdom has made great progress in swinging opinion within the Community towards our own practical approach, particularly since we are the only member state with a coherent, negotiable package and with specific proposals and texts on the internal market, political co-operation and decision-making. The negotiating position is somewhat fragile but should hold up so long as we maintain the tacit agreement of France, Germany and the United Kingdom that there will be a success at Milan on ground which we can all accept.

3. The Secretary of State for Trade and Industry may report that the Internal Market Council on 10 June, at which the United Kingdom was represented by the Minister for Trade (Mr Channon), finally reached agreement on a long outstanding directive on freedom of establishment for architects, following a compromise whereby the shorter period of academic training for certain architects in Germany would have to be supplemented by several years' practical experience. The Minister of Trade also stressed the importance of vehicle emission standards for the internal market and the need to respect the agreement reached by Environment Ministers in March.

4. The Chief Secretary may report on the Finance Council on 11 June, at which he represented the United Kingdom. This discussed the budgetary discipline reference framework for 1986 (the Commission has not yet provided all the figures because they wished first to have the 1985 budget adopted by the European Parliament) and the draft unit trusts directive, which



we support because it would be favourable to the United Kingdom (more sales by United Kingdom unit trusts in Europe) and as a step towards the liberalisation of other financial services.

5. The Chancellor of the Exchequer may also be able to report whether the European Parliament, at its session this week, has formally adopted the 1985 Community budget which provides for the United Kingdom's 1000 million ecu abatement for 1984. You may wish to know that the Commission's draft of the 1986 budget, which we have obtained unofficially, includes an estimated rebate on our VAT contribution of 1400 million ecu. This is a satisfactory progression (750 million ecu for 1983, 1000 million ecu for 1984 and 1400 million for 1985) and in practice we expect that, because of the Chancellor of the Exchequer's recent decision on the point at which VAT is collected, the outturn in 1986 on the United Kingdom rebate for 1985 will be higher than 1400 million ecu.

6. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 11-12 June, which is making a further attempt to agree the level of support prices for cereals (and rapeseed) outstanding from this year's farm price settlement. The Germans, again trying to conceal their reliance on the Luxembourg compromise, strongly opposed the Council coming to a vote on the proposed reduction of 1.8 per cent on cereals support prices. They failed, however, to prevent the Presidency calling for a vote and were forced to invoke paragraph 2 (the veto) of the Luxembourg compromise (ie "where very important interests are at stake, the discussion must be continued until unanimous agreement is reached"). The Presidency then took a vote. Four member states participated but this was not, of course, sufficient to reach a decision. Since the Luxembourg compromise had been invoked, the United Kingdom, France, Greece, Denmark and Ireland agreed that it must be respected and, like Germany, did not take part. In the prospect of the Milan European Council, we have gained a treble



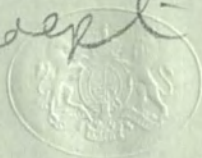
advantage: German invocation of the Luxembourg compromise,
French re-endorsement of it and a public demonstration that the
majority of member states support it.

7. The Labour and Social Affairs Council meets on 13 June, the Foreign Affairs Council on 18-19 June, and the Energy Council on 20 June.


Approved by
ROBERT ARMSTRONG
and signed in his absence

12 June 1984

Ends
Budget



CONDUCTOR

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

11 June, 1985

Dear Charles,

COO 11/6.

Development of the Community: Prime Minister's Questions

With the approach of the European Council at Milan, questions about our ideas on the development of the Community may arise in the House. I enclose some points on which the Prime Minister may wish to draw.

The Foreign Secretary found at Stresa that no other member state had as clearly worked out a position as we do on the future development of the Community. Although the Italians and some of the others still want an inter-governmental conference, the Italian draft mandate for such a conference got limited support at the weekend. The Italians will now prepare options, including our ideas for decisions by the heads of government themselves. Delors stated that, while the Commission would like to see some Treaty articles amended to help completion of the Common Market, our approach was a valid alternative.

The Foreign Secretary also circulated our draft agreement on Political Cooperation. This was well received except, predictably, by the Greeks. The Irish expressed their reservations on security, while the French and Germans would if anything like to go further. Sir Geoffrey Howe made clear that we were not prepared to discuss the text before Milan. The heads of government would then have to decide whether they wanted an agreement of this type, with the Political Directors putting the text into final shape as necessary. The Political Cooperation agreement, with any other measures agreed in outline at Milan, could be given final approval by heads of government in December. There was some support for the idea that the European Council in Luxembourg on 3-4 December might constitute itself as a "conference" for the purpose of signing such a formal agreement.

I am copying this letter and the enclosure to PS/
Sir Robert Armstrong.

Yours ever,

Golin Budd

C D Powell Esq
10 Downing Street

(C R Budd)
Private Secretary

CONFIDENTIAL



BRIEF FOR PRIME MINISTER'S QUESTION TIME :
FUTURE DEVELOPMENT OF THE COMMUNITY

- We have put forward more precise proposals than any other member state for strengthening the Community in practical ways:

- internally: through a precise timetable for completion of the common market in goods and services by 1990; and by practical improvements in decision-taking;
- externally: by strengthening and developing political cooperation.

- Our ideas could be implemented quickly. I hope that heads of government will take the necessary decisions of substance at Milan at the end of the month.

Political Cooperation

- We are putting forward ideas for the development and strengthening of political cooperation in which



Britain has always played a leading role.

- We have proposed that the member states should agree formally to consult on major foreign policy issues, including the political and economic aspects of security. Political Cooperation should not extend to defence matters, which are the concern of the Alliance.

[As necessary]

- Political and economic aspects of security already are discussed in political cooperation - East/West relations, CSCE/CDE, UN aspects of disarmament. Defence aspects would not be covered. These must remain for the Alliance.

[As necessary]

- We are not suggesting that the Republic of Ireland should change its position of neutrality, which everyone understands. Believe it possible to proceed on a basis enabling Ireland to participate, as it does now.

Decision-Taking

- We have put forward ideas for applying the existing



Treaties. Need for practical improvements in decision taking. No need to amend the Treaties.

[As necessary]

- The unanimity rule under certain Articles need not be an obstacle to completion of the common market. Believe it would be sensible step if, where it is agreed that a specific objective should be achieved, it might also be agreed that member states will aim not to impede progress by invoking the unanimity rule in relation to measures necessary for its implementation.

[As necessary]

- The Luxembourg compromise will be maintained. No member state will agree to be voted down when very important national interests at stake.

- Inter-Governmental Conference

The European Council is an inter-governmental conference. Decisions needed by heads of government themselves. I want to see decisions taken at Milan.

- Agreement of Parliament

Any agreement on Community issues which led to formal proposals by the Commission would be subject to



scrutiny procedures in the normal way. Parliament would of course be given the opportunity to consider any new steps in political cooperation.

CONFIDENTIAL

CONFIDENTIAL

FM UKREP BRUSSELS 101415Z JUN 85

TO IMMEDIATE F C O

TELEGRAM NUMBER 2184 OF 10 JUNE.

IMMEDIATE**DISTRIBUTION SELECTORS
FILE COPY**

INTERNAL MARKET: COMMISSION WHITE PAPER.

SUMMARY

1. WHITE PAPER LIKELY TO CONTAIN MANY GOOD POINTS FROM OUR POINT OF VIEW: BUT THE EMPHASIS ON THE ABOLITION OF FRONTIERS AND SOME OF THE INDIVIDUAL PROPOSALS WILL CAUSE US DIFFICULTIES.

DETAIL

2. WE HAVE SENT BY BAG (BENDER'S LETTER OF 6 JUNE TO JAY) THE CURRENT DRAFT OF COCKFIELD'S WHITE PAPER ON THE INTERNAL MARKET, WHICH WE OBTAINED IN STRICT CONFIDENCE (PLEASE PROTECT - COCKFIELD APPARENTLY DID NOT WISH US TO HAVE A COPY AT THIS STAGE AND DOES NOT KNOW WE HAVE ONE).
3. IN ITS BROAD THRUST AND ON MANY IMPORTANT POINTS THE DOCUMENT COINCIDES WITH OUR OWN PRIORITIES. IN PARTICULAR, APPROPRIATE STRESS IS LAID ON THE NEED FOR PROGRESS ON:
- (A) PRODUCT STANDARDS (INCLUDING MUTUAL RECOGNITION):
 - (B) FREEDOM OF FINANCIAL SERVICES (ALTHOUGH THE MUTUAL RECOGNITION IDEA IS NOT DEVELOPED AS FAR AS WE MIGHT HAVE LIKED):
 - (C) CAPITAL MOVEMENTS:
 - (D) FREEDOM OF ESTABLISHMENT (THOUGH ACCOUNTANTS ARE NOT SPECIFICALLY MENTIONED):
 - (E) TRANSPORT:
 - (F) PUBLIC PROCUREMENT:
 - (G) INTELLECTUAL PROPERTY: AND,
 - (H) RIGOROUS PURSUIT OF BREACHES OF ARTICLES 30-36.

ALL THIS IS TO BE WELCOMED.

4. THERE ARE A COUPLE OF OMISSIONS AS COMPARED WITH OUR OWN ACTION PROGRAMME: THE DRAFT CONTAINS ONLY A PASSING REFERENCE TO STATE AIDS POLICY AND NONE AT ALL TO CUSTOMS COMPUTERISATION. WE HAVE DRAWN THE ATTENTION OF COCKFIELD'S CABINET TO BOTH THESE POINTS.

5. BUT, AS I SEE IT, THE MAIN PROBLEM IS THAT FAR TOO MUCH STRESS IS LAID ON THE ABOLITION OF FRONTIER CONTROLS. THOUGH THE SLOGAN OF A 'EUROPE WITHOUT FRONTIERS' IS LIKELY TO BE POLITICALLY ATTRACTIVE IN OTHER MEMBER STATES (AND EVEN PERHAPS TO SOME IN THE U.K.), A VAST AMOUNT OF PROGRESS COULD BE MADE TOWARDS COMPLETELY FREE TRADE IN GOODS AND SERVICES WITHOUT ABOLISHING FRONTIER CONTROLS. BUT DELORS AND COCKFIELD HAVE GOT THE BIT BETWEEN THEIR TEETH AND WE ARE NOT GOING TO FIND IT EASY TO SLOW THEM DOWN. IT SEEMS TO ME THAT OUR TACTICS MUST BE:-

CONFIDENTIAL

/(A)

(A) TO STRESS THAT THE FREEDOM OF MOVEMENT OF PERSONS, THOUGH CERTAINLY DESIRABLE, IS NOT ESSENTIAL IN ORDER TO HAVE FREEDOM OF TRADE IN GOODS AND SERVICES: AND THAT THOUGH SOME ASPECTS OF FREE MOVEMENT HAVE TREATY IMPLICATIONS, THE TREATIES CERTAINLY DO NOT SUGGEST THAT MEMBER STATES ARE UNDER AN OBLIGATION TO TAKE RISKS OVER FOR EXAMPLE DRUG-TRAFFICKING, TERRORISM, RABIES OR IMMIGRATION. (WHILE NOTING THAT THESE PROBLEMS WOULD NEED TO BE DEALT WITH BY OTHER MEANS, THE COMMISSION OFFERS NO SUGGESTION ABOUT HOW THIS MIGHT BE DONE).

(B) TO ARGUE THAT INTRA-COMMUNITY CUSTOMS CONTROLS ARE DIFFERENT FROM THE FRONTIER CONTROLS IN (A) ABOVE AND SHOULD BE EXAMINED SEPARATELY. AN IMPORTANT QUESTION FOR THE PURPOSE OF COMPLETING THE INTERNAL MARKET IS HOW FAR IT IS NECESSARY OR DESIRABLE TO GO IN THE CUSTOMS FIELD. THIS SHOULD BE STUDIED IN DEPTH, TOGETHER WITH THE RELATED QUESTION OF HOW FAR TAX APPROXIMATION IS A NECESSARY CONDITION.

6. THE CHAPTER ON FISCAL BARRIERS IS, AS EXPECTED, GOING TO CAUSE US PARTICULAR PROBLEMS. DESPITE CAUTIOUS INTRODUCTORY WORDING, THE COMMISSION STILL INSIST THAT THE APPROXIMATION OF VAT AND EXCISE DUTY RATES IS ESSENTIAL BUT THEY BASE THIS MAINLY ON THEIR ASSUMPTION THAT THE AIM IS THE ABOLITION OF FRONTIER CONTROLS. EVEN THE FIRST STAGE, ENTAILING COMPLETION OF THE COMMON VAT BASE AND HARMONISING EXCISE DUTY STRUCTURES, PRESENTS CONSIDERABLE DIFFICULTIES: BUT IT IS AT LEAST SOMETHING TOWARDS WHICH WE COULD CONTINUE TO WORK, SUBJECT TO CERTAIN OVERRIDING CONDITIONS, E.G MAINTAINING VAT ZERO RATES. THE ESTABLISHMENT OF A 'CLEARING HOUSE' MECHANISM FOR VAT IN RESPECT OF SALES AND PURCHASES BETWEEN MEMBER STATES COULD ALSO BE EXAMINED, AND COULD FIT WITH THE TACTIC I HAVE PROPOSED OF ARGUING THAT A STUDY SHOULD BE UNDERTAKEN OF THE EXTENT TO WHICH APPROXIMATION OF TAX RATES IS NECESSARY FOR THE COMPLETION OF THE INTERNAL MARKET.

7. DIRECT TAX FIGURES ONLY BRIEFLY. THE COMMISSION PROMISE A WHITE PAPER ON TAXATION OF BUSINESS, AND URGE THE COUNCIL TO GIVE HIGH PRIORITY TO PROPOSALS ALREADY ON THE TABLE. SEVERAL OF THESE PRESENT PROBLEMS FOR US.

8. THE SECTION IN THE CHAPTER ON PHYSICAL BARRIERS DEALING WITH CONTROL OF INDIVIDUALS WILL ALSO CAUSE US PROBLEMS. THE STATED OBJECTIVE IS TO ABOLISH COMPLETELY BY 1992 ALL CHECKS ON E.C CITIZENS MOVING BETWEEN MEMBER STATES. TO THIS END, IN ADDITION TO THE FAMILIAR COMMISSION VIEWS ON FRONTIER FACILITATION, IT IS STATED THAT DIRECTIVES WILL BE PROPOSED ON (INTER ALIA) APPROXIMATION OF ARMS AND DRUGS LEGISLATION: AND ACTION TO CO-ORDINATE VISA POLICY AND RULES OF RESIDENCE ETC APPLICABLE TO NON-E.C CITIZENS.

²
CONFIDENTIAL

/9.

CONFIDENTIAL

9. ANOTHER POTENTIALLY PROBLEMATIC AREA COMES UNDER THE ENCOURAGING HEADING 'CREATION OF SUITABLE CONDITIONS FOR INDUSTRIAL COLLABORATION': EMPHASIS, DISAPPOINTINGLY, IS PLACED ON APPXIMATION OF THE LEGISLATIVE FRAMEWORK, E.G. IN THE COMPANY LAW FIELD.

10. ALL THE ELEMENTS WHICH ARE DIFFICULT FOR US ARE LIKELY TO RAISE OBJECTIONS IN A NUMBER OF OTHER MEMBER STATES. WE SHOULD TRY TO ARRANGE THINGS SO THAT OTHERS TAKE THEIR SHARE OF RESPONSIBILITY IN RESISTING THE UNACCEPTABLE PARTS OF THE COMMISSION'S PAPER INSTEAD OF SHELTERING BEHIND US(WHICH WILL BE, FOR MANY, THE NATURAL COURSE). THIS POINTS TO OUR AVOIDING ANY EARLY REJECTION OF THE COMMISSION'S IDEAS BY H.M.G. TACTICALLY, OUR BEST COURSE MIGHT BE TO GIVE AN EARLY AND POSITIVE WELCOME TO THE MAIN BODY OF THE REPORT ON THE ELEMENTS WHICH ARE IN LINE WITH OUR OWN PRIORITIES, WHILE ASKING A LOT OF QUESTIONS OF THE COMMISSION AND OTHER GOVERNMENTS ABOUT HOW TO DEAL WITH THE REAL DIFFICULTIES IN PARAS 6-9 ABOVE. AT MILAN WE SHOULD AIM TO SHUNT THE DIFFICULT PARTS INTO A SIDING BY COMMISSIONING SERIOUS STUDIES ON THEM.

FCO ADVANCE TO:-

(LIMITED DISTRIBUTION)

FCO - P.S, PS/MR RIFKIND, BRAITHWAITE, RENWICK, FAIRWEATHER.
CAB - WILLIAMSON, STAPLETON, JAY.
C/E - KNOX.
DTI - P.S/S OF S, P.S/MR CHANNON, WILLIAMS, LACKEY, KEMMIS.
TSY - FITCHEW, MONGER, SIMPSON.

BUTLER

[ADVANCED AS REQUESTED]

LIMITED

ECD(1)

PS

PS/MR. RIFKIND

MR. BRAITHWAITE

MR. RENWICK

COPIES TO:

ADVANCE ADDRESSEES

env Budget



FCS/85/71

CHANCELLOR OF THE EXCHEQUERAT
NBP
CDP 10/6

The Prime Minister's Initiative on Deregulation in the
European Community: Our VAT Threshold

1. Thank you for your letter of 17[/]May.
2. As you proposed, I raised this matter with Jacques Delors during our talks at Chevening on 24 May, and so did the Prime Minister in separate talks that same afternoon. Delors was fairly sympathetic to the case for a higher limit in the longer term and promised to look at simplification or exoneration in the deregulation context. He was less sympathetic towards our case on the current infraction proceedings, but his officials indicated that these could probably be slowed down.
3. I agree with you that we must pursue this question on every suitable occasion, and I very much welcome your intention to give it an airing at the July ECOFIN Council. We will be better placed to decide how to take things forward when we know the reaction of other Member States.
4. I note from the background brief that you have in mind a new limit of £50,000. Our present limit is £19,500 and the Irish limit, the highest in the Community is £Irish 25,000 (£21,000 approx). Most Member States use other forms of tax incentive than VAT exemption to avoid difficulties for their small traders; and since several member states have very large numbers of small traders it would be hard to secure their support for our proposal if the limit is not too high. You may think it best to go first for agreement to the principle of amending the VAT directive to secure a higher limit before proposing a figure, especially one as high as £50,000.

CONFIDENTIAL



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

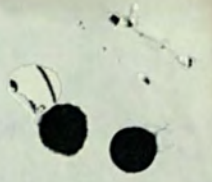
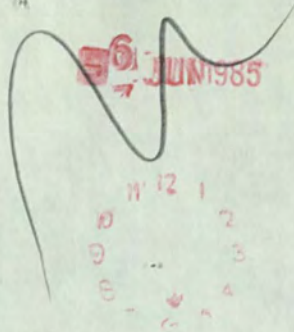
A handwritten signature in dark ink, appearing to be 'G. Howe'.

GEOFFREY HOWE

Foreign and Commonwealth Office
10 June, 1985

CONFIDENTIAL

Auto Pa: Budget
pt 30





Ref. A085/1521

PRIME MINISTER

Cabinet: Community Affairs

In the absence of the Foreign and Commonwealth Secretary, the Minister of State, Foreign and Commonwealth Office (Baroness Young) will report on the Development Council on 23 May, at which the main item discussed was famine in Africa. The Council concluded, first, that the immediate food requirements of the worst affected countries were largely covered by pledges but, secondly, that there were some doubts whether actual deliveries were arriving where and when they were needed. The Commission is following up this point. At the instigation of Mr Raison, the Council agreed to adopt a special accelerated procedure for considering the project to rehabilitate the Sudanese rail link to the west.

2. The Minister of State, Foreign and Commonwealth Office (Baroness Young) may also report briefly on the bilateral meetings which the Foreign and Commonwealth Secretary has held recently in order to make clear the United Kingdom's approach to the discussion on the development of the Community at the Milan European Council. He met Monsieur Delors, the President of the Commission, on 24 May, Mr Barry, the Foreign Minister of the Republic of Ireland, on 30 May, Monsieur Tindemans, the Belgian Foreign Minister, on 30 May and Monsieur Poos, the Luxembourg Foreign Minister, on 4 June. The United Kingdom has made real progress in moving the discussion on to ground of our own choosing and in getting much wider support than we had expected earlier for these elements of our position -



- (1) The aim is that practical decisions should be taken by the Heads of State and Government themselves at a successful meeting in Milan. We recognise that some matters will need to be refined in the summer and autumn for adoption at the European Council in December, so that some further intergovernmental work may be required. But we are not in favour of an open-ended "intergovernmental conference" which would open up all sorts of institutional issues (but not in our view resolve them) and would risk to become the longest running show in the Community.
- (2) The time has come to have an agreement on political co-operation, formalising the existing practice and improving the Community's influence on external matters.
- (3) The Milan European Council should agree on the specific priorities and programme for completing the common market, thus improving the Community's internal strength.
- (4) Practical steps should be taken to improve decision making by using the existing provisions of the Treaty, including, if necessary, greater use of abstention in order to implement agreed policy objectives (if the European Council decided that a particular objective should be achieved, it could also decide that member states would aim not to impede progress by invoking the unanimity rule in relating to the measures necessary for its implementation but without any change in the Luxembourg compromise on questions of very important national interest).
- (5) There is a real need for better exploitation of scientific and technological research within the Community. The EUREKA project could be hijacked for this purpose. In any event, it would be desirable for the avoidance of further confusion if the Milan European Council were to appoint a high-level



group (on which Sir Robin Nicholson might represent the United Kingdom) to give a clear steer on the further development of the French ideas.

- (6) On the powers of the European Parliament there is disagreement within the Community. There is not going to be a change in the Treaty. Our ideas are essentially practical: to avoid the unnecessary confrontation between the Council and the European Parliament which results directly from the present procedure (in effect, the Council finalising its position before it takes delivery of the Parliament's view) but not to move one inch from the position that the Council has the last word. The procedural suggestion of earlier consultation is, however, significant, since in some cases it could lead to agreement between the Council and the European Parliament, and we shall try to find more common ground with other member states on this basis.

3. But, although the negotiating situation is satisfactory, the ambitions of the Italian Presidency and of some other member states for a more grandiose package remain considerable. The Foreign and Commonwealth Secretary will be pressing our views on all his colleagues at the informal meeting of Foreign Ministers at Stresa at the weekend.

4. You may wish to refer to your own discussions with Monsieur Delors and Monsieur Poos.

5. The Secretary of State for Transport will report on the Transport Council on 23 May. Discussion was overshadowed by a judgment in the European Court of Justice on 22 May which upheld the European Parliament's case against the Council's failure to implement common transport policy. This judgment is generally good for the United Kingdom since it stresses the requirement to liberalise the transport market and does not subordinate this to



other questions such as lorry weights. Other member states may of course try to recreate linkages. The Council made little progress on the Presidency's "master plan" for liberalisation and harmonisation, which is not in our view a good basis for action, and will have to return to these issues in the light of the European Court judgment shortly.

6. The Minister of Agriculture, Fisheries and Food will report on the informal Agriculture Council held in Siena on 27-29 May 1985. Business was confined to a preliminary exchange of views on the medium and long-term review of the Common Agricultural Policy, which was announced in the context of this year's price fixing proposals. The timetable for the work, which has already begun in a series of Commission Working Groups, is that the Commission will produce a consultative document before the summer break, followed by firm proposals in the autumn for incorporation in the 1986 price fixing proposals. The United Kingdom is supporting and seeking to steer this work. The Agriculture Council will meet again on 10-11 June in order to discuss cereals and rapeseed which were detached from the price fixing package agreed last month.

7. You should be aware that the Research Council met on 4 June, when the United Kingdom (in the absence of the Minister of State, Department of Trade and Industry (Mr Pattie) in Japan) was represented by Sir Robin Nicholson. There was broad agreement on starting the advanced communication technology programme (RACE) within the existing funding, the siting of the European Synchrotron Radiation Facility (ESRF) at Grenoble and on the tritium handling laboratory in Italy (within the financial provision already made for the Joint Research Centre) but French and British reserves were maintained. The British reserve is tactical, being related to our wish to tie down some other member states to make a financial contribution to the work at the Rutherford-Appleton laboratory on the Spallation Neutron Source (SNS) on which we expect to be successful.



8. The Education Council met on 3 June, when the United Kingdom was represented by the Secretary of State for Education and Science. The Industry Council also met on 3 June, when the United Kingdom was represented by the Parliamentary Under Secretary of State for Industry (Mr Butcher). Culture Ministers met on 28 May, when the United Kingdom was represented by the Chancellor of the Duchy of Lancaster. There are no points requiring a report to Cabinet.

9. There will be an informal meeting of Foreign Affairs Ministers on 8-9 June to discuss a wide range of issues as part of the preparation for the Milan European Council. The Internal Market Council will meet on 10 June, the Finance Council on 11 June and the Social Affairs Council on 13 June.

RIA

ROBERT ARMSTRONG

5 June 1985

cc PC

CDP
3/6

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

FOREIGN SECRETARY

EUREKA

Thank you for sending me a copy of your minute to Norman Tebbit of 3 June. *with CDP?*

2. Subject to the points mentioned below, I am content with the draft paper setting out our suggestions for the possible working arrangements of the High Level Eureka Group.

3. First, I welcome the statement in the terms of reference that the main objective of the exercise is "to improve the use of the research resources of the participating countries". I am prepared to agree to the terms of reference on the basis that our objective in these negotiations will be to avoid any commitments to increased public sector funding for R & D expenditure either at the national or the Community level. As I made clear in my minute of 1 May, I could not agree to provide any additions to existing domestic public expenditure allocations (including the Euro-PES baseline) for financing expenditure arising out of Eureka.

4. Second, I agree it is reasonable to draw on the experience and knowledge of senior European businessmen and large public sector consumers as proposed in paragraph 1(b) of the paper. But it is important that their role should be a purely advisory one at this stage. There is



a strong risk that they will see the exercise purely in terms of getting access to more taxpayers' money.

5. The use to be made of the paper at Stresa is very much a matter for your judgement. But I would see a good deal of attraction in circulating it to the French and Germans only in the first instance. It is important that this does not become a Community-run exercise.

6. Finally, paragraph 1(c) refers to Secretariat costs. To the extent that these fall on the UK they will need to be absorbed within existing departmental budgets.

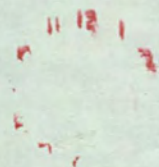
7. Copies of this letter go to other members of OD(E); and to the Secretaries of State for Environment, Energy, Defence, Education and Science, and Health and Social Services; and to Sir Robin Nicholson.

A handwritten signature, possibly 'NL', in dark ink.

NL

5 June 1985

- 5 JUN 1985





10 DOWNING STREET

Prime Minister *mb*

You will want to
be aware that it is
proposed to introduce
the Bill on
New Own Resources &
our contribution to

the 1985 I G A on

14 June - provided

the 1985 Community

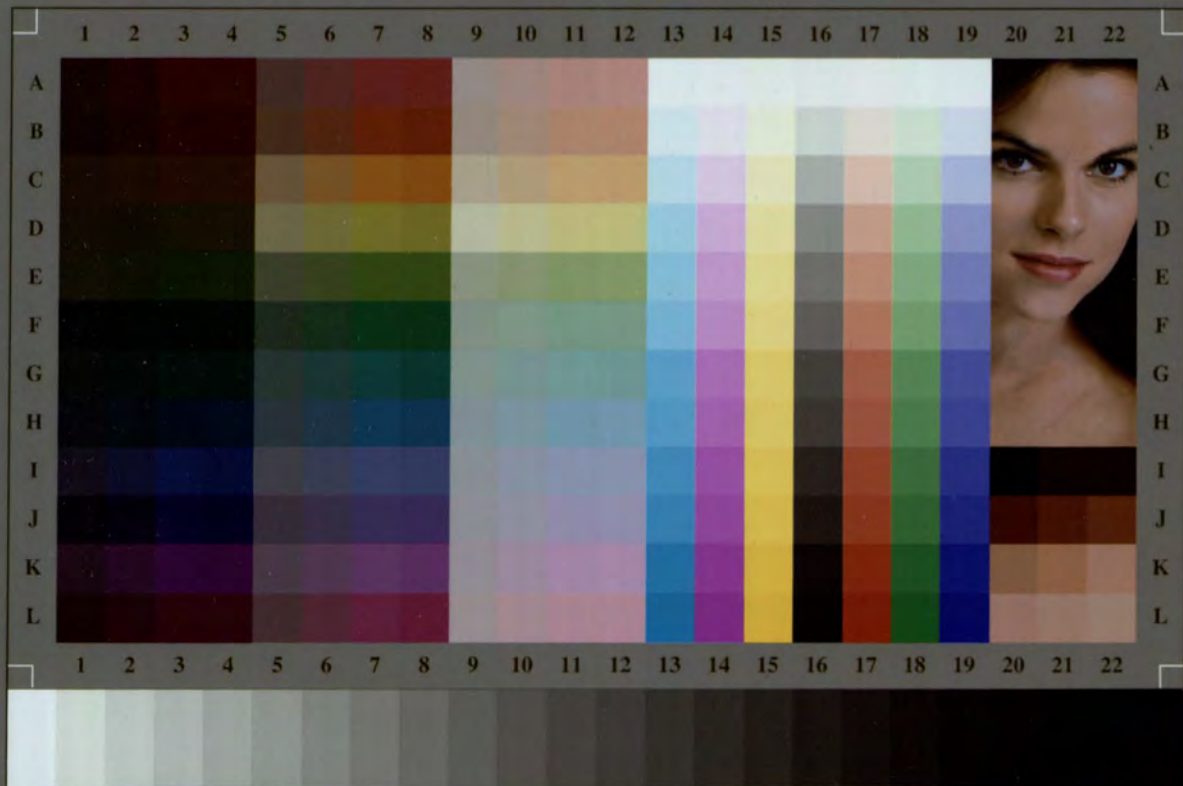
Budget has been formally
agreed by the CDP.

PART 29 ends:-

FCO to HMT 30.5.85

PART 30 begins:-

RTA to Pm (A085/1521) 5.6.85



IT8.7/2-1993
2007:03

[FTP://FTP.KODAK.COM/GASTDS/Q60DATA](http://FTP.KODAK.COM/GASTDS/Q60DATA)

Q-60R2 Target for
KODAK
Professional Papers

