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PART

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 November 1992

INVITATION FROM THE FOREIGN AFFAIRS COMMITTEE TO M. DELORS

We spoke about your letter of 9 November which the Prime Minister has seen. I said that the Prime Minister thought that the Foreign Secretary, or Sir John Kerr, should speak to M. Delors on the line set out in paragraph two of your letter.

J. S. WALL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

RESTRICTED AND PERSONAL

as

Foreign &
Commonwealth
Office

London SW1A 2AH

9 November 1992

Prime Minister

I think the FCS should speak to M. Delors as suggested below at x

Dear Stephen,

Invitation from the Foreign Affairs Committee to M. Delors

We spoke on 6 November about the invitation which the Rt Hon David Howell MP and the Foreign Affairs Committee sent to M. Delors for him to give evidence on 24 November. M. Delors has asked informally for British Ministers' views before replying to the Foreign Affairs Committee. Mr Howell and his Committee know this.

The Foreign Secretary is inclined not to give any advice to M. Delors, although he could speak to him, saying that it would be for the President of the Commission to decide, and that the FAC itself is sensible, although some anti-Maastricht members would try to get him to say things which would be used later against the Maastricht Bill - and that the press would look for mischief. The Foreign Secretary could go on to say that we would have no objection if, despite, these considerations, M. Delors decided to go ahead with his visit to make the link between the Commission and the British Parliament.

If M. Delors then decided to appear before the Foreign Affairs Committee the Foreign Secretary could give him some private briefing beforehand.

You kindly agreed to consult the Prime Minister.

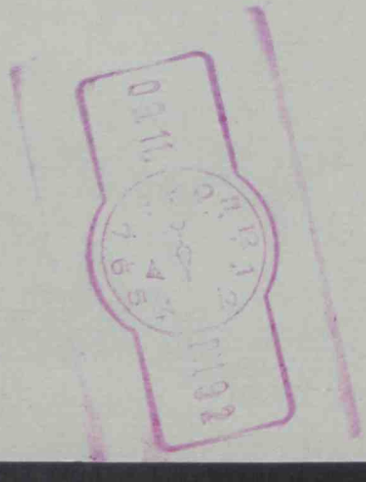
Yours ever,

Richard

(R H T Gozney)
Private Secretary

J S Wall Esq
10 Downing Street

9-4



SUBJECT MASTER

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 June 1992

Dear Richard,

THE PRIME MINISTER'S MEETING WITH PRESIDENT DELORS

Thank you for the briefing which you sent on 23 June for the Prime Minister's meeting with President Delors. The Prime Minister was also grateful for the President of the Board of Trade's minute on GATT.

The Prime Minister was accompanied at the dinner by the Foreign Secretary and Sir John Kerr. M. Delors had with him David Williamson (the Commission Secretary-General) and the head of his Cabinet, M. Lamy.

GATT

The Prime Minister said that it would be impossible to explain to the rest of the world why there was no structured discussion of GATT at Lisbon. He understood the French desire to put off a decision until after their referendum. But we would then be into the US elections. If President Bush won, there would still be no agreement before March 1993. We would then be into the next round of the French elections. We knew there was some flexibility in the American position. We should exploit that by having a further high level round of discussions.

M. Delors said that he had spoken to President Mitterrand last week. President Mitterrand had said it was impossible for France to settle now. M. Delors did, however, have ideas for a settlement. He had talked to Chancellor Kohl and hoped Chancellor Kohl could speak to President Mitterrand at Lisbon and convince him of the need for an agreement. Mitterrand did understand the desirability of a GATT settlement for the world economy, just as he had also accepted, at M. Delors' persuasion, the case for CAP reform.

The Prime Minister said that in the absence of an agreement, Europe would be blamed for a breakdown in the GATT by all three candidates in the US Presidential election. It was impossible to think that France would not be singled out in those attacks. We would also come under attack from the Cairns Group and from the developing countries. We could not credibly go to Rio and make great statements about help for the Third World and then deny them the biggest help they needed, the dismantling of protectionism.

M. Lamy said that the atmosphere had not been helped by the anti-European sentiment drummed up in the United States. M. Delors commented that this was parallelled, regrettably, by anti-American sentiment in France, the only thing the no-camp in France had in common. Sir John Kerr pointed out that if the Germans made a concession on income aids and if the Americans then made some movement on permitted volumes of subsidised exports, the French would be able to proclaim a triumph.

Following the dinner I spoke to General Scowcroft. I have recorded that conversation separately.

Future Financing

M. Delors thought that there was no longer an argument over the issue of the agricultural guideline or over the need for the Community to finance its external actions. The difficulty at Lisbon would be finding an acceptable orientation on cohesion. There was undoubtedly a linkage, particularly in Spain's mind, between progress on enlargement and progress on cohesion. If a positive signal was not given at Lisbon, then he feared there would be deadlock in Edinburgh.

The Prime Minister set out our policy on future financing and on cohesion. We had agreed to the establishment of the Fund. There was no agreement yet whether it would be funded by fresh money or money directed from the Structural Funds. It was a great pity that Finance Ministers were not going to be at Lisbon. He had discussed these issues with the Chancellor of the Exchequer. The Chancellor believed that the agricultural guideline could be reduced. We did accept the case for some increase in external expenditure. We did not support the case for finance for industrial action. M. Delors acknowledged that he had no support on that particular issue.

M. Delors said there was a break between cohesion and convergence as a result of the decision on talks at Maastricht. The cohesion would help Spain, Portugal and Ireland to meet the convergence conditions. He would say nothing of Greece which was a bad case. On cohesion, he had tried two formulae on Cavaco Silva whom he had met earlier in the day. The first, stated that the combined efforts of the Cohesion Fund and the Structural Funds would permit the maintenance in the four countries of a rhythm of growth at a significant level. That had been rejected by Cavaco Silva. The second formula, which was the one which Cavaco Silva wanted, was to say that there would be a rate of growth in the Cohesion Fund and the Structural Funds of the same order of size as that which took place in the framework of the financial perspective of 1988-1992, i.e. the two Funds combined would double over seven years.

In subsequent discussion, M. Delors acknowledged that the formulation which the Portuguese preferred would not be acceptable at Lisbon. At the same time, anything less than his own first formulation would involve a clash. There was also a risk that the Germans would refuse to consider any formulation

unless the UK rebate was discussed. The Prime Minister said that that would guarantee his inability to secure support in Parliament for the Maastricht Treaty. M. Delors said that (a) he had postponed his paper on the rebate despite German attacks on him and he would maintain that position through Lisbon, (b) he would send us privately some figures showing the possible costs of his formulation on cohesion. The Prime Minister said he would look carefully at the figures before reaching a decision. What we could not do was ask our Parliament to accept significant increases in Community expenditure at the same time as they were being required to accept cuts in UK public expenditure.

Mr. Williamson said that the financial prospective emerged of the Commission would make clear there would be no increase in our resources for 2 years. There would be no figures at Lisbon. This was all very positive from the British point of view. There was no question of a spending spree. The budget would only grow by 2 per cent in money terms next year.

Working Time Directive

The Prime Minister cited the costs of the Pregnancy Directive and the Working Time Directive. Most of our partners, with the exception of the French, had been helpful. If the measure went through, it could cost our industry £5 billion thereby alienating the City of London, industry and commerce who were among the few groups who supported the Community. The Prime Minister indicated the changes which we needed to secure in the Text. M. Delors pointed out that neither the provisions on Sunday working nor on 48-hours had come from the Commission. He would see what could be done to persuade the French to support the idea of a postponement of the vote. He asked for the detailed breakdown of the £5 billion costs. The Prime Minister said he would provide them.

Subsidiarity

M. Delors said that he had proposed to Cavaco Silva that the European Council should adopt conclusions on subsidiarity. These would cover the work which would need to be undertaken after Lisbon. One idea was for each Commission proposal to be accompanied by documentation detailing the necessity of such legislation. He also hoped that the Commission could abandon mini-infractions, e.g. on the environment, although he was facing opposition to that idea from the Chairman of the Environment Committee of the European Parliament, Ken Collins. He wanted to establish the principle of mutual confidence between member States, i.e. that in some areas member States would undertake to implement agreed law without constant direct control by the Commission. There could be a review at the Community level every so often with regular reports to the European Council. There were differing views on this issue, with some wanting subsidiarity in some areas but not others. Sir Leon Brittan had agreed to apply a de minimis rule in the competition area. His own view, e.g. on the environment, was that it was right for the Community to be involved in the setting of CO_2 emission levels but not in the routing of roads in individual member States. That was a point on which he disagreed with Ripa di Meana. The

Council would also have to have a role in examining and implementing subsidiarity. Sometimes it was the Council that went further than the Commission. For example, the Commission had proposed only certain criteria for the establishment of habitats of special scientific interest. It was the Council that had insisted on strict standards.

In response to a question from the Foreign Secretary, M. Delors said that he had not volunteered the idea that the common format passport might be abandoned. Rather the contrary. He did, however, indicate that he was prepared to apply subsidiarity retrospectively and to try to identify some examples of existing Community legislation which could be suspended or cancelled. He agreed with the Prime Minister that the aim should be to set in train a process which would then be carried forward between Lisbon and Edinburgh with a report back to Edinburgh.

Danish Referendum

The Prime Minister described to M. Delors the Parliamentary difficulties created by the Danish referendum. M. Delors thought that there might be no signal from the Danes of their intentions before December. The Prime Minister said that we needed a signal from the Danes by October. In that respect we needed to help Mr. Schluter find a basis for going back to his own electorate. Subsidiarity was one such area. The preparation of negotiating mandates for enlargement to the EFTA countries would be another. Danish fears that they might find themselves outside a larger Community would have a powerful impact. The Danish Foreign Minister had indicated that the Danes also needed to know that there would be no significant institutional changes in the EC before 1996. Could we say something about that in the Lisbon conclusions? M. Delors said that we should. He favoured a line in the conclusions to say that there would be no examination of institutional change before 1996. The institutional consequences of enlargement in the meantime would be covered under Article 237 of the Treaty of Rome.

Enlargement

M. Delors said that Andriessen had told him that the Community could be ready to start negotiations with Austria, Sweden and Finland on 1 January 1993, i.e. it was possible to have the opinions and to agree a negotiating mandate before Edinburgh. He envisaged negotiations starting with Switzerland shortly thereafter, i.e. once they had had their referendum. He hoped Norway would follow.

The Foreign Secretary said that we would obviously aim to reach agreement on future financing by Edinburgh. But if we found in say, November, that we were blocked on that, we would need to consider whether to maintain the Maastricht conclusions on the link between future financing and enlargement.

M. Delors was rather preoccupied by how to handle the non-EFTAn countries in the European Council conclusions. The Prime Minister handed over a copy of our possible language. M. Delors thought Malta was a particular difficulty. It was hard to find a

good reason why Malta should not join. On the other hand, the suggestion that Malta was making that she would not, for example, need a Commissioner caused serious worries to Luxembourg.

M. Delors said he also favoured a reference in the European Council conclusions to regular political contacts with the V3, e.g. a meeting with the Troika twice a year. He also favoured saying something along similar lines about Romania and Bulgaria.

Rio Conference

M. Delors agreed on the desirability of saying something about the Rio conference in the conclusions, with particular reference to Agenda 21. The Prime Minister referred to our suggested language saying that we would be willing to give greater prominence to Agenda 21 than we had done in our draft.

Yugoslavia

The Prime Minister agreed with M. Delors that we must have a substantive discussion of Yugoslavia at the European Council. M. Delors said that the Community had laid itself open to criticism by appearing to ignore Yugoslavia at Maastricht.

The Mahgreb

M. Delors assured the Prime Minister that there would be no financial commitments in the text that would be proposed at Lisbon on the Mahgreb.

CFSP

The Foreign Secretary described our disagreement with the French on the proposed text on CFSP. What was said at Lisbon must be compatible with what had been agreed at Maastricht. The French phraseology went too far.

Frontiers

The Prime Minister described our policy. We had no problems about freedom of movement to EC citizens. We did, however, have a different system of controls from other EC countries. We wanted the minimum interference for EC nationals but we could not dismantle controls for Third Country nationals. M. Delors asked whether we thought it was possible to work towards agreement in the Twelve on common principles on immigration. He thought if that was not possible, there would be no progress. The Prime Minister said he would welcome such a discussion. He thought the Belgians, Dutch and Germans were open to it. The Prime Minister set out the political sensitivities of Third Country immigration into the UK. M. Delors said he welcomed the tenor of the Home Secretary's discussions with Mr. Bangemann.

VAT

M. Delors said he was puzzled as to why we could not agree to a minimum rate. The Prime Minister described our differences, and the particular sensitivity of excise rates on whisky. It

might be possible to get somewhere if the minimum rate was subject to a non-prejudicial review, and if we could make some progress on excise. M. Delors said that if excise rates on whisky were the obstacle to a settlement, then he thought a solution could be found.

The European Council

M. Delors said that Cavaco Silva aimed to finish the European Council before lunch on Saturday. Come 11 o'clock on Saturday morning Kohl could be relied to start saying "Ich bin hungrich" which was the cue to bring the proceedings to a conclusion.

Conclusion

At the end of the discussion, M. Delors said that he would let us have privately the Commission's draft of conclusions on financial perspectives. He recognised that we needed a good text on subsidiarity and something on GATT in the conclusions. He thought it better to have an informal discussion rather than a formal discussion of GATT if we were to reach an agreement. He recognised that the sites of the institutions was not ready for decision. (This reflected a discussion prior to the dinner when the Prime Minister made it clear that the Belgians, the Dutch and ourselves could not accept what appeared to be on offer. M. Delors said that Cavaco Silva wanted the Environment Agency to go to Seville. This was not sensible. It should go to Copenhagen.) When he saw Cavaco Silva on Thursday evening, he would try to persuade him not to insist on the sites package.

I am copying this letter to the Private Secretaries to members of the Cabinet and to Sonia Phippard (Cabinet Office).

Yours,

(J.S. WALL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

Revised

cc BKUP
4CB

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London SW1A 2AH

23 June 1992

Dear Stephen,

Dinner with Delors, 23 June

The Prime Minister is giving dinner to M. Delors on 23 June. He will be accompanied by David Williamson and Pascal Lamy. The Foreign Secretary and Sir John Kerr will be present. Delors' main objective will be to discuss prospects for the Lisbon European Council and for the UK Presidency. In covering all these points, the Prime Minister may also want to focus on frontier controls (Article 8a) and on subsidiarity.

The Foreign Secretary had a long discussion with Delors over dinner on 14 June. I enclose the full record.

In the light of the Irish referendum, the Prime Minister may want to review progress on the Maastricht Treaty. Latest information from Paris is that the constitutional changes will go through this month, clearing the way for the referendum on ratification (no date set, but probably after the summer). There is general agreement that the Danish problem should not be a centrepiece of discussion at Lisbon, although it is bound to come up. We want to give the Danes the time they need to reflect, leaving them to take the lead in indicating a way through the problem. The Prime Minister may want to encourage Delors to keep his head down on this too.

Delors will want to know our intentions over the Maastricht Bill. The Foreign Secretary has warned Delors that this will not be plain sailing. The Prime Minister might say:

- We remain committed to ratification as soon as possible;

- In the light of the Danish referendum, the climate at Westminster has changed; already over 150 amendments, even before Danish referendum; a really difficult parliamentary battle ahead.

- Timing is therefore tricky: we shall need a "paving" debate first. Action unlikely before the summer.

- Essential therefore that, throughout this sensitive period, Commission avoid provocative action which would fuel Westminster opposition.

We want to ensure good European Council conclusions language at Lisbon on subsidiarity, leading to further decisions at Edinburgh. Delors again spoke positively in public about applying subsidiarity in practice, when he addressed the European Parliament on 10 June (extract from his speech enclosed). When the Foreign Secretary brought subsidiarity up with him on 14 June, Delors' initial reaction was helpful. At lunch during the Conclave on 21 June he sketched his plans, including a requirement for the Commission to produce a justification in terms of subsidiarity for any proposal where there is shared competence. Chancellor Kohl has made a helpful statement on this in the Bundestag last week (extract enclosed). There was broad agreement at the 20 June Conclave on helpful Lisbon conclusions. The Prime Minister might say:

- Welcome Delors' positive lead on subsidiarity; note Kohl's helpful remarks in the Bundestag too, and good Conclave discussion.

- Glad Presidency suggested at Conclave that there should be a text on subsidiarity from the Lisbon European Council; we agree.

- Important to start early action in Community. Lisbon Conclusions should specify that subsidiarity will be applied henceforth to all Community decisions.

- Lisbon should also ask Commission and Council to work up detailed guidelines for endorsement at Edinburgh.

- Important that Community apply principle retrospectively. There must be certain areas of existing acquis where Commission can revise/amend/annul legislation in the name of subsidiarity. Would be very helpful domestically if Delors could produce early example of this. Perhaps in the area of environment?

- Note that Delors believes some enforcement tasks should be devolved to member states, on basis of mutual trust. Fine in principle, but distinction to be drawn between legislation and enforcement.

- On legislation, application of the principle should be clear-cut. Need the right mechanisms in place to sift out unnecessary legislation. On enforcement, must get right balance. While respecting subsidiarity must avoid distorting the level playing field - for which the Commission's special position as guardian of the Treaty is important.

- Visible evidence that subsidiarity is working will be important element for our Maastricht legislation debate. So will it be for Denmark.

On Frontier Controls, the Foreign Secretary impressed on Delors again last week the extreme political sensitivity of the Article 8a qustion in the UK. Delors did not comment in detail, but said much depended on how we handled EC citizens from 1993. Mr Clarke has also been in touch with Bangemann, and is now considering what arrangements might be made to lighten the checks on EC travellers, while maintaining our systematic controls. The Prime Minister might say that:

- There is no change in the UK position on 8a; it is an overriding political imperative to maintain essential frontier controls.

- Removing these would force us to fall back on internal police controls. This would have a dire effect on Community relations in the UK after a decade of progress.

- We stand ready to defend our position before the Court; but legal action is in no-one's interest; a major row on this would have far-reaching consequences - starting with the Maastricht Bill.

- We will cooperate with the Commission and partners to strengthen the external fence (e.g. sign External Frontiers Convention); and ease internal frontier controls as far as operationally possible.

On Future Financing, the Foreign Secretary had a reasonable discussion on 14 June with Delors who seemed ready to help over the timing of the Commission report on the UK abatement, which will now issue in July. Delors presented some outline proposals for Lisbon conclusions to the Conclave. These helpfully - and realistically - avoided mention of figures, but still went too far on certain areas, including cohesion. (They were nonetheless strongly

attacked by the Southerners.) Our main objective is to persuade Delors that even these conclusions would be over-ambitious. The Prime Minister may also wish to press Delors on the need for a neutral, not prescriptive, report on the abatement.

The Prime Minister may therefore wish to say:

- Good discussions on future financing in ECOFIN and the FAC, and at the Conclave. Greater realism now setting in. Paricularly welcome Delors' confirmation at the Conclave that:

  - the proposed increase in the guideline has been formally withdrawn;
  - there is no immediate need to increase the Own Resources Ceiling;
  - Structural Fund spending in the present Member States cannot continue forever.

- But have to say that we see no need for <u>any</u> increase in the own resources ceiling, even after 1994. With the effects of economic growth and the existing headroom under the ceiling (5.6 becu in 1993), the current ceiling could permit extra spending of some 13-14 becu in real terms by 1997 - implying a growth rate of at least 3 1/2% in real terms. And cannot ignore impact of <u>enlargement</u> - EFTAn accessions will release substantial resources (perhaps a further 3 becu a year) within the unchanged GNP-related ceiling.

- Agree that we need to make progress on this dossier. But clear from Conclave that there can be no agreement on figures at Lisbon. Should therefore limit ourselves to broad "orientations" to guide the next Presidency, perhaps recording progress made so far, reaffirming commitments made at Maastricht and calling for work to be intensified, building on considerable achievement of Portuguese Presidency. To attempt to do more will simply lead to division, at a time when the Community needs to present a united front to the world.

- Grateful for your understanding over timing of abatement report. Election pledge to preserve abatement intact. Hope your report will be limited to neutral and factual analysis. Proposals for adverse change will only cause damaging row. Bad signal in context of Maastricht legislation. And no case for reducing it anyway, since UK budgetary position unchanged.

We are now aiming to postpone the vote on Working Time at the 24 June Social Affairs Council. If Delors showed understanding of the UK position that would help Mrs Shephard during the Council itself. Before the April Social Affairs Council, he instructed Mme.Papandreou to lie low.

The Prime Minister may wish to say:

- With the political climate in UK changed by the Danish referendum, the read-across from a row on Working Time to the Maastricht debate is unavoidable.

- We have always had great difficulties with the Working Time Directive. UK has never had legislation in this field. The potential costs for employers are enormous. Mrs Shephard has worked hard with partners to get text acceptable to all. But clear that this is not yet available.

- Further postponement of the vote is now essential.

It seems likely that the Presidency will press for discussion at Lisbon of a package of decisions about siting of the Institutions.

The Prime Minister may wish to say:

- Approach this subject with serious reservations. Highly complex. Arouses strong feelings among member states. Not clear that Presidency have been able to do sufficient preparatory work. Fear that any sites discussion at Lisbon will be a muddle.

- Agree that member states' failure to grip this subject has brought discredit on the Community. But a maximalist package seems very unlikely to succeed now. Would prefer to avoid an outcome that would show Community in bad light at a sensitive time for us all.

- Most UK could accept is a very limited package. For some time, UK has wanted decisions on three agreed Community institutions - Environment Agency (EA), Trade Marks Office (CTMO) and Training Foundation. Only the failure to decide on their site has prevented these three beginning their work.

- Believe it is high time to sort out the dispute over the European Parliament site. Have heard suggestions that France, Belgium and Luxembourg may have settled on a deal. Unsure of its contents. We could agree to the suggestions of 12 plenaries a year in Strasbourg and other meetings in Brussels.

- Strongly believe that any sites package at Lisbon should not go beyond this.

- Above all, cannot accept a decision on EMI/ECB site now.

- First, we are under no pressure to decide now. We have at least until the end of the year to decide. A number of candidates are coming forward. Need to hear all the arguments, including those for City of London campaign which HMG fully supports.

- Uncertainly over future of Maastricht Treaty has greatly complicated ratification. Any decision on EMI/ECB now would be seen as anticipating ratification and would make ratification more difficult this year in the UK and elsewhere in the Community.

- Other proposed Community institutions are not ready for a decision on their site now. Proposals for the establishment of, e.g., the Plant Breeders Rights Office or the Medicines Evaluation Agency are at an early stage of consideration. Too soon to consider their sites.

- Have made these points to Cavaco. Not certain whether he will reconsider. If you agree, hope you will urge Cavaco to reconsider.

- UK Presidency would be ready to tackle sites. With proper preparation and with Maastricht uncertainty, we hope, behind us, should be able to make more progress at Edinburgh.

The Commission report on enlargement may emerge on 24 June. Andriessen has argued for a pause and further substantive institutional change (i.e. beyond Maastricht) before any enlargement, though his line at the Conclave was more helpful. Delors has told the Foreign Secretary that he supports early EFTA enlargement without substantive institutional change. He appears to have persuaded other Commissioners that this helpful line should be taken at Lisbon. The Prime Minister might say:

- Our views very close: early negotiations with EFTANs; strengthen existing relationship with Turkey, Cyprus and Malta; build on Association Agreements to prepare East Europeans for eventual membership.

- Schluter has told me that preparing for EFTAn accession could help bring Danes back into fold. Right to avoid suggestions of major institutional change before enlargement. That would exacerbate situation in Denmark. Also need to avoid conclusion that negotiation cannot start until Maastricht ratification complete. Can imagine circumstances in which start to - say - Sweden negotiations could be just the final spur the Danes need.

- Need clear Lisbon conclusions calling for rapid preparations for EFTA accession negotiations and rejecting idea that their admission requires major institutional change or advancing 1996 IGC.

On EC/Former Soviet Union, we have repeatedly pushed the Commission to come forward with negotiating mandates for enhanced Trade and Cooperation Agreements with Russia, Ukraine, Belarus and Kazakhstan. These were originally promised for May, but have still not appeared. It is therefore unlikely that they will be approved by the Council before the 5 October FAC, making signature during our Presidency improbable. Delors visited Moscow on 29-30 May to discuss Russian demands, and knows of our concerns.

Further food shortages in the FSU cannot be ruled out this winter, and medical/agricultural supplies are still desperately needed. The possiblity of a new grant to Russia to provide medical supplies has been suggested by the Commission. We should resist this firmly. The solution is early disbursement of Russia's share of the 1.25 becu loan, agreed at UK initiative last November but held up by Russian refusal to accept a legally binding guarantee. The Conclave agreed that this should be unblocked urgently. It could be used for medicines. The Prime Minister might say:

- Helpful if you could table mandates soon for enhanced Trade and Cooperation Agreements with Russia, Ukraine, Belarus and Kazakhstan. Can we expect these in time to permit signature this year?

- Urgent need for early disbursement of the 1.25 becu loan agreed last November. This should meet likely Russian food/medical requirements this winter.

I understand DTI are briefing separately on GATT. Steve Turner (Department of Employment) has also written with briefing on the Working Time Directive after the OPD discussion on 22 June.

I am sending a copy of this letter to David Hadley (Cabinet Office) and to Sir J Kerr (UKRep Brussels).

(C N R Prentice)
Private Secretary

J S Wall Esq CMG LVO
10 Downing Street

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PART ONE OF TWO

FROM PRIVATE SECRETARY
SECRETARY OF STATE'S DINNER WITH DELORS, BRUSSELS, 14 JUNE: FULL RECORD

1. THE SECRETARY OF STATE AND DELORS HAD DINNER AT SIR J KERR'S HOUSE IN BRUSSELS ON 14 JUNE. THIS TELEGRAM EXPANDS ON THE SUMMARY ACCOUNT OF THE TWO HOUR MAIN DISCUSSION IN LUXEMBOURG TELNO 101. LORS WAS ACCOMPANIED BY LAMY AND WILLIAMSON. SIR J KERR AND MICHAEL JAY WERE ALSO PRESENT. TOPICS COVERED WERE:

- GATT
- CONSEQUENCES OF DANISH REFERENDUM
- ENLARGEMENT
- SUBSIDIARITY
- UK REBATE
- FRONTIERS/ARTICLE 8(A)
- WORKING TIME DIRECTIVE
- EXTERNAL FRONTIERS CONVENTION/GIBRALTAR
- VAT MINIMUM RATES
- FUTURE FINANCING
- SITES OF INSTITUTIONS

GATT
2. THE SECRETARY OF STATE RAISED THIS BEFORE DINNER, EMPHASISING THE BENEFIT TO THE PRESIDENCY AND PARTICULARLY TO THE COMMISSION OF REGISTERING A BREAKTHROUGH BEFORE LISBON: THIS WOULD BE THE SINGLE MOST TELLING WAY FOR THE COMMISSION TO RESPOND TO RECENT CRITICISM OF ITS ROLE. DELORS SAID HE HAD DISCUSSED GATT WITH PRESIDENT BUSH IN RIO WITH DISAPPOINTING RESULTS: BUSH HAD SAID THAT THERE WAS NO FURTHER FLEXIBILITY IN THE US POSITION. DELORS THOUGHT IT A GREAT MISTAKE THAT THE US WAS NOT PREPARED TO PROPOSE A FINAL PACKAGE OF

CONCESSIONS LINKED TO EC MOVEMENT ON A 24% LIMIT ON EXPORT VOLUMES - THIS WAS NOT JUST A COMMISSION VIEW BUT THAT OF THE CANADIANS, BRAZILIANS AND OTHERS. THE SECRETARY OF STATE DESCRIBED SECRETARY BAKER'S DISAPPOINTMENT ON 13 JUNE THAT IT HAD NOT BEEN POSSIBLE FOR HIM TO CONTINUE THE NEGOTIATIONS IN BRUSSELS DURING HIS VISIT TO EUROPE, BECAUSE THE COMMISSION HAD NOT BEEN READY. WE HAD HAD OTHER INFORMATION, FROM CARLA HILLS AND OTHERS - NOT JUST BAKER, THAT THERE REMAINED SOME FLEXIBILITY IN THE US POSITION. WE WERE CONVINCED, AS THE PRIME MINISTER'S MESSAGE HAD MADE CLEAR, THAT WE WERE CLOSE TO THE BASIS OF A DEAL WHICH COULD BE A MAJOR SUCCESS FOR THE COMMISSION AND THE PRESIDENCY. BUT DELORS HIMSELF HAD TO TAKE THIS IN HAND AND NOT LEAVE IT TO OTHERS. (THE SECRETARY OF STATE INTENDS TO UNDERLINE THIS POINT AGAIN IN THE MARGINS OF THE FAC ON 15 JUNE.)

3. DELORS REPEATED THAT HE HAD MADE TWO PROPOSALS ON THE WAY FORWARD, BUT PRESIDENT BUSH HAD BEEN UNABLE TO TAKE THE STRATEGIC DECISION TO STRIKE A DEAL. THE US WERE STILL FUSSING OVER THE DEFINITION OF THE BLUE BOX, THE PEACE CLAUSE AND THE COMMUNITY'S PROPOSED GLOBAL APPROACH ON EXTERNAL SUPPORTS. PRESIDENT BUSH WAS FURTHER BACK NOW THAN HE HAD BEEN TWO MONTHS AGO. THE SECRETARY OF STATE SAID WE HOPED DETAILED POSITIONS WHICH WERE NEARLY AGREED WOULD NOT BE RE-OPENED, WHEN THE GREAT PRIZE OF AN OVERALL AGREEMENT WAS SO CLOSE. KERR SAID THAT THE COMMUNITY SHOULD AIM FOR A MODIFIED APPROACH ON BOXES WHICH ACCEPTED THAT NOT ALL CAP COMPENSATION WOULD GO IN THE BLUE BOX.

CONSEQUENCES OF DANISH REFERENDUM

4. OVER DINNER, THE SECRETARY OF STATE ASKED HOW DELORS SAW THE FRENCH REFERENDUM. IT WAS INCREASINGLY CLEAR TO US THAT THIS WOULD BE A TURNING POINT IN THE RATIFICATION DEBATE ACROSS EUROPE, LEADING EITHER TO RENEWED MOMENTUM OR A BAD SETBACK. DELORS SAID HE PERSONALLY REGRETTED PRESIDENT MITTERRAND'S DECISION TO CALL A REFERENDUM. THIS WAS AN ISSUE FOR PARLIAMENT AND NOT ONE ON WHICH TO CONSULT THE WHOLE ELECTORATE. OPPOSITION IN FRANCE TO THE MAASTRICHT TREATY WAS VARIED AND CONTRADICTORY, BUT A FULL EFFORT WOULD BE NEEDED TO EXPLAIN AND JUSTIFY THE TREATY TO THE FRENCH PEOPLE IN SIMPLE TERMS. THE SECRETARY OF STATE SUGGESTED THAT THERE WAS A RISK THAT THE SECOND REFERENDUM ON CONSTITUTIONAL AMENDMENT WOULD BE TURNED INTO A PLEBISCITE ON THE GOVERNMENT'S POPULARITY. LAMY SAID THAT EITHER OF THE REFERENDUMS COULD BE DIFFICULT, PARTICULARLY IF THEY WERE HELD LATER IN THE AUTUMN AND THEREFORE CLOSER TO THE 1993 LEGISLATIVE ELECTIONS. THE SECRETARY

OF STATE SAID THAT CHIRAC HAD BEEN ENIGMATIC IN PARIS ABOUT HIS LINE ON THE REFERENDUM, BUT WAS WIDELY EXPECTED EVENTUALLY TO JUMP IN FAVOUR. LAMY RECALLED MITTERRAND'S ABSTENTION ON THE REFERENDUM CALLED BY POMPIDOU ON UK ACCESSION, USING THE EXCUSE THAT POMPIDOU HAD MADE IT A TEST OF HIS OWN POSITION. CHIRAC COULD WELL FOLLOW THIS EXAMPLE AND ABSTAIN, IF MITTERRAND GAVE HIM AN OPENING.

5. THE SECRETARY OF STATE SAID THAT THE UK RATIFICATION PROCESS WAS NOW BLOCKED FOR TWO REASONS. FIRST, THE LABOUR POSITION HAD SHIFTED FROM ABSENTION TO OPPOSITION. SECOND, THE NUMBER OF CONSERVATIVE REBELS HAD INCREASED - MANY WHO HAD BEEN PERSUADED TO VOTE IN FAVOUR OF THE PRINCIPLE OF THE MAASTRICHT AGREEMENT WERE NOT NOW PREPARED TO SUPPORT THE COMMITTEE STAGE. THE GOVERNMENT WOULD THEREFORE HAVE NO MAJORITY IF IT PROCEEDED NOW AND WOULD NEED TO WAIT FOR THE IRISH AND FRENCH REFERENDA AND FOR SOME MOVEMENT BY THE DANES (EXACTLY WHAT WAS UNCERTAIN) BEFORE THEY COULD MOVE THE BILL FORWARD. MEANWHILE, OBVIOUSLY, THE GOVERNMENT WOULD NOT WITHDRAW THE LEGISLATION AND THE PRIME MINISTER WOULD CONTINUE TO SUPPORT THE MAASTRICHT AGREEMENT AS GOOD FOR BRITAIN AND FOR EUROPE.

6. THERE WAS A STRONG NEED, THEREFORE, TO IMPROVE THE GROUND FOR MOVING TO THE COMMITTEE STAGE. THE AIM NOW MUST BE TO REMOBILISE A MAJORITY IN FAVOUR OF MAASTRICHT RATIFICATION. THIS WOULD BE HELPED, IF THERE WERE CLEAR PROGRESS ON SUBSIDIARITY AND ENLARGEMENT. SIGNIFICANT MOVEMENT IN THESE AREAS WOULD MAKE A DIFFERENCE WITH THE DANES AS WELL AS IN THE UK.

7. DELORS AGREED THAT IT WAS MOST IMPORTANT THAT THE EUROPEAN CITIZEN GOT A GOOD IMPRESSION OF THE COMMUNITY FROM THE NEXT EUROPEAN COUNCIL. LISBON HAD TO BE MANAGED TO PRODUCE CALM DISCUSSION AND CLEAR, DETERMINED CONCLUSIONS. DELORS WAS CONVINCED THAT THE DANES COULD BE BROUGHT TO SAY YES IN A SECOND REFERENDUM IF OTHER MEMBER STATES SUCCESSFULLY RATIFIED THE MAASTRICHT AGREEMENT. THE FIRST TRICK WOULD BE TO HANDLE LISBON SUCCESSFULLY. IT WAS NOT POSSIBLE TO HAVE AN EMPTY DISCUSSION, BUT IT WAS ESSENTIAL TO AVOID ACRIMONY.

8. DELORS ADDED THAT HE HAD PICKED UP (FROM HIS STUDY OF THE BRITISH PRESS - HE READ THE DAILIES NOT THE SUNDAYS) THAT KINNOCK WAS A CANDIDATE FOR THE PRESIDENCY OF THE INTERNATIONAL SOCIALISTS. DELORS HAD TRIED TO SOW THE THOUGHT THAT A LABOUR NO TO MAASTRICHT WOULD HARM KINNOCK'S PROSPECTS. BUT HE WAS HANDICAPPED BECAUSE HE COULD NOT OFFER ANY GUARANTEE OF THE PRESIDENCY, IF LABOUR AVOIDED

A NO. THE SECRETARY OF STATE SAID THAT KINNOCK WAS, OF COURSE, NO LONGER MASTER IN HIS OWN HOUSE: THE MAASTRICHT ISSUE WAS NOW EMBROILED IN THE LABOUR LEADERSHIP CONTEST. KERR SAID THAT THE LINE NOW EMERGING FROM LABOUR WAS AGAIN DESIGNED TO CONCEAL THEIR DIVISIONS - GOOD PARTY TACTICS, BUT DANGEROUS.

ENLARGEMENT

9. DELORS SAID THAT A GOOD APPROACH WAS NOW EASILY IDENTIFIABLE, BASED ON EARLY NEGOTIATIONS WITH THE EFTANS AND A GOOD PERSPECTIVE FOR THE SMALL STATES AND EAST EUROPEANS (WHO WOULD ALSO HAVE AN ENHANCED POLITICAL DIALOGUE). BUT, IF SPAIN AND OTHERS PRESSED THE LINKAGE WITH CONCRETE RESULTS ON FUTURE FINANCING, THE LISBON DISCUSSION COULD BE DIFFICULT. DELORS HIMSELF HAD SUGGESTED TO THE EUROPEAN PARLIAMENT THAT LISBON MIGHT ONLY PRODUCE SOME FIRST ORIENTATIONS ON FUTURE FINANCING. BUT CAVACO SILVA REMAINED MORE AMBITIOUS - AND NOT JUST ON THE DELORS II PACKAGE: HE ALSO WANTED PROGRESS ON OTHER POLITICAL ISSUES E.G. EC/MAGHREB.

10. THE SECRETARY OF STATE DOUBTED THAT CAVACO SILVA WOULD FIND SUFFICIENT SUPPORT FOR GOING FAR AT LISBON ON DELORS II. BUT IT WAS CLEAR THAT THE UK WOULD NEED TO MAKE A CONSIDERABLE EFFORT ON THIS DOSSIER. DELORS RECALLED THAT IT HAD BEEN A MISTAKE AT THE 1986 COPENHAGEN SUMMIT TO PUSH PREMATURELY FOR A COMPREHENSIVE AGREEMENT: BETTER TO WAIT FOR THE MOMENT OF RIPENESS. THE SECRETARY OF STATE AGREED THAT THE LISBON DISCUSSION SHOULD BE GOOD TEMPERED WITH POSITIVE ELEMENTS ON ENLARGEMENT (AND OTHER ISSUES), AND SOME PERSPECTIVE ON FUTURE FINANCING. HE ASKED SPECIFICALLY WHAT SHAPE THE COMMISSION PAPER ON ENLARGEMENT WOULD TAKE.

11. DELORS SAID THAT HIS VIEW HAD CHANGED. SIX MONTHS BEFORE HE HAD THOUGHT IT WOULD BE NECESSARY TO PRODUCE A COMPREHENSIVE ANALYSIS OF THE INSTITUTIONAL CONSEQUENCES OF ENLARGEMENT. BUT WITH THE EVOLUTION OF DANISH OPINION HE WAS NOW CONVINCED THAT THE BROADER INSTITUTIONAL QUESTIONS SHOULD BE HANDLED AT THE 1996 IGC WITH EFTAN ACCESSION POSSIBLE MEANWHILE. HE WAS TRYING TO PERSUADE HIS COMMISSION COLLEAGUES OF THIS. LAMY SAID THAT IT WOULD BE DIFFICULT TO CONVINCE SOME OF THE COMMISSIONERS THAT THERE WAS NO NEED TO SET OUT A TOUGH LINE ON INSTITUTIONS. KERR SAID THAT THAT WOULD HAVE A DISASTROUS EFFECT ON THE DANES. JAY ADDED THAT THERE WAS NO NEED FOR SEPARATE DISCUSSION OF THE INSTITUTIONAL ISSUES: THE NECESSARY INSTITUTIONAL CONSEQUENCES OF EFTAN ACCESSION COULD EASILY BE HANDLED WITHIN THE EFTAN NEGOTIATIONS. DELORS SAID IT WAS A LESSON OF THE COMMUNITY'S DEVELOPMENT TO DATE THAT WE SHOULD FIRST LEARN TO APPLY THE AGREEMENT IN HAND (IE MAASTRICHT)

BEFORE MOVING TO FURTHER INSTITUTIONAL REFORM.

12. THE SECRETARY OF STATE SAID THAT, ALTHOUGH HE WOULD NOT SAY IT IN PUBLIC, IT WAS A DRAWBACK THAT THE SWISS HAD ALSO APPLIED. THE SWISS POSED PARTICULAR DIFFICULTIES AND, EVEN THOUGH THEY MIGHT NOT THEMSELVES BE READY TO MOVE FORWARD ON THEIR APPLICATION, IT ADDED TO THE BURDEN OF PRESENTING THE CASE FOR EARLY EFTAN ENLARGEMENT. IT WAS UNCLEAR WHETHER NORWAY WOULD STICK TO THEIR TIMETABLE (STOLTENBERG HAD TOLD HIM IN OSLO THAT THEY WOULD). BUT THE REALISATION IN DENMARK THAT NORDIC MEMBERSHIP APPLICATIONS WERE ON THE MOVE WOULD, IN HIS VIEW, HAVE AN IMPORTANT INFLUENCE ON DANISH OPINION. THE MORE IMPETUS, THEREFORE, THAT WE COULD GIVE TO ENLARGEMENT ON THE LINES THAT DELORS HAD DESCRIBED, THE BETTER.

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FINAL PART OF TWO

FROM PRIVATE SECRETARY
SECRETARY OF STATE'S DINNER WITH DELORS, BRUSSELS, 14 JUNE: FULL RECORD

13. DELORS SAID THAT THE COMMISSION HAD TO BALANCE THEIR RESPONSIBILITY TO EXPLAIN THE FULL CONSEQUENCES OF ENLARGEMENT/ WITH THE NEED FOR CAUTION OVER THE REACTION TO THIS IN DENMARK AND ELSEWHERE. INSTITUTIONAL DISCUSSION HAD TO TAKE ACCOUNT OF DEVELOPMENTS BETWEEN NOW AND 1996 E.G. IN STAGE II OF EMU. THIS SUPPORTED THE 1996 TIMING.

14. THE SECRETARY OF STATE SAID THAT HE WAS NOT IN FAVOUR OF ANY LENIENCY TOWARDS THE EFTANS OVER NEUTRALITY. DELORS SAID THAT THE COMMISSION WERE READY TO PRODUCE THEIR AVIS ON SWEDEN IN JULY WHICH WOULD COVER THIS (LAMY DOUBTED THE JULY TIMING). THE AUSTRIAN AVIS WAS ALREADY OUT. THE AVIS ON FINLAND COULD FOLLOW IN THE AUTUMN. THIS WOULD ALLOW EDINBURGH TO DECIDE IN PRINCIPLE ON THE OPENING OF NEGOTIATIONS. MRS BRUNDTLAND HAD BEEN LESS OPTIMISTIC WHEN DELORS HAD LAST SPOKEN TO HER ABOUT THE NORWEGIAN TIMETABLE. (THERE WERE CALLS NOW IN NORWAY FOR A PRIOR REFERENDUM ON THEIR APPLICATION.) IT SHOULD BE CLEAR THAT THE NEGOTIATIONS WITH THE EFTANS WERE NOT A PACKAGE BUT SEPARATE NEGOTIATIONS WITH EACH COUNTRY. THE COMMISSION AVIS ON NORWAY AND SWITZERLAND WOULD PROBABLY NOT BE AVAILABLE BEFORE EDINBURGH.

15. REVERTING TO THE COMMISSION ENLARGEMENT PAPER, DELORS SAID THAT HE HAD SET ASIDE TWO HOURS ON 15 JUNE TO CONVINCE ANDRIESSEN OF THE RIGHT WAY FORWARD. IF HIS COLLEAGUES WERE UNABLE TO AGREE HIS APPROACH HE WOULD PREFER TO BRIEF THE SUMMIT ORALLY. IT WAS ALREADY DECIDED THAT THE COMMISSION PAPER WOULD NOT APPEAR BEFORE THE FOREIGN MINISTERS' CONCLAVE ON 20 JUNE. THE SECRETARY OF STATE CONCLUDED THAT IT WOULD BE REASONABLE FOR THE COMMISSION TO SKETCH

OUT THE CONSEQUENCES OF ENLARGEMENT, PROVIDED IT WAS CLEAR THAT THESE NEEDED TO BE ANALYSED IN 1996, NOT BEFORE, AGAINST EXPERIENCE MEANWHILE.

SUBSIDIARITY

16. THE SECRETARY OF STATE SAID THAT, IF IT WERE POSSIBLE TO MAKE CLEAR AT LISBON THAT THE COUNCIL, THE COMMISSION AND, EVEN, THE EUROPEAN PARLIAMENT, WERE DETERMINED TO APPLY SUBSIDIARITY IN PRACTICE, THIS WOULD RESPOND TO THE MOST NEURALGIC PROBLEM WHICH MOST MEMBER STATES FACED. DELORS SAID THAT THE DIFFICULTY LAY IN FINDING THE RIGHT GENERAL WORDING FOR LISBON. HE THOUGHT IT IMPORTANT TO DISTINGUISH BETWEEN THE NEED FOR BROAD PRINCIPLES TO BE REGULATED AT EUROPEAN LEVEL AND THE ESSENTIAL FLEXIBILITY WHICH SHOULD BE BUILT INTO DETAILED IMPLEMENTATION BY MEMBER STATES. WITH MUTUAL CONFIDENCE THESE TWO COULD BE COMBINED HAPPILY (HE HAD IN MIND HIS DIFFICULTY WITH MR HOWARD'S PROPOSAL FOR COMMUNITY INSPECTORS OF MEMBER STATES INSPECTORS).

17. KERR PICKED UP DELORS' RECENT PUBLIC REFERENCES TO DEVELOPING GROUND RULES FOR THE OPERATION OF SUBSIDIARITY. COULD DELORS NOT PUT FORWARD THESE IDEAS FORMALLY AT LISBON? LAMY POINTED OUT THE DIFFICULTY OF APPLYING SUBSIDIARITY IN DETAIL: IN THE SINGLE MARKET FOR INSTANCE THERE WAS PRESSURE FOR DETAILED REGULATION TO ENSURE A LEVEL PLAYING FIELD ACROSS THE COMMUNITY. DELORS SAID THAT HE HAD ALREADY SOON AFTER THE MAASTRICHT COUNCIL PUT WORK IN HAND ON DEVELOPING THE BARE CONCEPT OF SUBSIDIARITY. THE SECRETARY OF STATE SAID THAT THIS NOW ONLY NEEDED TO BE ACCELERATED. KERR SUGGESTED THAT THE PACKAGE INCLUDE AN EXAMINATION OF AREAS WHICH MIGHT BE RETURNED TO MEMBER STATE COMPETENCE. IN THIS WHOLE AREA, IT WAS MUCH MORE EFFECTIVE IF THE COMMISSION TOOK THE LEAD. THEY WOULD HAVE CHANCELLOR KOHL'S SUPPORT. DELORS SAID THAT HE HAD ALREADY COMMISSIONED A SHORT PAPER ON HOW TO PROTECT AGAINST TOO MUCH CENTRALISATION. IF THIS TURNED OUT WELL, HE WOULD USE IT AS THE BASIS FOR A PROPOSAL AT LISBON.

18. IN A LATER DISCUSSION OF INFRACTION PROCEDINGS, DELORS IDENTIFIED THE ENVIRONMENT, COMPETITION POLICY AND AND (SELECTIVELY) TEH INTERNAL MARKET AS AREAS IN WHICH SUBSIDIARITY COULD USEFULLY BE APPLIED.

UK REBATE

19. THE SECRETARY OF STATE SAID THAT, IN ADDITION TO THOSE COMMUNITY ISSUES, HE WISHED TO RAISE THREE ISSUES OF PARTICULAR

SENSITIVITY FOR THE UK. FIRST, THE COMMISSION PAPER ON THE UK REBATE. THE COMMISSION HAD AN OBLIGATION TO PRODUCE THIS, BUT THE PAPER SHOULD BE ANALYTICAL ONLY, AND NEUTRAL IN TONE: AND, ON TIMING, IT WAS IMPORTANT THAT THE PAPER NOT BE PRODUCED BEFORE LISBON. HOWEVER NEUTRALLY IT WAS CAST, A PAPER BEFORE LISBON WOULD BE SEEN AS A DELORS ATTACK ON THE THATCHER SETTLEMENT. DELORS SAID THAT AT ECOFIN HE HAD HIMSELF PROPOSED POSTPONEMENT OF THE PAPER UNTIL AFTER UK RATIFICATION. MR LAMONT HAD NOT COMMENTED, BUT KOEHLER (FRG) HAD ATTACKED DELORS. DELORS THOUGHT IT POSSIBLE AT LISBON TO ADOPT 3-4 ORIENTATIONS ON FUTURE FINANCING WITHOUT TOUCHING ON THE UK REBATE. BUT HE WOULD NEED TO TALK TO CHANCELLOR KOHL ABOUT THIS.

20. THE SECRETARY OF STATE SAID THAT SOME TIMINGS MIGHT BE LESS BAD FOR US. HE WOULD LIKE TO GET BACK TO DELORS ON THIS POINT, AFTER TALKING FURTHER TO THE CHANCELLOR. HE REPEATED THAT IT WAS IMPORTANT TO AVOID A PAPER BEFORE LISBON. DELORS RAISED THE POSSIBILITY OF SPLITTING THE DOCUMENT INTO TWO, AN ANALYSIS OF THE HISTORY OF THE REBATE (WHICH HE IMPLIED MIGHT BE PRODUCED FOR LISBON) AND A PROPOSAL ON THE WAY FORWARD (WHICH WOULD COME LATER). KERR SAID THAT IT WAS IMPORTANT THAT ANY FIRST DOCUMENT SHOULD NOT CONTAIN ANY PROPOSAL: THE COMMISSION MIGHT LATER BE OBLIGED TO PRODUCE A RECOMMENDATION IN RESPONSE TO A REQUEST E.G. FROM GERMANY, BUT THAT WOULD BE SEEN DIFFERENTLY.

21. ON TIMING, WILLIAMSON CONCLUDED, HALF JOKINGLY, THAT AFTER LISTENING TO THE DISCUSSION HE HAD PENCILLED 31 JULY FIRMLY IN HIS DIARY.

FRONTIERS

22. SECOND, THE SECRETARY OF STATE SAID THAT HE WANTED AGAIN TO RECALL THE EXTREME SENSITIVITY OF FRONTIERS/ARTICLE 8A FOR THE UK. THE HOME SECRETARY HAD HAD A PRODUCTIVE DISCUSSION WITH BANGEMANN ON 11 JUNE. THE NEED REMAINED FOR A POLITICAL, NOT LEGAL, APPROACH. DELORS SAID THAT IT ALL DEPENDED ON UK INTENTIONS FOR HANDLING MOVEMENT OF PERSONS FROM 1993. THE SECRETARY OF STATE UNDERLINED AGAIN THE IMPORTANCE OF AVOIDING A LEGAL CLASH.

WORKING TIME DIRECTIVE

23. THE SECRETARY OF STATE NOTED DELORS' FAMILY CONNECTION (THE FRENCH SOCIAL AFFAIRS MINISTER, MME AUBRY, IS DELORS' DAUGHTER), AND UNDERLINED THE INTENSIVE EFFORTS WHICH MRS SHEPHERD WAS MAKING TO TRY TO REACH A SETTLEMENT WHICH ALL COULD ACCEPT.

EVEN MME PAPANDREOU WOULD ACKNOWLEDGE THIS. DELORS MADE NO COMMENT (IN PART BECAUSE HE WAS DIVERTED ONTO ANOTHER ISSUE, BUT HE MAY ALSO HAVE CONSIDERED THAT THE DOSSIER WAS ON THE WAY TO RESOLUTION).

EXTERNAL FRONTIERS CONVENTION

24. THE SECRETARY OF STATE EXPLAINED THAT GONZALES APPEARED TO BE BLOCKING THE PRESIDENCY COMPROMISE SOLUTION, WHICH THE UK HAD ACCEPTED, AND ASKED FOR DELORS' HELP WITH GONZALES. DELORS EXPRESSED SURPRISE THAT IT WAS GONZALES OF ALL THE SPANISH PRINCIPALS WHO WAS DIGGING IN HIS HEELS. PERHAPS IT WAS NOT A FINAL POSITION. HE IMPLIED THAT HE WOULD WEIGH IN TO TRY AND SHIFT THE SPANISH POSITION.

VAT MINIMUM RATES

25. DELORS RAISED THIS, ASKING WHY THE UK WERE OPPOSED. KERR SAID THAT THERE WERE THREE MAIN OBJECTIONS. FIRST, THE ARGUMENT FROM PRINCIPLE (A MINORITY VIEW, BUT STRONGLY HELD) THAT ANY LEGALLY BINDING INSTRUMENT IN THIS AREA WAS AN INFRINGEMENT OF FISCAL SOVEREIGNTY AND THEREFORE TO BE RESISTED. SECOND, THERE WAS A PRACTICAL ARGUMENT THAT WE NEEDED TO RETAIN THE ABILITY TO REDUCE VAT, E.G. TO PRESERVE FISCAL NEUTRALITY IF OTHER TAXATION HAD TO BE INCREASED. THIRD, VAT MINIMUM RATES WERE INCLUDED IN A PACKAGE WHICH INCLUDED FIVE OTHER ELEMENTS WHICH WOULD DAMAGE IMPORTANT UK SECTORAL INTERESTS, NOTABLY THE PROPOSED EXCISE DUTIES ON WHISKY, AND THE REGULATION ON WORKS OF ART. DELORS WONDERED WHY OTHER COUNTRIES WERE WILLING TO ACCEPT THE PROPOSALS AND DID NOT SHARE THESE OBJECTIONS OF PRINCIPLE. LAMY POINTED OUT THAT FOR SOME OTHER MEMBER STATES IT WAS ESSENTIAL TO HAVE A LEGALLY BINDING COMMUNITY INSTRUMENT SO THAT THEY COULD JUSTIFY TO DOMESTIC OPINION THE NEED TO INCREASE THEIR VAT RATES.

FUTURE FINANCING

26. AT THE END OF DINNER, DELORS RETURNED TO DELORS II, REPEATING SOME POINTS MADE EARLIER. HE NOTED THAT THERE HAD BEEN CONSIDERABLE INTEREST AT ECOFIN IN THE IDEA OF EXTENDING THE PERIOD OF THE PACKAGE SO THAT IT RAN TO 1999. ON THE OWN RESOURCES CEILING, HE SAID FIRMLY THAT THE UK POSITION WAS NOT REALISTIC: IT WAS NOT POSSIBLE TO FULFIL THE MAASTRICHT COMMITMENTS UNDER A 1.2% CEILING. AS FOR LISBON, IT WOULD BE IMPORTANT TO AGREE 2-3 CONCRETE ORIENTATIONS ON FINANCING. THESE MIGHT INCLUDE A REQUEST TO THE COMMISSION TO STUDY THE CONSEQUENCES OF EXTENDING THE PACKAGE TO SEVEN YEARS. WITHOUT SUCH AGREED ORIENTATIONS, HE FEARED A CONFRONTATION AT LISBON OVER ENLARGEMENT.

27. THE SECRETARY OF STATE SAID THAT TIMING MIGHT BE ONE IMPORTANT ASPECT TO CONSIDER AT LISBON. DELORS SAID HE INTENDED TO RAISE THE ENLARGEMENT/FINANCING CONNECTION WITH THE PRIME MINISTER AT THEIR DINNER ON 23 JUNE. KERR SAID THAT IT WAS ALSO NECESSARY TO REDUCE SPANISH EXPECTATIONS FROM LISBON ON COHESION. DELORS AGREED: THE SPANISH HAD TO REALISE THAT COHESION WAS ONLY ONE PART OF A LARGER NEGOTIATION, WHICH COULD NOT BE SETTLED IN ADVANCE. IT MIGHT BE POSSIBLE TO DIVERT THEM WITH SOME LANGUAGE ON THE STRUCTURAL FUNDS (LAMY DOUBTED THAT THIS WOULD BE ENOUGH).

SITES OF INSTITUTIONS

28. DELORS EXPRESSED GENERAL FRUSTRATION AT THE CONTINUED IMPASSE (HE CITED THE BLOCK ON THE OTHERWISE AGREED ENVIRONMENT REGULATION, FOR LACK OF AGREEMENT ON A SITE FOR THE ENVIRONMENT AGENCY). HE SAID THAT CAVACO SILVA INTENDED TO PROPOSE A PACKAGE SOLUTION AT LISBON. HE UNDERSTOOD THAT FRANCE AND BELGIUM HAD COME TO AN AGREEMENT ON THE EUROPEAN PARLIAMENT. THE ECB WAS NOTED AS A MAJOR PROBLEM STILL UNRESOLVED. THE BRITISH SIDE EXPRESSED DOUBTS THAT ANY PACKAGE WOULD BE RIPE FOR AGREEMENT AT LISBON.

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EXTRACTS FROM DELORS' SPEECH TO THE EUROPEAN PARLIAMENT, 10 JUNE 1992

Subsidiarity

"We must resolutely apply the principle of subsidiarity. I have been speaking about this for several months. We must apply it in distinguishing areas of competence: areas of exclusive Community competence, areas of competence which remain with national governments. We must also apply subsidiarity when implementing measures. I mentioned that just now when talking about the Delors II package: building upon mutual trust between member states will avoid many useless, irritating or incomprehensible control."

"We must also adopt a lighter legislative programme. I remember that completion of the Single Market required the approval of 300 Community laws but afterwards, from 1993 onwards, it will simply be a case of managing the Single Market, of making sure it works well. As a result, legislative work will play a less important role. There is no need for us, afraid of being unemployed, to propose laws for the sake of it."

"We must clarify the debate on national sovereignty. Quite simply, it is a question of sharing the exercise of sovereignty in certain areas which are well defined by the Treaty. There is a simple motivation for this: strength in unity."

"We must discover simplicity, which must lead to an examination of our collective conscience, first of all in the Commission so that the pen is lighter and the text clearer. But we also must not forget, on this same subject, that the search for compromise at Council level results in texts which are too complicated or even incomprehensible."

Chancellor Kohl in Bundestag, 17 June

At the same time, and against some opposition, we managed to anchor in the Treaty a clearly formulated principle of subsidiarity - and with it the development in the direction of a Federal Europe.

I shall work so that we achieve a sensible and appropriate extension of the participation of the Federal Laender in questions concerning the European Union. Work on an appropriate amendment to the Federal German constitution is already well advanced. We want a federally constructed Germany in a federally structured Europe.

In accordance with the principle of subsidiarity, European institutions must clearly restrict themselves to matters which absolutely have to be decided at the European level, not more, but not less.

This principle means an unmistakable rejection of a centralised Europe, of a bureaucratic Moloch*

The European Community must concentrate more clearly than in the past on establishing the underlying framework in the central areas of common interest. This is in the interest both of EC citizens and of the Community's ability to take action effectively.

This also means that we must re-examine critically the regulations which the Community has created in the past.

In Brussels, but certainly also in our national administration, we have in the past often been too perfectionist, too bureaucratic. Naturally we need fair conditions of competition in Europe. But not everything has to be regulated down to the smallest detail.

I have therefore suggested that the European Council in Lisbon discuss how we can apply the principle of subsidiarity more effectively in the future.

We want a Europe which is characterised by the richness of its cultural and linguistic diversity, of the experiences and traditions of its member states - a Europe which protects national and regional identities, and leaves them the necessary room in which to flourish.

A future European union is indeed no melting pot in which national identities disappear. It is much more a common roof, under which German, French or Italians [sic] live.

Only in this way can Europe survive - only in this way will our citizens accept it; only in this way does it have a future.

* Moloch is a Canaanite idol to whom children were sacrificed.

Dinner with Delors : 23 June

Points to Make

Maastricht Bill

- We remain committed to ratification as soon as possible;

- In the light of the Danish referendum, the climate at Westminster has changed; already over 150 amendments, even before Danish referendum; a really difficult parliamentary battle ahead.

- Timing is therefore tricky: we shall need a "paving" debate first. Action unlikely before the summer.

- Essential therefore that, throughout this sensitive period, Commission avoid provocative action which would fuel Westminster opposition.

Subsidiarity

- Welcome Delors' positive lead on subsidiarity; note Kohl's helpful remarks in the Bundestag too, and good Conclave discussion.

- Glad Presidency suggested at Conclave that there should be a text on subsidiarity from the Lisbon European Council; we agree.

- Important to start early action in Community. Lisbon Conclusions should specify that subsidiarity will be applied henceforth to all Community decisions.

- Lisbon should also ask Commission and Council to work up detailed guidelines for endorsement at Edinburgh.

- Important that Community apply principle retrospectively. There must be certain areas of existing acquis where Commission can revise/amend/annul legislation in the name of subsidiarity. Would be very helpful domestically if Delors could produce early example of this. Perhaps in the area of environment?

- Note that Delors believes some enforcement tasks should be devolved to member states, on basis of mutual trust. Fine in principle, but distinction to be drawn between legislation and enforcement.

- On legislation, application of the principle should be clear-cut. Need the right mechanisms in place to sift out unnecessary legislation. On enforcement, must get right balance. While respecting subsidiarity must avoid distorting the level playing field - for which the Commission's special position as guardian of the Treaty is important.

- Visible evidence that subsidiarity is working will be important element for our Maastricht legislation debate. So will it be for Denmark.

Frontier Controls

- There is no change in the UK position on 8a; it is an overriding political imperative to maintain essential frontier controls.

- Removing these would force us to fall back on internal police controls. This would have a dire effect on Community relations in the UK after a decade of progress.

- We stand ready to defend our position before the Court; but legal action is in no-one's interest; a major row on this would have far-reaching consequences - starting with the Maastricht Bill.

- We will cooperate with the Commission and partners to strengthen the external fence (e.g. sign External Frontiers Convention); and ease internal frontier controls as far as operationally possible.

Future Financing

- Good discussions on future financing in ECOFIN and the FAC, and at the Conclave. Greater realism now setting in. Paricularly welcome Delors' confirmation at the Conclave that:

  - the proposed increase in the guideline has been formally withdrawn;
  - there is no immediate need to increase the Own Resources Ceiling;
  - Structural Fund spending in the present Member States cannot continue forever.

- But have to say that we see no need for <u>any</u> increase in the own resources ceiling, even after 1994. With the effects of economic growth and the existing headroom under the ceiling (5.6 becu in 1993), the current ceiling could permit extra spending of some 13-14 becu in real terms by 1997 - implying a growth rate of at least 3 1/2% in real terms. And cannot ignore impact of <u>enlargement</u> - EFTAn accessions will release substantial resources (perhaps a further 3 becu a year) within the unchanged GNP-related ceiling.

- Agree that we need to make progress on this dossier. But clear from Conclave that there can be no agreement on figures at Lisbon. Should therefore limit ourselves to broad "orientations" to guide the next Presidency, perhaps recording progress made so far, reaffirming commitments made at Maastricht and calling for work to be intensified, building on considerable achievement of Portuguese Presidency. To attempt to do more will simply lead to division, at a time when the Community needs to present a united front to the world.

- Grateful for your understanding over timing of abatement report. Election pledge to preserve abatement intact. Hope your report will be limited to neutral and factual analysis. Proposals for adverse change will only cause damaging row. Bad signal in context of Maastricht legislation. And no case for reducing it anyway, since UK budgetary position unchanged.

Working Time

- With the political climate in UK changed by the Danish referendum, the read-across from a row on Working Time to the Maastricht debate is unavoidable.

- We have always had great difficulties with the Working Time Directive. UK has never had legislation in this field. The potential costs for employers are enormous. Mrs Shephard has worked hard with partners to get text acceptable to all. But clear that this is not yet available.

- Further postponement of the vote is now essential.

Sites of Institutions

- Approach this subject with serious reservations. Highly complex. Arouses strong feelings among member states. Not clear that Presidency have been able to do sufficient preparatory work. Fear that any sites discussion at Lisbon will be a muddle.

- Agree that member states' failure to grip this subject has brought discredit on the Community. But a maximalist package seems very unlikely to succeed now. Would prefer to avoid an outcome that would show Community in bad light at a sensitive time for us all.

- Most UK could accept is a very limited package. For some time, UK has wanted decisions on three agreed Community institutions - Environment Agency (EA), Trade Marks Office (CTMO) and Training Foundation. Only the failure to decide on their site has prevented these three beginning their work.

- Believe it is high time to sort out the dispute over the European Parliament site. Have heard suggestions that France, Belgium and Luxembourg may have settled on a deal. Unsure of its contents. We could agree to the suggestions of 12 plenaries a year in Strasbourg and other meetings in Brussels.

- Strongly believe that any sites package at Lisbon should not go beyond this.

- Above all, cannot accept a decision on EMI/ECB site now.

- First, we are under no pressure to decide now. We have at least until the end of the year to decide. A number of candidates are coming forward. Need to hear all the arguments, including those for City of London campaign which HMG fully supports.

- Uncertainly over future of Maastricht Treaty has greatly complicated ratification. Any decision on EMI/ECB now would be seen as anticipating ratification and would make ratification more difficult this year in the UK and elsewhere in the Community.

- Other proposed Community institutions are not ready for a decision on their site now. Proposals for the establishment of, e.g., the Plant Breeders Rights Office or the Medicines Evaluation Agency are at an early stage of consideration. Too soon to consider their sites.

- Have made these points to Cavaco. Not certain whether he will reconsider. If you agree, hope you will urge Cavaco to reconsider.

- UK Presidency would be ready to tackle sites. With proper preparation and with Maastricht uncertainty, we hope, behind us, should be able to make more progress at Edinburgh.

Enlargement

- Our views very close: early negotiations with EFTANs; strengthen existing relationship with Turkey, Cyprus and Malta; build on Association Agreements to prepare East Europeans for eventual membership.

- Schluter has told me that preparing for EFTAn accession could help bring Danes back into fold. Right to avoid suggestions of major institutional change before enlargement. That would exacerbate situation in Denmark. Also need to avoid conclusion that negotiation cannot start until Maastricht ratification complete. Can imagine circumstances in which start to - say - Sweden negotiations could be just the final spur the Danes need.

- Need clear Lisbon conclusions calling for rapid preparations for EFTA accession negotiations and rejecting idea that their admission requires major institutional change or advancing 1996 IGC.

EC/Former Soviet Union

- Helpful if you could table mandates soon for enhanced Trade and Cooperation Agreements with Russia, Ukraine, Belarus and Kazakhstan. Can we expect these in time to permit signature this year?

- Urgent need for early disbursement of the 1.25 becu loan agreed last November. This should meet likely Russian food/medical requirements this winter.

CONFIDENTIAL

Delors Dinner: Frontier Controls

Points to Make

- New idea: not what we expected, because the Commission's 8a Opinion had carefully not included a draft legal instrument; we were grateful for this fact.

- Recognise that this proposal would appear to safeguard our internal frontier controls;

- But question competence in this area at this stage; runs counter to spirit of Maastricht.

- We have never accepted that implementation of certain measures would open the way for removal of internal frontier controls.

- Ready to study proposal, but would prefer Commission not to take it forward now.

The National Archives

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Foreign & Commonwealth Office

London SW1A 2AH

23 June 1992

Dear Stephen,

Delors Dinner: Frontier Controls

We have learnt from contacts with British officials in the Commission this afternoon, 23 June, that Delors may float one new idea about the Article 8a frontier issue over dinner this evening. The idea has been discussed between Sir Leon Brittan and Delors, and is one in which we know Sir Leon has been interested in the past.

The suggestion would be for the Commission to come forward with a legal instrument, presumably a Council Decision, which would note that internal frontier controls on people cannot be removed by member states on 1 January 1993 because the necessary compensatory measures are not in place. Strengthening the external fence is one of the compensatory measures.

Delors' idea has a certain attraction, in establishing a legal instrument which would safeguard our internal frontier controls. But there are two main difficulties for us in it.

First, we have never agreed that there is any contingent linkage between our readiness to strengthen the external fence and removal of internal frontier controls. This text would make such linkage. The implication would be

that, once such amendments were fully in place, there would be no further justification for internal frontier controls. We could not accept that.

Second, adoption of a Community instrument, while helpful vis-a-vis the ECJ in the event of any legal challenge over Article 8a, would nevertheless cede Community competence in this area, thus undermining a key area of the Maastricht Justice/Home Affairs pillar.

Given that Delors may be trying to be helpful, and that the idea is not wholly without merit, the Prime Minister may not want to be too dismissive. The Prime Minister might say:

- new idea: not what we expected, because the Commission's 8a Opinion had carefully not included a draft legal instrument; we were grateful for this fact.

- recognise that this proposal would appear to safeguard our internal frontier controls;

- but question competence in this area at this stage; runs counter to spirit of Maastricht.

- we have never accepted that implementation of certain measures would open the way for removal of internal frontier controls.

- ready to study proposal, but would prefer Commission not to take it forward now.

I am sending a copy of this letter to Colin Walters (Home Office) and to David Hadley (Cabinet Office).

Yours ever,

R. Chantler

(R H T Gozney)
Private Secretary

J S Wall Esq CMG LVO
10 Downing Street

610.

cc B/up
RB

Foreign &
Commonwealth
Office

London SW1A 2AH

22 June 1992

Dear Stephen,

Dinner with Delors : 23 June

Further to my letter of today, you asked for supplementary speaking notes on three of the points raised at the Prime Minister's briefing meeting early this evening:

- Future Financing.
- Subsidiarity.
- Sites of EC Institutions.

I enclose expanded speaking notes on each of these. As background, I also enclose the telegrams reporting discussion at the Conclave on Future Financing and subsidiarity.

You also asked for a note on Working Time after the discussion in OPD this morning. Department of Employment have sent this to you direct (Steve Turner's letter of 22 June).

I am copying this letter to David Hadley (Cabinet Office), Steve Turner (Department of Employment) and to Sir J Kerr (UKRep Brussels).

Yours ever,

Christopher Prentice.

(C N R Prentice)
Private Secretary

Stephen Wall Esq
10 Downing Street

FUTURE FINANCING

- Good discussions on future financing in ECOFIN and the FAC, and at the Conclave. Greater realism now setting in. Particularly welcome Delors' confirmation at the Conclave that:

  - the proposed increase in the guideline has been formally withdrawn;
  - there is no immediate need to increase the own resources ceiling;
  - Structural Fund spending in the present Member States cannot continue forever.

- But have to say that we see no need for <u>any</u> increase in the own resources ceiling, even after 1994. With the effects of economic growth and the existing headroom under the ceiling (5.6 becu in 1993), the current ceiling could permit extra spending of some 13-14 becu in real terms by 1997 - implying a growth rate of at least 3½ per cent in real terms. And cannot ignore impact of <u>enlargement</u> - EFTAn accessions will release substantial resources (perhaps a further 3 becu a year) within the unchanged GNP-related ceiling.

- Agree that we need to make progress on this dossier. But clear from Conclave that there can be no agreement on figures at Lisbon. Should therefore limit ourselves to broad '<u>orientations</u>' to guide the next Presidency, perhaps recording progress made so far, reaffirming commitments made at Maastricht and calling for work to be intensified, building on considerable achievement of Portuguese Presidency. To attempt do more will simply lead to division, at a time when the Community needs to present a united front to the world.

- Grateful for your understanding over timing of <u>abatement</u> report. Election pledge to preserve abatement intact. Hope your report will be limited to neutral and factual analysis. Proposals for adverse change will only cause damaging row. Bad signal in context of Maastricht legislation. And no case for reducing it anyway, since UK budgetary position unchanged.

SUBSIDIARITY

- Welcome Delors' positive lead on Subsidiarity; note Kohl's helpful remarks in the Bundestag too, and good Conclave discussion.

- Glad Presidency suggested at Conclave that there should be a text on subsidiarity from the Lisbon European Council; we agree.

- Important to start early action in Community. Lisbon Conclusions should specify that subsidiarity will be applied henceforth to all Community decisions.

- Lisbon should also ask Commission and Council to work up detailed guidelines for endorsement at Edinburgh.

- Important also that Community apply principle retrospectively. There must be certain areas of existing acquis where Commission can revise/amend/annul legislation in the name of subsidiarity. Would be very helpful domestically if Delors could produce early example of this. Perhaps in the area of environment?

- Note that Delors believes some enforcement tasks should be devolved to member states, on basis of mutual trust. Fine in principle, but distinction to be drawn between legislation and enforcement.

- On legislation, application of the principle should be clear-cut. Need the right mechanisms in place to sift out unnecessary legislation. On enforcement, must get right balance. While respecting subsidiarity must avoid distorting the level playing field - for which the Commission's special position as guardian of the Treaty is important.

- Visible evidence that subsidiarity is working will be important element for our Maastricht legislation debate. So will it be for Denmark.

SITES OF INSTITUTIONS

Speaking Note

- Approach this subject with serious reservations. Highly complex. Arouses strong feelings among member states. Not clear that Presidency have been able to do sufficient preparatory work. Fear that any sites discussion at Lisbon will be a muddle.

- Agree that member states' failure to grip this subject has brought discredit on the Community. But a maximalist package seems very unlikely to succeed now. Would prefer to avoid an outcome that would show Community in bad light at a sensitive time for us all.

- Most UK could accept is a very limited package. For some time, UK has wanted decisions on three agreed Community institutions - Environment Agency (EA), Trade Marks Office (CTMO) and Training Foundation. Only the failure to decide on their site has prevented these three beginning their work.

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candidates are coming forward. Need to hear all the arguments, including those for City of London campaign which HMG fully supports.

- Uncertainty over future of Maastricht Treaty has greatly complicated ratification. Any decision on EMI/ECB now would be seen as anticipating ratification and would make ratification more difficult this year in the UK and elsewhere in the Community.

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- Have made these points to Cavaco. Not certain whether he will reconsider. If you agree, hope you will urge Cavaco to reconsider.

- UK Presidency would be ready to tackle sites. With proper preparation and with Maastricht uncertainty, we hope, behind us, should be able to make more progress at Edinburgh.

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FRAME GENERAL

FOREIGN MINISTERS CONCLAVE, LUXEMBOURG, 20 JUNE: LUNCH: SUBSIDIARITY

SUMMARY

1. AT OUR PROMPTING, THE PRESIDENCY INVITED DELORS TO EXPLAIN HIS IDEAS ON SUBSIDIARITY. (WE HAD DISCOVERED THAT HE HAD A PAPER ON IT IN HIS POCKET.) YOUR SUGGESTION FOR A LISBON CONCLUSION CALLING ON THE COMMISSION AND COUNCIL TO WORK ON PROCEDURES FOR IMPLEMENTING SUBSIDIARITY WAS SUPPORTED BY GERMANY AND ACCEPTED BY THE PRESIDENCY.

DETAIL

2. PINHEIRO (PRESIDENCY) INVITED DELORS TO SPEAK ABOUT SUBSIDIARITY. DELORS SAID THE CONCEPT OF SUBSIDIARITY IN ARTICLE 3B OF THE MAASTRICHT TREATY WAS ALSO COMMON SENSE. THE COMMUNITY HAD BECOME TOO TECHNOCRATIC AND ELITIST. THE PROBLEM HAD GROWN AS THE COMMUNITY HAD BECOME MORE AND MORE INVOLVED IN THE LIFE OF THE CITIZEN. IT NEEDED TO EXPLAIN ITSELF BETTER. HE HAD FELT FOR TWO YEARS THAT A CHANGE OF STYLE WAS NEEDED, BOTH BY THE COMMISSION AND THE COUNCIL, THOUGH IT WAS THE COMMISSION WHICH INITIATED THE PROCESS AND GOT THE BLAME. IT WAS A QUESTION BOTH OF WHAT DECISIONS WERE TAKEN AT COMMUNITY LEVEL AND HOW THEY SHOULD BE SUPERVISED: DETAILED SUPERVISION SHOULD BE THE EXCEPTION AND THERE SHOULD BE DEMOCRATIC ACCOUNTABILITY FOR EVERY DECISION, EITHER TO THE EP OR TO NATIONAL PARLIAMENTS. ARTICLE 3B PUT THE EMPHASIS ON SHARED COMPETENCE AND WHERE THIS APPLIED EACH PROPOSAL SHOULD BE ACCOMPANIED BY A JUSTIFICATION IN TERMS OF ARTICLE 3B. WHERE EXCLUSIVE COMPETENCE APPLIED THERE WAS A DILEMMA: 90 PERCENT EFFECTIVENESS WITH SUBSIDIARITY OR 100 PERCENT WITHOUT IT. (HE CITED THE EXAMPLE OF CHEESES IN THE SINGLE MARKET.) ONCE THE SINGLE MARKET WAS IN PLACE THERE WOULD BE LESS LEGISLATION: WE MUST NOT LET THE BEST BET THE ENEMY OF THE GOOD. THE QUESTION OF MUTUAL TRUST BETWEEN GOVERNMENTS WAS CRUCIAL. WERE WE PREPARED TO RELY ON OTHER GOVERNMENTS CARRYING OUT THEIR OBLIGATIONS SUBJECT TO

OCCASIONAL REPORTS RATHER THAN CONTINUAL SUPERVISION? WHERE INTERNATIONAL ACTION WAS INVOLVED, AS IN THE CASE OF RELATIONS WITH JAPAN, LEAVING IT TO MEMBER STATES HAD NOT WORKED, SO TO APPLY SUBSIDIARITY WOULD BE ABSURD.

3. YOU THANKED DELORS FOR HIS STATEMENT. THIS WAS NOT AN EASY SUBJECT OR ONE WHICH COULD BE DEALT WITH BY RHETORIC. YOU AGREED THAT WE NEEDED A NEW STYLE OF ACTION, BOTH BY THE COMMISSION AND THE COUNCIL. PUBLIC OPINION NOT ONLY IN THE UK BUT ALSO IN OTHER MEMBER STATES SUCH AS GERMANY AND DENMARK EXPECTED THIS. WE NEED NOT WAIT FOR ARTICLE 3B TO COME INTO FORCE. THE EUROPEAN COUNCIL AT LISBON SHOULD ASK THE COMMISSION AND COUNCIL TO ESTABLISH THE NECESSARY PROCEDURES.

4. DUMAS (FRANCE) SUPPORTED DELORS. WE NEEDED TO EXPLAIN COMMUNITY ACTION MORE SIMPLY AND CLEARLY. POOS (LUXEMBOURG) AGREED WITH DELORS THAT A CERTAIN STYLE OF ACTION SHOULD NOW END AND THAT A SLOWER PACE SHOULD BE ADOPTED. CLAES (BELGIUM) SAID SUBSIDIARITY WAS ALSO NEEDED AT THE NATIONAL LEVEL. IN THE CASE OF LAWNMOWER NOISE, COMMUNITY ACTION WAS NEEDED BECAUSE SOME MEMBER STATES WERE TRYING TO KEEP OUT LAWNMOWERS FOR PROTECTIONIST REASONS.

5. PINHEIRO SUGGESTED THAT THE ISSUE SHOULD BE REFERRED TO IN THE LISBON CONCLUSIONS WHICH MIGHT CALL ON THE COMMISSION AND THE COUNCIL TO CONSIDER HOW TO TAKE IT FORWARD. KINKEL (GERMANY) SAID THE ISSUE WAS VERY IMPORTANT IN GERMANY. CITIZENS WERE WORRIED ABOUT NONSENSICAL LEGISLATION COMING OUT OF EUROPE WITHOUT PROPER EXPLANATION AND THE BUNDESTAG AND LAENDER WERE DISSATISFIED AT THE TENDENCY TO CENTRALISATION. THE LAENDER WERE DEMANDING DIRECT REPRESENTATION IN THE COMMUNITY ON SUBJECTS SUCH AS CULTURE AND EDUCATION. EVERYONE HAD A DIFFERENT IDEA OF SUBSIDIARITY BUT CLARIFYING IT WAS ESSENTIAL TO THE ACCEPTABILITY OF EUROPE. DANKERT (NETHERLANDS) ENVISAGED LEGAL DIFFICULTIES, FOR EXAMPLE THOSE RAISED BY TITANIUM DIOXIDE.

6. DELORS WONDERED WHETHER IT WOULD BE POSSIBLE TO HAVE A EUROPEAN COUNCIL TEXT WHICH DID NOT APPEAR TO BE A CONFESSION OF GUILT. THE COURT HAD SAID THAT SUBSIDIARITY WAS A POLITICAL MATTER IN WHICH THEY COULD NOT ADJUDICATE. IN SOME AREAS THE COUNCIL WAS INCLINED TO PRESS THE COMMISSION FOR DETAILED RULES, EG THE ENVIRONMENT MINISTERS ON HABITATS. ENVIRONMENT AND COMPETITION RULES WERE TWO AREAS WHERE HE WOULD LIKE TO SEE PROGRESS, THOUGH HE WOULD HAVE PROBLEMS IN THE COMMISSION. PINHEIRO SAID A LISBON CONCLUSION WOULD NOT BE A CONFESSION OF GUILT. NOR SHOULD THERE BE A LONG

DISCUSSION. BUT THERE SHOULD BE A REFERENCE TO SUBSIDIARITY IN THE CONCLUSIONS.

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PART ONE OF TWO

FRAME GENERAL
FRAME ECONOMIC

FOREIGN MINISTERS CONCLAVE, (LUXEMBOURG) 20 JUNE: DELORS II PACKAGE

SUMMARY

1. DELORS SUGGESTS SUBSTANTIVE ELEMENTS FOR EUROPEAN COUNCIL CONCLUSIONS ON DELORS II PACKAGE TO GIVE IMPRESSION OF PROGRESS BUT NO ATTEMPT TO PROPOSE OVERALL SETTLEMENT WITH FIGURES. MIXED REACTIONS FROM DELEGATIONS. SPAIN (WITH SUPPORT FROM IRELAND AND GREECE) MOST VEHEMENT IN ATTACKING RETREAT FROM ORIGINAL COMMISSION PROPOSALS. GERMANY, UK AND NETHERLANDS MOST CAUTIOUS ON SPECIFIC SUGGESTIONS. OTHERS WELCOME GENERAL APPROACH.

DETAIL

2. PINHEIRO (PRESIDENCY) SAID THAT HE HAD DRAWN UP THE BASIS OF POSSIBLE LISBON CONCLUSIONS AFTER THE VARIOUS COUNCIL DISCUSSIONS AND BILATERALS. THESE HAD BEEN REPORTED TO DELORS WHO WOULD GIVE A COMMISSION VIEW OF WHAT COULD REALISTICALLY BE AGREED AT LISBON. MINISTERS SHOULD ACCEPT THEIR RESPONSIBILITY FOR MAKING PROGRESS.

3. DELORS (COMMISSION) SET OUT WHAT HE THOUGHT MIGHT BE ACCEPTABLE AS THE BASIS FOR LISBON CONCLUSIONS. THESE WOULD NOT AMOUNT TO A DEFINITIVE SETTLEMENT, BUT SHOULD NOT GIVE THE IMPRESSION THAT NO PROGRESS HAD BEEN MADE IN THE LAST SIX MONTHS. THERE MIGHT BE 8 ELEMENTS: CAP: COHESION SPENDING IN THE LESS PROSPEROUS REGIONS: OTHER STRUCTURAL POLICIES: INTERNAL: EXTERNAL: FINANCIAL PERSPECTIVES: OR SYSTEM: IIA.

4. ON AGRICULTURE, THE COMMISSION WOULD WITHDRAW ITS PROPOSAL TO INCREASE THE GUIDELINE BASE BY 1.5 BECU. THIS MIGHT CAUSE DIFFICULTIES IF THERE WERE UNFAVOURABLE DOLLAR AND WORLD PRICE MOVEMENTS, BUT THE MONETARY RESERVE SHOULD BE RETAINED, PERHAPS AT

A LOWER LEVEL. THE EUROPEAN COUNCIL SHOULD REAFFIRM COHESION AS AN ESSENTIAL DIMENSION OF THE COMMUNITY. THE COHESION FUND SHOULD BE SET UP FROM 1993, PROVIDED THAT THE COUNCIL ADOPTED THE REGULATION IN GOOD TIME. THIS SHOULD FORM PART OF AN OVERALL DOUBLING OF EXPENDITURE ON THE OBJECTIVE I REGIONS OF THE POOR FOUR. THE EAST GERMAN LAENDER AND EAST BERLIN SHOULD BE INCLUDED, WITH EQUIVALENT TREATMENT, UNDER OBJECTIVE I. THERE MIGHT BE NEW OBJECTIVE I REGIONS EG HAINAULT IN BELGIUM, WHICH WAS CLOSE TO THE ELIGIBILITY REQUIREMENTS. THE EUROPEAN COUNCIL MIGHT AGREE TO REINFORCEMENT OF OBJECTIVES 2, 3, 4 AND 5 IN PARTICULAR ON INDUSTRIAL CONVERSION, RURAL DEVELOPMENT AND, UNDER THE SOCIAL FUND, ASSISTANCE FOR YOUNG PEOPLE, THE LONG-TERM UNEMPLOYED AND RETRAINING OF WORKERS INVOLVED IN INDUSTRIAL CHANGE.

5. THE COMMISSION'S PROPOSALS ON INTERNAL POLICIES HAD RECEIVED THE LEAST SUPPORT. THE EUROPEAN COUNCIL MIGHT LIMIT ITSELF TO NOTING THE PROPOSALS MADE BY THE COMMISSION TO CREATE A FRAMEWORK FOR THE IMPROVEMENT OF THE COMPETITIVENESS OF THE EUROPEAN ECONOMY. THERE HAD BEEN A BROAD CONSENSUS ON THE COMMISSION'S EXTERNAL PROPOSALS. THE EUROPEAN COUNCIL MIGHT, BEARING IN MIND ITS NEW RESPONSIBILITIES, DECIDE TO INCREASE EXPENDITURE SIGNIFICANTLY WITH PRIORITY TO ITS NEIGHBOURS TO THE EAST AND SOUTH.

6. ON THE REVENUE SIDE, THE EUROPEAN COUNCIL MIGHT ASK THE COMMISSION TO PREPARE NEW FINANCIAL PERSPECTIVES FOR A SEVEN YEAR PERIOD WHICH WOULD COINCIDE WITH THE FINAL DEADLINE FOR EMU STAGE III, WITH A VIEW TO DECISION AT EDINBURGH. IT MIGHT AGREE THAT THE CURRENT OWN RESOURCES SYSTEM, INCLUDING THE 1.2 PERCENT CEILING, SHOULD BE CONTINUED UP TO AND INCLUDING 1994. THE COMMISSION'S PROPOSALS TO CORRECT THE REGRESSIVE NATURE OF THE OWN RESOURCES STRUCTURE WOULD BE IMPLEMENTED IN FIVE ANNUAL STEPS FROM 1995. THE COMMISSION WOULD BE ASKED TO PROPOSE A FIFTH RESOURCE CONSISTENT WITH STABILITY, FAIRNESS AND PROPORTIONATE TO RELATIVE WEALTH FROM YEAR X. THE COMMISSION WOULD PRESENT ITS REPORT ON BUDGETARY IMBALANCES IN JULY. THE EUROPEAN COUNCIL MIGHT CONFIRM ITS WISH TO RENEW THE IIA AND TO COMMENCE NEGOTIATIONS WITH THE EUROPEAN PARLIAMENT AS SOON AS THE NEW FINANCIAL PERSPECTIVES HAD BEEN AGREED.

7. AFTER A SHORT BREAK TO ALLOW DELEGATIONS TIME TO CONSIDER DELORS' STATEMENT, THE PRESIDENCY INVITED REACTIONS FROM DELEGATIONS IN THE FORM OF A SINGLE TABLE ROUND. DANKERT (NETHERLANDS) SAID HE HAD NO PROBLEM WITH THE PROPOSALS ON IIA, OWN RESOURCES STRUCTURE AND EXTERNAL POLICIES. HE PREFERRED A THREE

YEAR FREEZE IN THE 1.2 PER CENT OWN RESOURCES CEILING. HE COULD NOT ACCEPT THE COMMISSION'S PROPOSALS ON COMPETITIVITY BUT COULD LIVE WITH A REFERENCE TO ESF FUNDING OF RETRAINING WORKERS AFFECTED BY STRUCTURAL CHANGE. DOUBLING STRUCTURAL EXPENDITURE IN THE POOR FOUR OVER THE PERIOD UNTIL 1999 WENT TOO FAR. HE COULD ACCEPT A CERTAIN INCREASE. CONTINUATION OF THE PRESENT AGRICULTURAL GUIDELINE WAS TOO GENEROUS. THE GUIDELINE SHOULD BE FROZEN IN REAL TERMS.

8. POOS (LUXEMBOURG) THOUGHT THAT DELORS' SUGGESTIONS WERE ON THE RIGHT LINES GIVEN THE GENERAL ECONOMIC SITUATION. THE LISBON EUROPEAN COUNCIL SHOULD AGREE BROAD OUTLINES FOR AN AGREEMENT WITH FIGURES WHICH SHOULD BE REACHED AT EDINBURGH. HE AGREED THAT COHESION WAS AN ESSENTIAL PRIORITY. HE ADVISED EXTREME PRUDENCE ON THE SUBJECT OF A FIFTH RESOURCE BECAUSE OF THE POSSIBLE EFFECT ON PUBLIC OPINION. LENGTHENING THE PERIOD UNTIL 1999 SEEMED APPROPRIATE, GIVEN THAT THIS WAS THE FINAL DEADLINE FOR THE START OF STAGE III OF EMU. DE MICHELIS (ITALY) URGED A RETURN TO THE SPIRIT OF MAASTRICHT WITH NO CONFRONTATION BETWEEN THE COMMISSION AND MEMBER STATES AT LISBON. THE COMMUNITY SHOULD NOT GO BACK ON THE COMMITMENTS IT MADE AT MAASTRICHT. THESE IMPLIED HIGHER EXPENDITURE, ALTHOUGH THE TIMETABLE COULD BE DISCUSSED. HE SUPPORTED THE SEVEN YEAR PERIOD PROPOSED BY DELORS AND COULD ACCEPT THE COMMISSION'S NUMBERS FOR THE COHESION FUND. HE SUPPORTED CAP REFORM AND HOPED THAT IT WOULD BRING SUCCESS IN THE GATT. HE WOULD EXPECT SOME SAVINGS ON AGRICULTURE AT THE END OF THE SEVEN YEAR PERIOD. ITALY WOULD STUDY THE PROPOSALS ON OWN RESOURCES STRUCTURE. HE AGREED THAT CAUTION WAS NECESSARY ON THE FIFTH RESOURCE BUT IN THE LONG RUN IT WOULD BE INEVITABLE. HE AGREED THAT OVERALL DECISIONS SHOULD BE REACHED AT EDINBURGH.

9. ANDREWS (IRELAND) EXPRESSED DISAPPOINTMENT THAT THE COMMISSION HAD RETREATED FROM ITS ORIGINAL PROPOSALS WHICH HE REGARDED AS THE MINIMUM. THE COMMISSION RISKED FAILING TO MAKE ADEQUATE PROVISION FOR THE CAP. THE SUGGESTIONS ON THE STRUCTURAL FUNDS WERE A RETREAT FROM THE ORIGINAL PROPOSALS. IT WAS NOT CLEAR WHY THE CHANGES TO THE OWN RESOURCES STRUCTURE SHOULD BE POSTPONED: THIS VIOLATED THE MAASTRICHT COHESION PROTOCOL. DUMAS (FRANCE) GENERALLY SUPPORTED DELORS' APPROACH: HE WANTED A SUCCESS AT LISBON BUT DID NOT WANT TO DISTURB THE PROCESS OF RATIFYING THE MAASTRICHT TREATY. DELORS' SUGGESTIONS WERE A SENSIBLE MIDDLE WAY. ON THE DETAILS, MME GUIGOU ADDED THAT SHE SUPPORTED THE LENGTHENING OF THE PERIOD TO SEVEN YEARS, IMPLEMENTATION OF THE COHESION FUND IN 1993 ON THE CONDITIONS FORESEEN AT MAASTRICHT AND OBJECTIVE I STATUS FOR

THE EAST GERMAN LAENDER ''ON A TIMETABLE TO BE NEGOTIATED''. PROVISION FOR THE CAP SHOULD BE SUFFICIENT TO GUARANTEE THE SUCCESS OF THE REFORM, WHICH FRANCE WOULD DEFEND DESPITE THE UNREST IN ITS AGRICULTURAL COMMUNITY. THE IDEA OF AN INCREASE IN THE GUIDELINE SHOULD NOT BE REJECTED DEFINITIVELY IN VIEW OF THE UNCERTAINTIES. FOR OTHER EXPENDITURE POLICIES THE TEST SHOULD BE WHETHER COMMUNITY EXPENDITURE ADDED VALUE TO NATIONAL POLICIES. ON OWN RESOURCES THE COMMISSION'S PROPOSALS WERE APPROPRIATE: WE SHOULD BE EXTREMELY PRUDENT IN REFERRING TO THE POSSIBILITY OF A FIFTH RESOURCE BECAUSE OF THE EFFECT ON PUBLIC OPINION OF ANY SUGGESTION OF A NEW COMMUNITY TAX.

10. WESTENDORP (SPAIN) REGRETTED DELORS' INTERVENTION. HE WANTED TO KNOW WHAT ITS STATUS WAS. WAS IT A NEW PROPOSAL OR MERELY SUGGESTIONS FOR A COMPROMISE? DID DELORS TAKE ACCOUNT OF THE PRESIDENCY BILATERAL WITH SPAIN? SPANISH PUBLIC OPINION WOULD NOT UNDERSTAND HOW POLITICIANS WHO CLAIMED TO FAVOUR EUROPEAN UNION COULD SPEND THEIR TIME ARGUING ABOUT 0.17 PERCENT OF GNP. ON THE DETAILS SPAIN WAS NEUTRAL ON THE AGRICULTURAL GUIDELINE. HE REGRETTED THE SUGGESTED LENGTHENING OF THE PERIOD OVER WHICH STRUCTURAL EXPENDITURE WOULD BE DOUBLED IN THE POOR FOUR. HE WAS UNCLEAR ABOUT THE MEANING OF THE CONCLUSION ON COMPETITIVITY AND ARGUED THAT A COMMON EXTERNAL POLICY SHOULD NOT NECESSARILY INVOLVE EC BUDGET EXPENDITURE. ON REVENUE HE COULD NOT ACCEPT A FREEZE IN THE OWN RESOURCES CEILING FOR TWO YEARS. THE CHANGES IN OWN RESOURCES STRUCTURE DID NOT GO FAR ENOUGH TO MEET THE REQUIREMENTS OF THE MAASTRICHT PROTOCOL. HE WAS SCEPTICAL ABOUT THE FIFTH RESOURCE, UNLESS IT WAS PROGRESSIVE. HE WAS LOOKING FORWARD TO THE COMMISSION REPORT ON FINANCIAL IMBALANCES. THE IIA SHOULD BE RENEWED FOR FIVE YEARS OR FOR AN INDEFINITE PERIOD: HE SAW NO MERIT IN THE SEVEN YEAR OPTION. THE MESSAGE FROM LISBON SHOULD BE THAT ''MAASTRICHT LIVES''. OTHERWISE RATIFICATION OF THE TREATY WOULD BE AT RISK.

11. PAPASTAMKOS (GREECE) URGED THE NEED TO FIND AN OVERALL POLITICAL SOLUTION TO THE PACKAGE AT LISBON. HE SUPPORTED AN INCREASE IN THE AGRICULTURAL GUIDELINE. THE LEVEL OF OWN RESOURCES NEEDED TO BE SUFFICIENT TO FUND ALL THE COMMUNITY'S PRIORITIES. HE WAS FLEXIBLE ON THE NEW IDEAS ON OWN RESOURCES STRUCTURE. HE WAS CONCERNED ABOUT THE NEW IDEAS ON STRUCTURAL EXPENDITURE IN OBJECTIVE I REGIONS POINTING TO THE ''SUCCESSES'' OF THE PRESENT STRUCTURAL POLICY IN TERMS OF INCREASED GNP GROWTH AND ''RETURN FLOWS''. THE IIA SHOULD LAST AT LEAST AS LONG AS THE LIFE OF THE PACKAGE.

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PART TWO OF TWO

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FOREIGN MINISTERS CONCLAVE, (LUXEMBOURG) 20 JUNE: DELORS II PACKAGE

12. KINKEL (GERMANY) THOUGHT THAT DELORS' APPROACH WAS HELPFUL: THE OVERALL PACKAGE AND FIGURES COULD NOT BE DECIDED AT LISBON BUT AT EDINBURGH. THE RATIFICATION PROCESS SHOULD NOT BE JEOPARDISED BY ARGUMENTS OVER FIGURES. IDEALLY DECISIONS SHOULD BE TAKEN ON AVAILABLE REVENUE BEFORE DISCUSSING EXPENDITURE PRIORITIES. ON AGRICULTURE WE SHOULD CHECK WHETHER REFORM COULD BE FINANCED WITHIN THE EXISTING GUIDELINE: AN INCREASE SHOULD NOT BE EXCLUDED. HE AGREED ON THE PRINCIPLE OF THE COHESION FUND BUT COULD NOT AGREE AT LISBON ON ITS SIZE OR GROWTH RATE. A REFERENCE TO THE REINFORCEMENT OF STRUCTURAL POLICIES WOULD BE ACCEPTABLE PROVIDED THAT THERE WAS NO SECTORAL INDUSTRIAL POLICY. THE DELORS PROPOSALS ON INTERNAL POLICIES HAD NOT BEEN AGREED. HE COULD AGREE TO THE TARGET FOR EXTERNAL POLICIES BUT THERE SHOULD BE FURTHER EXAMINATION OF THE PRIORITY FOR RELATIONS WITH EASTERN EUROPE AND THE MEDITERRANEAN. ON REVENUE THE IDEA OF A TWO YEAR FREEZE FOLLOWED BY A FIVE YEAR PERIOD WAS INTERESTING. HE AGREED ON THE NEED FOR CAUTION ON THE FIFTH RESOURCE BECAUSE OF THE POSSIBLE IMPLICATIONS FOR RATIFICATION. HE COULD AGREE TO AN IIA IN PRINCIPLE BUT IMPROVEMENTS WOULD BE NECESSARY.

13. RIBERHOLDT (DENMARK) WELCOMED THE DELORS APPROACH TO REGISTERING REAL PROGRESS AT LISBON BUT LEAVING OVERALL CONCLUSIONS TO EDINBURGH. DENMARK WOULD EXAMINE THE EXPENDITURE PROPOSALS CONSTRUCTIVELY. IT WOULD ALSO STUDY THE NEW PROPOSALS ON OWN RESOURCES STRUCTURE. HE AGREED ON THE NEED FOR CAUTION ON THE FIFTH RESOURCE. CLAES (BELGIUM) THOUGHT THAT THE DELORS APPROACH WAS USEFUL AND SHOULD ALLOW FOR RESPECT OF THE MAASTRICHT COMMITMENTS. ON REVENUE THE EXTENSION OF THE PERIOD TO SEVEN YEARS

WAS HELPFUL AND THE FREEZE IN THE OWN RESOURCES CEILING FOR TWO YEARS ACCEPTABLE. CORRECTING THE REGRESSIVE ELEMENTS OF THE OWN RESOURCES SYSTEM SHOULD ONLY BENEFIT THE POOR FOUR. HE TOOK NOTE OF THE CONCERNS OF OTHERS ABOUT A FIFTH RESOURCE BUT NOTED THAT THIS HAD BEEN PROMISED IN 1988 AND WOULD BE NECESSARY IN THE LONG TERM. ON EXPENDITURE HE COULD ACCEPT MAINTENANCE OF THE AGRICULTURE GUIDELINE. HE COULD AGREE TO IMPLEMENTATION OF THE COHESION FUND IN 1993 ONCE A REGULATION HAD BEEN AGREED. THE COMMISSION'S PROPOSALS ON STRUCTURAL EXPENDITURE REMAINED GENEROUS AND SHOULD NOT BE REJECTED OUT OF HAND BY THE SOUTHERNERS. HE WELCOMED SUPPORT FOR INDUSTRIAL RETRAINING BUT ARGUED THAT THE GROWTH RATE FOR INTERNAL POLICIES SHOULD BE REDUCED. HE COULD SUPPORT PROPOSALS TO IMPROVE COMPETITIVITY.

14. YOU THANKED THE PRESIDENCY AND DELORS FOR THEIR EFFORTS TO REACH A CONSENSUS. IT WAS ESSENTIAL TO TAKE ACCOUNT OF ALL THE MAASTRICHT TREATY INCLUDING ITS REFERENCES TO SOUND PUBLIC FINANCE AND BUDGET DISCIPLINE. THE LESSONS OF THE DANISH REFERENDUM SHOULD NOT BE IGNORED. YOU AGREED THAT LISBON SHOULD SEEK AGREEMENT ON BROAD ORIENTATIONS TO GUIDE THE NEXT PRESIDENCY. TO ATTEMPT MORE WOULD LEAD TO A DIVISIVE EUROPEAN COUNCIL. ON AGRICULTURE YOU ARGUED THAT THE SCOPE FOR TIGHTENING THE GUIDELINE FORMULA SHOULD BE EXPLORED GIVEN THE SUBSTANTIAL HEADROOM SUGGESTED BY THE COMMISSION'S OWN FIGURES. THE UK SUPPORTED THE COHESION OBJECTIVE BUT COULD NOT AGREE LANGUAGE WHICH IMPLIED AN INCREASE IN THE OWN RESOURCES CEILING. WE RECOGNISED THE IMPORTANCE TO GERMANY OF OBJECTIVE I STATUS FOR THE EAST GERMAN LAENDER BUT THE STATUS OF BERLIN SHOULD BE STUDIED FURTHER. WE OPPOSED THE REORIENTATION OF OBJECTIVES 3 AND 4 OF THE STRUCTURAL FUNDS AND THE COMMISSION'S IDEAS ON INDUSTRIAL POLICY. WE SUPPORTED THE PRIORITY FOR EXTERNAL POLICY BUT NOT THE COMMISSION'S FIGURES. WE WERE OPEN TO THE IDEA OF A SEVEN YEAR FINANCIAL PERSPECTIVE. THE LISBON CONCLUSIONS SHOULD NOT IMPLY THE INEVITABILITY OF AN INCREASE IN THE OWN RESOURCES CEILING AFTER 1994: IT WAS RELEVANT THAT ENLARGEMENT TO EMBRACE THE EFTAN COUNTRIES WOULD SIGNIFICANTLY INCREASE THE VALUE OF THE 1.2 PERCENT CEILING. THE UK WOULD NOT ACCEPT ANY NEW CONSTRAINT ON THE AUTOMATICITY OF ITS ABATEMENT SYSTEM. WE COULD ACCEPT RENEWAL OF THE IIA IF IT STRENGTHENED BUDGET DISCIPLINE BUT THE COUNCIL SHOULD NOT BE THE DEMANDEUR AND NEGOTIATIONS WITH THE PARLIAMENT SHOULD NOT START UNTIL THE EUROPEAN COUNCIL HAD AGREED NEW FINANCIAL PERSPECTIVES.

15. MARTINS (PORTUGAL) ARGUED THAT WE NEEDED CREDIBLE CONCLUSIONS AT LISBON. IN HIS VIEW THE COMMISSION'S FEBRUARY PROPOSALS

CONTAINED ALL THE FUNDAMENTAL ELEMENTS. THE FINANCING REVIEW WOULD NEED TO BE CONCLUDED BEFORE ENLARGEMENT NEGOTIATIONS COULD BEGIN. PORTUGAL AGREED WITH SPAIN ON MANY ISSUES. IT WAS ESSENTIAL THAT THE COHESION FUND SHOULD START AT THE BEGINNING OF 1993. STRUCTURAL EXPENDITURE IN THE POOR FOUR SHOULD BE DOUBLED. DELORS' SUGGESTIONS ON INTERNAL POLICIES WERE REASONABLE BUT REFERENCE SHOULD BE MADE TO THE IMPORTANCE OF SME. CORRECTION OF THE REGRESSIVE ELEMENTS OF THE OWN RESOURCES SYSTEM SHOULD START IN 1993. THE IDEA OF EXTENDING THE FINANCIAL PERSPECTIVES PERIOD TO SEVEN YEARS COULD BE CONSIDERED IN THE CONTEXT OF AN OVERALL COMPROMISE.

16. INVITED TO RESPOND AT THE END OF THE TABLE ROUND DELORS REPLIED TO WESTENDORP THAT HIS IDEAS WERE SIMPLY AN ATTEMPT TO HELP REACH CONCLUSIONS AT LISBON, NOT A FORMAL COMMISSION PROPOSAL. THERE SHOULD BE NO FIGURES EXCEPT ON THE PROLONGATION OF THE AGRICULTURE GUIDELINE, WHICH HE ARGUED WAS AN ESSENTIAL ELEMENT OF THE CAP REFORM PACKAGE AGREED BY THE AGRICULTURE COUNCIL. THE COMMISSION WOULD NOT PRESS FOR A CONCLUSION ON THE FIFTH RESOURCE, IF THE CONSENSUS WAS AGAINST IT. THERE WAS A LINK BETWEEN COHESION AND THE EMU CONVERGENCE CRITERIA BECAUSE THE POOR COUNTRIES NEEDED TO BUILD UP THEIR INFRASTRUCTURE WITH THE HELP OF THE STRUCTURAL FUNDS AND THE COHESION FUND. THE COMPETITIVITY GAP BETWEEN THE EC AND JAPAN AND THE USA WAS WIDENING IN HIS VIEW. SUPPORT FOR COOPERATION BETWEEN EUROPEAN FIRMS WAS DESIRABLE.

17. HE ARGUED THAT IT WOULD BE IMPOSSIBLE TO MAINTAIN THE 1.2 PERCENT CEILING FOR THREE YEARS AS SUGGESTED BY DANKERT. HE PROMISED A FURTHER TECHNICAL NOTE ON THE COMPARABILITY OF VAT AND GNP STATISTICS. IT WAS APPROPRIATE TO EXTEND THE PERIOD TO 1999 BUT STRUCTURAL SPENDING IN THE PRESENT MEMBER STATES COULD NOT CONTINUE FOREVER: AFTER 1999 THE PRIORITY WOULD BE NEW MEMBER STATES FROM EASTERN EUROPE. IT WAS DIFFICULT TO FIND SIGNIFICANT ECONOMIES IN THE COMMUNITY BUDGET WITHOUT TOUCHING EITHER AGRICULTURE OR RESEARCH (WHICH HE IMPLIED WERE UNTOUCHABLE).

18. WESTENDORP ASKED WHAT SHOULD BE SAID TO THE PRESS NOW AND AT LISBON ABOUT THE STATE OF DISCUSSIONS. THE ISSUES WERE VERY SENSITIVE. IT WAS IMPORTANT TO AVOID GIVING WRONG SIGNALS. THE PRESS SHOULD NOT BE TOLD THAT THE COMMISSION HAD REDUCED ITS ORIGINAL PROPOSALS OR, ABOVE ALL, THAT THE CONCLAVE WAS MERELY REPEATING THE VIEWS OF ECOFIN. ANY SUGGESTION THAT THE COMMISSION'S PROPOSALS WERE BEING REDUCED WOULD PUT AT RISK RATIFICATION OF THE MAASTRICHT TREATY.

19. PINHEIRO SUMMED UP THAT AT THE REQUEST OF THE PRESIDENCY DELORS HAD TRIED TO OFFER SOME SUGGESTIONS FOR CONCLUSIONS AT LISBON. HE HAD NOT TABLED NEW PROPOSALS. THERE HAD BEEN A USEFUL DEBATE. HE WAS AWARE OF THE DIVERGENCES BUT THERE WERE ELEMENTS OF CONVERGENCE AND CONSENSUS. DELEGATIONS SHOULD STUDY DELORS' SUGGESTIONS CAREFULLY WITH A VIEW TO REACHING CONCLUSIONS AT LISBON AND SUBSEQUENTLY AT EDINBURGH. HE WOULD MAKE NO DETAILED STATEMENT TO THE PRESS. THE NEGOTIATION WOULD NOT BE FINALISED BEFORE EDINBURGH.

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22 June 1992

Dear Stephen,

Dinner with Delors: 23 June

The Prime Minister is giving dinner to M Delors on 23 June. Delors will be accompanied by David Williamson and Pascal Lamy. The Foreign Secretary and Sir John Kerr will be present. Delors' main objective will be to discuss prospects for the Lisbon European Council and for the UK Presidency. In covering all these points, the Prime Minister may also want to focus on frontier controls (Article 8a) and on subsidiarity.

The Foreign Secretary had a long discussion with Delors over dinner on 14 June. I enclose the full record.

In the light of the Irish referendum, the Prime Minister may want to review progress on the Maastricht Treaty. Latest information from Paris is that the constitutional changes will go through this month, clearing the way for the referendum on ratification (no date set, but probably after the summer). There is general agreement that the Danish problem should not be a centre-piece of discussion at Lisbon, although it is bound to come up. We want to give the Danes the time they need to reflect, leaving them to take the lead in indicating a way through the problem.

Delors will want to know our intentions over the Maastricht Bill. The Foreign Secretary has warned Delors that this will not be plain sailing. The Prime Minister might say:

- We remain committed to ratification as soon as possible.

- In the light of the Danish referendum, the climate at Westminster has changed; already over 150 amendments, even before Danish referendum; a really difficult parliamentary battle ahead.

- Timing is therefore tricky: we shall need a "paving" debate first. Action unlikely before the summer.

- Essential therefore that, throughout this sensitive period, Commission avoid provocative action which would fuel Westminster opposition.

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We want to ensure good European Council conclusions language at Lisbon on subsidiarity, leading to further decisions at Edinburgh. Delors again spoke positively in public about applying subsidiarity in practice, when he addressed the European Parliament on 10 June (extract from his / speech enclosed). When the Foreign Secretary brought subsidiarity up with him on 14 June, Delors' initial reaction was helpful. At lunch during the Conclave on 21 June he sketched his plans, including a requirement for the Commission to produce a justification in terms of subsidiarity for any proposal where there is shared competence. Chancellor Kohl has made a helpful statement on this in the Bundestag last week (extract enclosed). There was broad agreement at the / 20 June Conclave on helpful Lisbon conclusions. The Prime Minister might say:

- Welcome Delors' positive lead on subsidiarity; note Kohl's helpful remarks in Bundestag too, and helpful Conclave discussion.

- We want early action in the Community, starting at Lisbon. Suggest conclusions there to stat applying principle to all Community decisions now; and ask Commission and Council to work up detailed guidelines for endorsement at Edinburgh.

- Visible evidence that subsidiarity is working will be important element for our Maastricht legislation debate; as it will be for Denmark.

On Frontier Controls, the Foreign Secretary impressed on Delors again last week the extreme political sensitivity of the Article 8a question in the UK. Delors did not comment in detail, but said much depended on how we handled EC citizens from 1993. Mr Clarke has also been in touch with Bangemann, and is now considering what arrangements might be made to lighten the checks on EC travellers, while maintaining our systematic controls. The Prime Minister might say that:

- There is no change in the UK position on 8a; it is an overriding political imperative to maintain essential frontier controls.

- Removing these would force us to fall back on internal police controls. This could have a dire effect on community relations in the UK after a decade of progress.

- We stand ready to defend our position before the Court; but legal action is in no-one's interest; a major row on this would have far-reaching consequences - starting with the Maastricht Bill.

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- We will cooperate with the Commission and partners to strengthen the external fence (eg sign External Frontiers Convention); and ease internal frontier controls as far as operationally possible.

On Future Financing, the Foreign Secretary had a reasonable discussion on 14 June with Delors who seemed ready to help over the timing of the Commission report on the UK abatement, which will now issue in July. Delors presented some outline proposals for Lisbon conclusions to the Conclave. These helpfully - and realistically - avoided mention of figures, but still went too far on certain areas, including cohesion. (They were nonetheless strongly attacked by the Southerners.) Our main objective is to persuade Delors that even these conclusions would be over-ambitious. The Prime Minister may also wish to press Delors on the need for a neutral, not prescriptive, report on the abatement.

The Prime Minister may therefore wish to say:

- Good discussion on future financing in ECOFIN and the FAC, and at the Conclave. Greater realism now setting in. But must avoid Lisbon conclusions which imply unnecessary increases in own resources. Not convinced that increases will be needed by 1995. Subject for ECOFIN to examine.

- Grateful for your understanding over timing of abatement report. Election pledge to preserve abatement intact. Hope your report will be limited to neutral and factual analysis. Proposals for adverse change will only cause damaging row. Bad signal in context of Maastricht legislation. And no case for reducing it anyway, since UK budgetary position unchanged.

We are now aiming to postpone the vote on Working Time at the 24 June Social Affairs Council. If Delors showed understanding of the UK position that would help Mrs Shephard during the Council itself. Before the April Social Affairs Council, he instructed Mme. Papandreou to lie low.

The Prime Minister may wish to say:

- With the political climate in UK changed by the Danish referendum, the read-across from a row on Working Time to the Maastricht debate is unavoidable.

- We have always had great difficulties with the Working Time Directive. UK has never had legislation in this field. The potential costs for employers are enormous. Mrs Shephard has worked hard with partners to get text acceptable to all. But clear that this is not yet available.

- Further postponement of the vote is now essential.

The Commission report on enlargement may emerge on 24 June. Andriessen has argued for a pause and further substantive institutional change (i.e. beyond Maastricht) before any enlargement, though his line at the Conclave was more helpful. Delors has told the Foreign Secretary that he supports early EFTA enlargement without substantive institutional change. He appears to have persuaded other Commissioners that this helpful line should betaken at Lisbon. The Prime Minister might say:

- Our views very close: early negotiations with EFTAns; strengthen existing relationship with Turkey, Cyprus and Malta; build on Association Agreements to prepare East Europeans for eventual membership.

- Schluter has told me that preparing for EFTAn accession could help bring Danes back into fold. Right to avoid suggestions of major institutional change before enlargement. That would exacerbate situation in Denmark. Also need to avoid conclusion that negotiation cannot start until Maastricht ratification complete. Can imagine circumstances in which start to - say - Sweden negotiations could be just the final spur the Danes need.

- Need clear Lisbon conclusions calling for rapid preparations for EFTA accession negotiations and rejecting idea that their admission requires major institutional change or advancing 1996 IGC.

On EC/Former Soviet Union, we have repeatedly pushed the Commission to come forward with negotiating mandates for enhanced Trade and Cooperation Agreements with Russia, Ukraine, Belarus and Kazakhstan. These were originally promised for May, but have still not appeared. It is therefore unlikely that they will be approved by the Council before the 5 October FAC, making signature during our Presidency improbable. Delors visited Moscow on 29-30 May to discuss Russian demands, and knows of our concerns.

Further food shortages in the FSU cannot be ruled out this winter, and medical/agricultural supplies are still desperately needed. The possibility of a new grant to Russia to provide medical supplies has been suggested by the Commission. We should resist this firmly. The solution is early disbursement of Russia's share of the 1.25 becu loan, agreed at UK initiative last November but held up by Russian refusal to accept a legally binding guarantee. The Conclave agreed that this should be unblocked urgently. It could be used for medicines. The Prime Minister might say:

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- Helpful if you could table mandates soon for enhanced Trade and Cooperation Agreements with Russia, Ukraine, Belarus and Kazakhstan. Can we expect these in time to permit signature this year?

- Urgent need for early disbursement of the 1.25 becu loan agreed last November. This should meet likely Russian food/medical requirements this winter.

I understand DTI are briefing separately on GATT.

I am sending a copy of this letter to David Hadley (Cabinet Office) and to Sir J Kerr (UKRep).

Yours ever,

Christopher Prentice.

(C N R Prentice)
Private Secretary

J S Wall Esq CMG LVO
10 Downing Street

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Dinner with Delors: 23 June

Points to Make

Maastricht Bill

- We remain committed to ratification as soon as possible.

- In the light of the Danish referendum, the climate at Westminster has changed; already over 150 amendments, even before Danish referendum; a really difficult parliamentary battle ahead.

- Timing is therefore tricky: we shall need a "paving" debate first. Action unlikely before the summer.

- Essential therefore that, throughout this sensitive period, Commission avoid provocative action which would fuel Westminster opposition.

Subsidiarity

- Welcome Delors' positive lead on subsidiarity; note Kohl's helpful remarks in Bundestag too, and helpful Conclave discussion.

- We want early action in the Community, starting at Lisbon. Suggest conclusions there to stat applying principle to all Community decisions now; and ask Commission and Council to work up detailed guidelines for endorsement at Edinburgh.

- Visible evidence that subsidiarity is working will be important element for our Maastricht legislation debate; as it will be for Denmark.

Frontier Controls

- There is no change in the UK position on 8a; it is an overriding political imperative to maintain essential frontier controls.

- Removing these would force us to fall back on internal police controls. This could have a dire effect on community relations in the UK after a decade of progress.

- We stand ready to defend our position before the Court; but legal action is in no-one's interest; a major row on this would have far-reaching consequences - starting with the Maastricht Bill.

- We will cooperate with the Commission and partners to strengthen the external fence (eg sign External Frontiers Convention); and ease internal frontier controls as far as operationally possible.

Future Financing

- Good discussion on future financing in ECOFIN and the FAC, and at the Conclave. Greater realism now setting in. But must avoid Lisbon conclusions which imply unnecessary increases in own resources. Not convinced that increases will be needed by 1995. Subject for ECOFIN to examine.

- Grateful for your understanding over timing of abatement report. Election pledge to preserve abatement intact. Hope your report will be limited to neutral and factual analysis. Proposals for adverse change will only cause damaging row. Bad signal in context of Maastricht legislation. And no case for reducing it anyway, since UK budgetary position unchanged.

Working Time

- With the political climate in UK changed by the Danish referendum, the read-across from a row on Working Time to the Maastricht debate is unavoidable.

- We have always had great difficulties with the Working Time Directive. UK has never had legislation in this field. The potential costs for employers are enormous. Mrs Shephard has worked hard with partners to get text acceptable to all. But clear that this is not yet available.

- Further postponement of the vote is now essential.

Enlargement

- Our views very close: early negotiations with EFTAns; strengthen existing relationship with Turkey, Cyprus and Malta; build on Association Agreements to prepare East Europeans for eventual membership.

- Schluter has told me that preparing for EFTAn accession could help bring Danes back into fold. Right to avoid suggestions of major institutional change before enlargement. That would exacerbate situation in Denmark. Also need to avoid conclusion that negotiation cannot start until Maastricht ratification complete. Can imagine circumstances in which start to - say - Sweden negotiations could be just the final straw the Danes need.

- Need clear Lisbon conclusions calling for rapid preparations for EFTA accession negotiations and rejecting idea that their admission requires major institutional change or advancing 1996 IGC.

EC/Former Soviet Union

- Helpful if you could table mandates soon for enhanced Trade and Cooperation Agreements with Russia, Ukraine, Belarus and Kazakhstan. Can we expect these in time to permit signature this year?

- Urgent need for early disbursement of the 1.25 becu loan agreed last November. This should meet likely Russian food/medical requirements this winter.

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PART ONE OF TWO

FROM PRIVATE SECRETARY
SECRETARY OF STATE'S DINNER WITH DELORS, BRUSSELS, 14 JUNE: FULL RECORD

1. THE SECRETARY OF STATE AND DELORS HAD DINNER AT SIR J KERR'S HOUSE IN BRUSSELS ON 14 JUNE. THIS TELEGRAM EXPANDS ON THE SUMMARY ACCOUNT OF THE TWO HOUR MAIN DISCUSSION IN LUXEMBOURG TELNO 101. LORS WAS ACCOMPANIED BY LAMY AND WILLIAMSON. SIR J KERR AND MICHAEL JAY WERE ALSO PRESENT. TOPICS COVERED WERE:

- GATT
- CONSEQUENCES OF DANISH REFERENDUM
- ENLARGEMENT
- SUBSIDIARITY
- UK REBATE
- FRONTIERS/ARTICLE 8(A)
- WORKING TIME DIRECTIVE
- EXTERNAL FRONTIERS CONVENTION/GIBRALTAR
- VAT MINIMUM RATES
- FUTURE FINANCING
- SITES OF INSTITUTIONS

GATT
2. THE SECRETARY OF STATE RAISED THIS BEFORE DINNER, EMPHASISING THE BENEFIT TO THE PRESIDENCY AND PARTICULARLY TO THE COMMISSION OF REGISTERING A BREAKTHROUGH BEFORE LISBON: THIS WOULD BE THE SINGLE MOST TELLING WAY FOR THE COMMISSION TO RESPOND TO RECENT CRITICISM OF ITS ROLE. DELORS SAID HE HAD DISCUSSED GATT WITH PRESIDENT BUSH IN RIO WITH DISAPPOINTING RESULTS: BUSH HAD SAID THAT THERE WAS NO FURTHER FLEXIBILITY IN THE US POSITION. DELORS THOUGHT IT A GREAT MISTAKE THAT THE US WAS NOT PREPARED TO PROPOSE A FINAL PACKAGE OF

CONCESSIONS LINKED TO EC MOVEMENT ON A 24% LIMIT ON EXPORT VOLUMES - THIS WAS NOT JUST A COMMISSION VIEW BUT THAT OF THE CANADIANS, BRAZILIANS AND OTHERS. THE SECRETARY OF STATE DESCRIBED SECRETARY BAKER'S DISAPPOINTMENT ON 13 JUNE THAT IT HAD NOT BEEN POSSIBLE FOR HIM TO CONTINUE THE NEGOTIATIONS IN BRUSSELS DURING HIS VISIT TO EUROPE, BECAUSE THE COMMISSION HAD NOT BEEN READY. WE HAD HAD OTHER INFORMATION, FROM CARLA HILLS AND OTHERS - NOT JUST BAKER, THAT THERE REMAINED SOME FLEXIBILITY IN THE US POSITION. WE WERE CONVINCED, AS THE PRIME MINISTER'S MESSAGE HAD MADE CLEAR, THAT WE WERE CLOSE TO THE BASIS OF A DEAL WHICH COULD BE A MAJOR SUCCESS FOR THE COMMISSION AND THE PRESIDENCY. BUT DELORS HIMSELF HAD TO TAKE THIS IN HAND AND NOT LEAVE IT TO OTHERS. (THE SECRETARY OF STATE INTENDS TO UNDERLINE THIS POINT AGAIN IN THE MARGINS OF THE FAC ON 15 JUNE.)

3. DELORS REPEATED THAT HE HAD MADE TWO PROPOSALS ON THE WAY FORWARD, BUT PRESIDENT BUSH HAD BEEN UNABLE TO TAKE THE STRATEGIC DECISION TO STRIKE A DEAL. THE US WERE STILL FUSSING OVER THE DEFINITION OF THE BLUE BOX, THE PEACE CLAUSE AND THE COMMUNITY'S PROPOSED GLOBAL APPROACH ON EXTERNAL SUPPORTS. PRESIDENT BUSH WAS FURTHER BACK NOW THAN HE HAD BEEN TWO MONTHS AGO. THE SECRETARY OF STATE SAID WE HOPED DETAILED POSITIONS WHICH WERE NEARLY AGREED WOULD NOT BE RE-OPENED, WHEN THE GREAT PRIZE OF AN OVERALL AGREEMENT WAS SO CLOSE. KERR SAID THAT THE COMMUNITY SHOULD AIM FOR A MODIFIED APPROACH ON BOXES WHICH ACCEPTED THAT NOT ALL CAP COMPENSATION WOULD GO IN THE BLUE BOX.

CONSEQUENCES OF DANISH REFERENDUM

4. OVER DINNER, THE SECRETARY OF STATE ASKED HOW DELORS SAW THE FRENCH REFERENDUM. IT WAS INCREASINGLY CLEAR TO US THAT THIS WOULD BE A TURNING POINT IN THE RATIFICATION DEBATE ACROSS EUROPE, LEADING EITHER TO RENEWED MOMENTUM OR A BAD SETBACK. DELORS SAID HE PERSONALLY REGRETTED PRESIDENT MITTERRAND'S DECISION TO CALL A REFERENDUM. THIS WAS AN ISSUE FOR PARLIAMENT AND NOT ONE ON WHICH TO CONSULT THE WHOLE ELECTORATE. OPPOSITION IN FRANCE TO THE MAASTRICHT TREATY WAS VARIED AND CONTRADICTORY, BUT A FULL EFFORT WOULD BE NEEDED TO EXPLAIN AND JUSTIFY THE TREATY TO THE FRENCH PEOPLE IN SIMPLE TERMS. THE SECRETARY OF STATE SUGGESTED THAT THERE WAS A RISK THAT THE SECOND REFERENDUM ON CONSTITUTIONAL AMENDMENT WOULD BE TURNED INTO A PLEBISCITE ON THE GOVERNMENT'S POPULARITY. LAMY SAID THAT EITHER OF THE REFERENDUMS COULD BE DIFFICULT, PARTICULARLY IF THEY WERE HELD LATER IN THE AUTUMN AND THEREFORE CLOSER TO THE 1993 LEGISLATIVE ELECTIONS. THE SECRETARY

OF STATE SAID THAT CHIRAC HAD BEEN ENIGMATIC IN PARIS ABOUT HIS LINE ON THE REFERENDUM, BUT WAS WIDELY EXPECTED EVENTUALLY TO JUMP IN FAVOUR. LAMY RECALLED MITTERRAND'S ABSTENTION ON THE REFERENDUM CALLED BY POMPIDOU ON UK ACCESSION, USING THE EXCUSE THAT POMPIDOU HAD MADE IT A TEST OF HIS OWN POSITION. CHIRAC COULD WELL FOLLOW THIS EXAMPLE AND ABSTAIN, IF MITTERRAND GAVE HIM AN OPENING.

5. THE SECRETARY OF STATE SAID THAT THE UK RATIFICATION PROCESS WAS NOW BLOCKED FOR TWO REASONS. FIRST, THE LABOUR POSITION HAD SHIFTED FROM ABSENTION TO OPPOSITION. SECOND, THE NUMBER OF CONSERVATIVE REBELS HAD INCREASED - MANY WHO HAD BEEN PERSUADED TO VOTE IN FAVOUR OF THE PRINCIPLE OF THE MAASTRICHT AGREEMENT WERE NOT NOW PREPARED TO SUPPORT THE COMMITTEE STAGE. THE GOVERNMENT WOULD THEREFORE HAVE NO MAJORITY IF IT PROCEEDED NOW AND WOULD NEED TO WAIT FOR THE IRISH AND FRENCH REFERENDA AND FOR SOME MOVEMENT BY THE DANES (EXACTLY WHAT WAS UNCERTAIN) BEFORE THEY COULD MOVE THE BILL FORWARD. MEANWHILE, OBVIOUSLY, THE GOVERNMENT WOULD NOT WITHDRAW THE LEGISLATION AND THE PRIME MINISTER WOULD CONTINUE TO SUPPORT THE MAASTRICHT AGREEMENT AS GOOD FOR BRITAIN AND FOR EUROPE.

6. THERE WAS A STRONG NEED, THEREFORE, TO IMPROVE THE GROUND FOR MOVING TO THE COMMITTEE STAGE. THE AIM NOW MUST BE TO REMOBILISE A MAJORITY IN FAVOUR OF MAASTRICHT RATIFICATION. THIS WOULD BE HELPED, IF THERE WERE CLEAR PROGRESS ON SUBSIDIARITY AND ENLARGEMENT. SIGNIFICANT MOVEMENT IN THESE AREAS WOULD MAKE A DIFFERENCE WITH THE DANES AS WELL AS IN THE UK.

7. DELORS AGREED THAT IT WAS MOST IMPORTANT THAT THE EUROPEAN CITIZEN GOT A GOOD IMPRESSION OF THE COMMUNITY FROM THE NEXT EUROPEAN COUNCIL. LISBON HAD TO BE MANAGED TO PRODUCE CALM DISCUSSION AND CLEAR, DETERMINED CONCLUSIONS. DELORS WAS CONVINCED THAT THE DANES COULD BE BROUGHT TO SAY YES IN A SECOND REFERENDUM IF OTHER MEMBER STATES SUCCESSFULLY RATIFIED THE MAASTRICHT AGREEMENT. THE FIRST TRICK WOULD BE TO HANDLE LISBON SUCCESSFULLY. IT WAS NOT POSSIBLE TO HAVE AN EMPTY DISCUSSION, BUT IT WAS ESSENTIAL TO AVOID ACRIMONY.

8. DELORS ADDED THAT HE HAD PICKED UP (FROM HIS STUDY OF THE BRITISH PRESS - HE READ THE DAILIES NOT THE SUNDAYS) THAT KINNOCK WAS A CANDIDATE FOR THE PRESIDENCY OF THE INTERNATIONAL SOCIALISTS. DELORS HAD TRIED TO SOW THE THOUGHT THAT A LABOUR NO TO MAASTRICHT WOULD HARM KINNOCK'S PROSPECTS. BUT HE WAS HANDICAPPED BECAUSE HE COULD NOT OFFER ANY GUARANTEE OF THE PRESIDENCY, IF LABOUR AVOIDED

A NO. THE SECRETARY OF STATE SAID THAT KINNOCK WAS, OF COURSE, NO LONGER MASTER IN HIS OWN HOUSE: THE MAASTRICHT ISSUE WAS NOW EMBROILED IN THE LABOUR LEADERSHIP CONTEST. KERR SAID THAT THE LINE NOW EMERGING FROM LABOUR WAS AGAIN DESIGNED TO CONCEAL THEIR DIVISIONS - GOOD PARTY TACTICS, BUT DANGEROUS.

ENLARGEMENT

9. DELORS SAID THAT A GOOD APPROACH WAS NOW EASILY IDENTIFIABLE, BASED ON EARLY NEGOTIATIONS WITH THE EFTANS AND A GOOD PERSPECTIVE FOR THE SMALL STATES AND EAST EUROPEANS (WHO WOULD ALSO HAVE AN ENHANCED POLITICAL DIALOGUE). BUT, IF SPAIN AND OTHERS PRESSED THE LINKAGE WITH CONCRETE RESULTS ON FUTURE FINANCING, THE LISBON DISCUSSION COULD BE DIFFICULT. DELORS HIMSELF HAD SUGGESTED TO THE EUROPEAN PARLIAMENT THAT LISBON MIGHT ONLY PRODUCE SOME FIRST ORIENTATIONS ON FUTURE FINANCING. BUT CAVACO SILVA REMAINED MORE AMBITIOUS - AND NOT JUST ON THE DELORS II PACKAGE: HE ALSO WANTED PROGRESS ON OTHER POLITICAL ISSUES E.G. EC/MAGHREB.

10. THE SECRETARY OF STATE DOUBTED THAT CAVACO SILVA WOULD FIND SUFFICIENT SUPPORT FOR GOING FAR AT LISBON ON DELORS II. BUT IT WAS CLEAR THAT THE UK WOULD NEED TO MAKE A CONSIDERABLE EFFORT ON THIS DOSSIER. DELORS RECALLED THAT IT HAD BEEN A MISTAKE AT THE 1986 COPENHAGEN SUMMIT TO PUSH PREMATURELY FOR A COMPREHENSIVE AGREEMENT: BETTER TO WAIT FOR THE MOMENT OF RIPENESS. THE SECRETARY OF STATE AGREED THAT THE LISBON DISCUSSION SHOULD BE GOOD TEMPERED WITH POSITIVE ELEMENTS ON ENLARGEMENT (AND OTHER ISSUES), AND SOME PERSPECTIVE ON FUTURE FINANCING. HE ASKED SPECIFICALLY WHAT SHAPE THE COMMISSION PAPER ON ENLARGEMENT WOULD TAKE.

11. DELORS SAID THAT HIS VIEW HAD CHANGED. SIX MONTHS BEFORE HE HAD THOUGHT IT WOULD BE NECESSARY TO PRODUCE A COMPREHENSIVE ANALYSIS OF THE INSTITUTIONAL CONSEQUENCES OF ENLARGEMENT. BUT WITH THE EVOLUTION OF DANISH OPINION HE WAS NOW CONVINCED THAT THE BROADER INSTITUTIONAL QUESTIONS SHOULD BE HANDLED AT THE 1996 IGC WITH EFTAN ACCESSION POSSIBLE MEANWHILE. HE WAS TRYING TO PERSUADE HIS COMMISSION COLLEAGUES OF THIS. LAMY SAID THAT IT WOULD BE DIFFICULT TO CONVINCE SOME OF THE COMMISSIONERS THAT THERE WAS NO NEED TO SET OUT A TOUGH LINE ON INSTITUTIONS. KERR SAID THAT THAT WOULD HAVE A DISASTROUS EFFECT ON THE DANES. JAY ADDED THAT THERE WAS NO NEED FOR SEPARATE DISCUSSION OF THE INSTITUTIONAL ISSUES: THE NECESSARY INSTITUTIONAL CONSEQUENCES OF EFTAN ACCESSION COULD EASILY BE HANDLED WITHIN THE EFTAN NEGOTIATIONS. DELORS SAID IT WAS A LESSON OF THE COMMUNITY'S DEVELOPMENT TO DATE THAT WE SHOULD FIRST LEARN TO APPLY THE AGREEMENT IN HAND (IE MAASTRICHT)

BEFORE MOVING TO FURTHER INSTITUTIONAL REFORM.

12. THE SECRETARY OF STATE SAID THAT, ALTHOUGH HE WOULD NOT SAY IT IN PUBLIC, IT WAS A DRAWBACK THAT THE SWISS HAD ALSO APPLIED. THE SWISS POSED PARTICULAR DIFFICULTIES AND, EVEN THOUGH THEY MIGHT NOT THEMSELVES BE READY TO MOVE FORWARD ON THEIR APPLICATION, IT ADDED TO THE BURDEN OF PRESENTING THE CASE FOR EARLY EFTAN ENLARGEMENT. IT WAS UNCLEAR WHETHER NORWAY WOULD STICK TO THEIR TIMETABLE (STOLTENBERG HAD TOLD HIM IN OSLO THAT THEY WOULD). BUT THE REALISATION IN DENMARK THAT NORDIC MEMBERSHIP APPLICATIONS WERE ON THE MOVE WOULD, IN HIS VIEW, HAVE AN IMPORTANT INFLUENCE ON DANISH OPINION. THE MORE IMPETUS, THEREFORE, THAT WE COULD GIVE TO ENLARGEMENT ON THE LINES THAT DELORS HAD DESCRIBED, THE BETTER.

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FINAL PART OF TWO

FROM PRIVATE SECRETARY
SECRETARY OF STATE'S DINNER WITH DELORS, BRUSSELS, 14 JUNE: FULL RECORD

13. DELORS SAID THAT THE COMMISSION HAD TO BALANCE THEIR RESPONSIBILITY TO EXPLAIN THE FULL CONSEQUENCES OF ENLARGEMENT/ WITH THE NEED FOR CAUTION OVER THE REACTION TO THIS IN DENMARK AND ELSEWHERE. INSTITUTIONAL DISCUSSION HAD TO TAKE ACCOUNT OF DEVELOPMENTS BETWEEN NOW AND 1996 E.G. IN STAGE II OF EMU. THIS SUPPORTED THE 1996 TIMING.

14. THE SECRETARY OF STATE SAID THAT HE WAS NOT IN FAVOUR OF ANY LENIENCY TOWARDS THE EFTANS OVER NEUTRALITY. DELORS SAID THAT THE COMMISSION WERE READY TO PRODUCE THEIR AVIS ON SWEDEN IN JULY WHICH WOULD COVER THIS (LAMY DOUBTED THE JULY TIMING). THE AUSTRIAN AVIS WAS ALREADY OUT. THE AVIS ON FINLAND COULD FOLLOW IN THE AUTUMN. THIS WOULD ALLOW EDINBURGH TO DECIDE IN PRINCIPLE ON THE OPENING OF NEGOTIATIONS. MRS BRUNDTLAND HAD BEEN LESS OPTIMISTIC WHEN DELORS HAD LAST SPOKEN TO HER ABOUT THE NORWEGIAN TIMETABLE. (THERE WERE CALLS NOW IN NORWAY FOR A PRIOR REFERENDUM ON THEIR APPLICATION.) IT SHOULD BE CLEAR THAT THE NEGOTIATIONS WITH THE EFTANS WERE NOT A PACKAGE BUT SEPARATE NEGOTIATIONS WITH EACH COUNTRY. THE COMMISSION AVIS ON NORWAY AND SWITZERLAND WOULD PROBABLY NOT BE AVAILABLE BEFORE EDINBURGH.

15. REVERTING TO THE COMMISSION ENLARGEMENT PAPER, DELORS SAID THAT HE HAD SET ASIDE TWO HOURS ON 15 JUNE TO CONVINCE ANDRIESSEN OF THE RIGHT WAY FORWARD. IF HIS COLLEAGUES WERE UNABLE TO AGREE HIS APPROACH HE WOULD PREFER TO BRIEF THE SUMMIT ORALLY. IT WAS ALREADY DECIDED THAT THE COMMISSION PAPER WOULD NOT APPEAR BEFORE THE FOREIGN MINISTERS' CONCLAVE ON 20 JUNE. THE SECRETARY OF STATE CONCLUDED THAT IT WOULD BE REASONABLE FOR THE COMMISSION TO SKETCH

OUT THE CONSEQUENCES OF ENLARGEMENT, PROVIDED IT WAS CLEAR THAT THESE NEEDED TO BE ANALYSED IN 1996, NOT BEFORE, AGAINST EXPERIENCE MEANWHILE.

SUBSIDIARITY

16. THE SECRETARY OF STATE SAID THAT, IF IT WERE POSSIBLE TO MAKE CLEAR AT LISBON THAT THE COUNCIL, THE COMMISSION AND, EVEN, THE EUROPEAN PARLIAMENT, WERE DETERMINED TO APPLY SUBSIDIARITY IN PRACTICE, THIS WOULD RESPOND TO THE MOST NEURALGIC PROBLEM WHICH MOST MEMBER STATES FACED. DELORS SAID THAT THE DIFFICULTY LAY IN FINDING THE RIGHT GENERAL WORDING FOR LISBON. HE THOUGHT IT IMPORTANT TO DISTINGUISH BETWEEN THE NEED FOR BROAD PRINCIPLES TO BE REGULATED AT EUROPEAN LEVEL AND THE ESSENTIAL FLEXIBILITY WHICH SHOULD BE BUILT INTO DETAILED IMPLEMENTATION BY MEMBER STATES. WITH MUTUAL CONFIDENCE THESE TWO COULD BE COMBINED HAPPILY (HE HAD IN MIND HIS DIFFICULTY WITH MR HOWARD'S PROPOSAL FOR COMMUNITY INSPECTORS OF MEMBER STATES INSPECTORS).

17. KERR PICKED UP DELORS' RECENT PUBLIC REFERENCES TO DEVELOPING GROUND RULES FOR THE OPERATION OF SUBSIDIARITY. COULD DELORS NOT PUT FORWARD THESE IDEAS FORMALLY AT LISBON? LAMY POINTED OUT THE DIFFICULTY OF APPLYING SUBSIDIARITY IN DETAIL: IN THE SINGLE MARKET FOR INSTANCE THERE WAS PRESSURE FOR DETAILED REGULATION TO ENSURE A LEVEL PLAYING FIELD ACROSS THE COMMUNITY. DELORS SAID THAT HE HAD ALREADY SOON AFTER THE MAASTRICHT COUNCIL PUT WORK IN HAND ON DEVELOPING THE BARE CONCEPT OF SUBSIDIARITY. THE SECRETARY OF STATE SAID THAT THIS NOW ONLY NEEDED TO BE ACCELERATED. KERR SUGGESTED THAT THE PACKAGE INCLUDE AN EXAMINATION OF AREAS WHICH MIGHT BE RETURNED TO MEMBER STATE COMRETENCE. IN THIS WHOLE AREA, IT WAS MUCH MORE EFFECTIVE IF THE COMMISSION TOOK THE LEAD. THEY WOULD HAVE CHANCELLOR KOHL'S SUPPORT. DELORS SAID THAT HE HAD ALREADY COMMISSIONED A SHORT PAPER ON HOW TO PROTECT AGAINST TOO MUCH CENTRALISATION. IF THIS TURNED OUT WELL, HE WOULD USE IT AS THE BASIS FOR A PROPOSAL AT LISBON.

18. IN A LATER DISCUSSION OF INFRACTION PROCEDINGS, DELORS IDENTIFIED THE ENVIRONMENT, COMPETITION POLICY AND AND (SELECTIVELY) TEH INTERNAL MARKET AS AREAS IN WHICH SUBSIDIARITY COULD USEFULLY BE APPLIED.

UK REBATE

19. THE SECRETARY OF STATE SAID THAT, IN ADDITION TO THOSE COMMUNITY ISSUES, HE WISHED TO RAISE THREE ISSUES OF PARTICULAR

SENSITIVITY FOR THE UK. FIRST, THE COMMISSION PAPER ON THE UK REBATE. THE COMMISSION HAD AN OBLIGATION TO PRODUCE THIS, BUT THE PAPER SHOULD BE ANALYTICAL ONLY, AND NEUTRAL IN TONE: AND, ON TIMING, IT WAS IMPORTANT THAT THE PAPER NOT BE PRODUCED BEFORE LISBON. HOWEVER NEUTRALLY IT WAS CAST, A PAPER BEFORE LISBON WOULD BE SEEN AS A DELORS ATTACK ON THE THATCHER SETTLEMENT. DELORS SAID THAT AT ECOFIN HE HAD HIMSELF PROPOSED POSTPONEMENT OF THE PAPER UNTIL AFTER UK RATIFICATION. MR LAMONT HAD NOT COMMENTED, BUT KOEHLER (FRG) HAD ATTACKED DELORS. DELORS THOUGHT IT POSSIBLE AT LISBON TO ADOPT 3-4 ORIENTATIONS ON FUTURE FINANCING WITHOUT TOUCHING ON THE UK REBATE. BUT HE WOULD NEED TO TALK TO CHANCELLOR KOHL ABOUT THIS.

20. THE SECRETARY OF STATE SAID THAT SOME TIMINGS MIGHT BE LESS BAD FOR US. HE WOULD LIKE TO GET BACK TO DELORS ON THIS POINT, AFTER TALKING FURTHER TO THE CHANCELLOR. HE REPEATED THAT IT WAS IMPORTANT TO AVOID A PAPER BEFORE LISBON. DELORS RAISED THE POSSIBILITY OF SPLITTING THE DOCUMENT INTO TWO, AN ANALYSIS OF THE HISTORY OF THE REBATE (WHICH HE IMPLIED MIGHT BE PRODUCED FOR LISBON) AND A PROPOSAL ON THE WAY FORWARD (WHICH WOULD COME LATER). KERR SAID THAT IT WAS IMPORTANT THAT ANY FIRST DOCUMENT SHOULD NOT CONTAIN ANY PROPOSAL: THE COMMISSION MIGHT LATER BE OBLIGED TO PRODUCE A RECOMMENDATION IN RESPONSE TO A REQUEST E.G. FROM GERMANY, BUT THAT WOULD BE SEEN DIFFERENTLY.

21. ON TIMING, WILLIAMSON CONCLUDED, HALF JOKINGLY, THAT AFTER LISTENING TO THE DISCUSSION HE HAD PENCILLED 31 JULY FIRMLY IN HIS DIARY.

FRONTIERS

22. SECOND, THE SECRETARY OF STATE SAID THAT HE WANTED AGAIN TO RECALL THE EXTREME SENSITIVITY OF FRONTIERS/ARTICLE 8A FOR THE UK. THE HOME SECRETARY HAD HAD A PRODUCTIVE DISCUSSION WITH BANGEMANN ON 11 JUNE. THE NEED REMAINED FOR A POLITICAL, NOT LEGAL, APPROACH. DELORS SAID THAT IT ALL DEPENDED ON UK INTENTIONS FOR HANDLING MOVEMENT OF PERSONS FROM 1993. THE SECRETARY OF STATE UNDERLINED AGAIN THE IMPORTANCE OF AVOIDING A LEGAL CLASH.

WORKING TIME DIRECTIVE

23. THE SECRETARY OF STATE NOTED DELORS' FAMILY CONNECTION (THE FRENCH SOCIAL AFFAIRS MINISTER, MME AUBRY, IS DELORS' DAUGHTER), AND UNDERLINED THE INTENSIVE EFFORTS WHICH MRS SHEPHERD WAS MAKING TO TRY TO REACH A SETTLEMENT WHICH ALL COULD ACCEPT.

EVEN MME PAPANDREOU WOULD ACKNOWLEDGE THIS. DELORS MADE NO COMMENT (IN PART BECAUSE HE WAS DIVERTED ONTO ANOTHER ISSUE, BUT HE MAY ALSO HAVE CONSIDERED THAT THE DOSSIER WAS ON THE WAY TO RESOLUTION).

EXTERNAL FRONTIERS CONVENTION

24. THE SECRETARY OF STATE EXPLAINED THAT GONZALES APPEARED TO BE BLOCKING THE PRESIDENCY COMPROMISE SOLUTION, WHICH THE UK HAD ACCEPTED, AND ASKED FOR DELORS' HELP WITH GONZALES. DELORS EXPRESSED SURPRISE THAT IT WAS GONZALES OF ALL THE SPANISH PRINCIPALS WHO WAS DIGGING IN HIS HEELS. PERHAPS IT WAS NOT A FINAL POSITION. HE IMPLIED THAT HE WOULD WEIGH IN TO TRY AND SHIFT THE SPANISH POSITION.

VAT MINIMUM RATES

25. DELORS RAISED THIS, ASKING WHY THE UK WERE OPPOSED. KERR SAID THAT THERE WERE THREE MAIN OBJECTIONS. FIRST, THE ARGUMENT FROM PRINCIPLE (A MINORITY VIEW, BUT STRONGLY HELD) THAT ANY LEGALLY BINDING INSTRUMENT IN THIS AREA WAS AN INFRINGEMENT OF FISCAL SOVEREIGNTY AND THEREFORE TO BE RESISTED. SECOND, THERE WAS A PRACTICAL ARGUMENT THAT WE NEEDED TO RETAIN THE ABILITY TO REDUCE VAT, E.G. TO PRESERVE FISCAL NEUTRALITY IF OTHER TAXATION HAD TO BE INCREASED. THIRD, VAT MINIMUM RATES WERE INCLUDED IN A PACKAGE WHICH INCLUDED FIVE OTHER ELEMENTS WHICH WOULD DAMAGE IMPORTANT UK SECTORAL INTERESTS, NOTABLY THE PROPOSED EXCISE DUTIES ON WHISKY, AND THE REGULATION ON WORKS OF ART. DELORS WONDERED WHY OTHER COUNTRIES WERE WILLING TO ACCEPT THE PROPOSALS AND DID NOT SHARE THESE OBJECTIONS OF PRINCIPLE. LAMY POINTED OUT THAT FOR SOME OTHER MEMBER STATES IT WAS ESSENTIAL TO HAVE A LEGALLY BINDING COMMUNITY INSTRUMENT SO THAT THEY COULD JUSTIFY TO DOMESTIC OPINION THE NEED TO INCREASE THEIR VAT RATES.

FUTURE FINANCING

26. AT THE END OF DINNER, DELORS RETURNED TO DELORS II, REPEATING SOME POINTS MADE EARLIER. HE NOTED THAT THERE HAD BEEN CONSIDERABLE INTEREST AT ECOFIN IN THE IDEA OF EXTENDING THE PERIOD OF THE PACKAGE SO THAT IT RAN TO 1999. ON THE OWN RESOURCES CEILING, HE SAID FIRMLY THAT THE UK POSITION WAS NOT REALISTIC: IT WAS NOT POSSIBLE TO FULFIL THE MAASTRICHT COMMITMENTS UNDER A 1.2% CEILING. AS FOR LISBON, IT WOULD BE IMPORTANT TO AGREE 2-3 CONCRETE ORIENTATIONS ON FINANCING. THESE MIGHT INCLUDE A REQUEST TO THE COMMISSION TO STUDY THE CONSEQUENCES OF EXTENDING THE PACKAGE TO SEVEN YEARS. WITHOUT SUCH AGREED ORIENTATIONS, HE FEARED A CONFRONTATION AT LISBON OVER ENLARGEMENT.

27. THE SECRETARY OF STATE SAID THAT TIMING MIGHT BE ONE IMPORTANT ASPECT TO CONSIDER AT LISBON. DELORS SAID HE INTENDED TO RAISE THE ENLARGEMENT/FINANCING CONNECTION WITH THE PRIME MINISTER AT THEIR DINNER ON 23 JUNE. KERR SAID THAT IT WAS ALSO NECESSARY TO REDUCE SPANISH EXPECTATIONS FROM LISBON ON COHESION. DELORS AGREED: THE SPANISH HAD TO REALISE THAT COHESION WAS ONLY ONE PART OF A LARGER NEGOTIATION, WHICH COULD NOT BE SETTLED IN ADVANCE. IT MIGHT BE POSSIBLE TO DIVERT THEM WITH SOME LANGUAGE ON THE STRUCTURAL FUNDS (LAMY DOUBTED THAT THIS WOULD BE ENOUGH).

SITES OF INSTITUTIONS

28. DELORS EXPRESSED GENERAL FRUSTRATION AT THE CONTINUED IMPASSE (HE CITED THE BLOCK ON THE OTHERWISE AGREED ENVIRONMENT REGULATION, FOR LACK OF AGREEMENT ON A SITE FOR THE ENVIRONMENT AGENCY). HE SAID THAT CAVACO SILVA INTENDED TO PROPOSE A PACKAGE SOLUTION AT LISBON. HE UNDERSTOOD THAT FRANCE AND BELGIUM HAD COME TO AN AGREEMENT ON THE EUROPEAN PARLIAMENT. THE ECB WAS NOTED AS A MAJOR PROBLEM STILL UNRESOLVED. THE BRITISH SIDE EXPRESSED DOUBTS THAT ANY PACKAGE WOULD BE RIPE FOR AGREEMENT AT LISBON.

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EXTRACTS FROM DELORS' SPEECH TO THE EUROPEAN PARLIAMENT, 10 JUNE 1992

Subsidiarity

"We must resolutely apply the principle of subsidiarity. I have been speaking about this for several months. We must apply it in distinguishing areas of competence: areas of exclusive Community competence, areas of competence which remain with national governments. We must also apply subsidiarity when implementing measures. I mentioned that just now when talking about the Delors II package: building upon mutual trust between member states will avoid many useless, irritating or incomprehensible control."

"We must also adopt a lighter legislative programme. I remember that completion of the Single Market required the approval of 300 Community laws but afterwards, from 1993 onwards, it will simply be a case of managing the Single Market, of making sure it works well. As a result, legislative work will play a less important role. There is no need for us, afraid of being unemployed, to propose laws for the sake of it."

"We must clarify the debate on national sovereignty. Quite simply, it is a question of sharing the exercise of sovereignty in certain areas which are well defined by the Treaty. There is a simple motivation for this: strength in unity."

"We must discover simplicity, which must lead to an examination of our collective conscience, first of all in the Commission so that the pen is lighter and the text clearer. But we also must not forget, on this same subject, that the search for compromise at Council level results in texts which are too complicated or even incomprehensible."

Chancellor Kohl in Bundestag, 17 June

At the same time, and against some opposition, we managed to anchor in the Treaty a clearly formulated principle of subsidiarity - and with it the development in the direction of a Federal Europe.

I shall work so that we achieve a sensible and appropriate extension of the participation of the Federal Laender in questions concerning the European Union. Work on an appropriate amendment to the Federal German constitution is already well advanced. We want a federally constructed Germany in a federally structured Europe.

In accordance with the principle of subsidiarity, European institutions must clearly restrict themselves to matters which absolutely have to be decided at the European level, not more, but not less.

This principle means an unmistakable rejection of a centralised Europe, of a bureaucratic Moloch*

The European Community must concentrate more clearly than in the past on establishing the underlying framework in the central areas of common interest. This is in the interest both of EC citizens and of the Community's ability to take action effectively.

This also means that we must re-examine critically the regulations which the Community has created in the past.

In Brussels, but certainly also in our national administration, we have in the past often been too perfectionist, too bureaucratic. Naturally we need fair conditions of competition in Europe. But not everything has to be regulated down to the smallest detail.

I have therefore suggested that the European Council in Lisbon discuss how we can apply the principle of subsidiarity more effectively in the future.

We want a Europe which is characterised by the richness of its cultural and linguistic diversity, of the experiences and traditions of its member states - a Europe which protects national and regional identities, and leaves them the necessary room in which to flourish.

A future European union is indeed no melting pot in which national identities disappear. It is much more a common roof, under which German, French or Italians [sic] live.

Only in this way can Europe survive - only in this way will our citizens accept it; only in this way does it have a future.

* Moloch is a Canaanite idol to whom children were sacrificed.

cc RB
VB'up

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Secretary of State

Stephen Wall Esq CMG LVO
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22nd **June 1992**

Dear Stephen,

WORKING TIME DIRECTIVE: PRIME MINISTER'S MEETING WITH MR DELORS

I understand that at this morning's meeting on the working time directive, the Prime Minister mentioned that he would be meeting Mr Delors tomorrow and that he hoped to raise the working time directive, and particularly the presentational difficulties posed by the directive in the UK. I attach speaking notes which the Prime Minister might wish to draw upon in the meeting.

I am copying this letter to Christopher Prentice (FCO) and Sonia Phippard (Cabinet Office).

Yours,

Steve

STEVE TURNER
Private Secretary

Employment Service
Health and Safety Executive · ACAS

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RECYCLED PAPER

BRIEF FOR PRIME MINISTER'S MEETING WITH PRESIDENT DELORS

WORKING TIME DIRECTIVE

- As you know, the UK does not want the Working Time Directive, and never has. It would be highly damaging to UK industry in its present form. The worst aspect of the Directive, the 48-hour maximum working week - not part of the Commission's original proposals - would hit the pay packets of 2.5 million people who regularly work more than 48 hours a week.

- Imposition of a Directive as it stands would be a disaster for the UK's role in the Community. Public and Parliamentary opinion already inflamed against 'centralism' and 'Brussels bureaucracy'. If the UK is isolated on WT Directive, ratification of Maastricht Treaty will be vastly more difficult. How can we ask the UK public and Parliament to trust assurances about 'subsidiarity' if a quite unnecessary Directive is forced upon us even under the existing Treaty?

- Therefore much better not to force a vote on 24 June. Even if a tolerable outcome is reached on the main issues, there are still many 'second order' points which have not been properly resolved. Danger that the Directive will be botched and unworkable if a vote is taken too soon. If the 24 June Council can settle the main points in a way the UK can live with, we would handle the remaining points constructively.

- Three absolutely crucial points for the UK:

    - the 48 hour week

    - Sunday rest

    - derogations for collective agreements.

- All of these are vital to us. If the outcome on any of them is not satisfactory the UK will resist the Directive with the utmost vigour, and the controversy in the UK will be huge.

- On the 48-hour week, we are glad that there seems to be support for allowing employees to work voluntarily for more than 48 hours a week, subject to safeguards for health and safety. This seems a good way forward. But we cannot accept the Presidency's proposal to set a time limit on the option. It must be unlimited. [If pressed to compromise: At most we might accept some provision allowing the Council to consider, after 5 years of implementation of the Directive, the operation of the provision, with no presumption that it should be ended.]

- On Sunday rest, we were glad the April Council agreed that this should not be obligatory on Member States. We need to make this legally watertight. A declaration of intention by the Commission and Council would not be enough. Pressure groups in the UK would find a way to take it to Court. This would be embarrassing for everyone - including the Commission. [If pressed to say whether an addition to the Preamble would be sufficient (as Commission officials have suggested): Our lawyers do not think this would be safe to rely on, but it would be better than just a declaration. We would need to look very closely at the wording.]

- On derogations for collective agreements at local level, we were pleased with the Commission's suggestion at the April Council that the appropriate level should be left to Member States to decide. Disappointed that the Presidency's latest proposals do not reflect the consensus of the April Council (of all except the French and Belgians). Hope the Commission will stick to their guns. It remains a key issue for the UK.

- Of the second order points, one of the most important is the scope of the Directive. We are still very anxious that a few areas of work should be excluded from the Directive: notably work at sea (such as oil rigs and diving operations); the armed forces and police (where it is agreed that they should be excluded and we want to be sure that they are); and medical training, where we and Ireland would have severe problems with hospital staffing if the Directive is not amended.

- Mrs Shephard will be aiming to discuss these issues constructively tomorrow. There has been good progress since the April Council but there is still some way to go. Hope Mrs Papandreou will assist Member States to make further efforts in the direction I have indicated. After all, the most difficult aspects of the Directive for the UK were not proposed by the Commission. The Commission will enhance its image in the UK if it helps us find a way through the problems.

- Also very important to present the outcome properly to the media. Some of Mrs Shephard's good work at the April Council was undermined by slanted reporting that made it seem she had been forced into concessions. Hope the Commission and Mrs Papandreou will be conscious of the extreme political sensitivities on this Directive in the UK.

- Finally to repeat the key point. If an unsatisfactory outcome is forced on the UK tomorrow it will have the most damaging repercussions on Maastricht ratification and the UK's role in the Community more widely.

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14 May 1992

J S Wall Esq CMG LVO
No 10 Downing Street

Dear Stephen

DELORS: 23 JUNE

As agreed, I have confirmed with Lamy the plan for dinner at No 10 on 23 June, kick-off 7.30pm.

He was pleased that the fixture date was firm, and didn't renew his bid for an earlier kick-off.

Yours ever

E R Rea

PP John Kerr

cc: C N R Prentic Esq, PS/Secretary of State
M H Jay Esq, FCO

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14 May 1992

J S Wall Esq CMG LVO
No 10 Downing Street

Dear Stephen

DELORS: 23 JUNE

As agreed, I have confirmed with Lady [illegible] the plan for dinner at No 10 on 23 June, kick-off 7.30pm.

He was pleased that the fixture date was firm, and didn't renew his bid for an earlier kick-off.

Yours ever

E R Rea

pp John Kerr

cc: C N R Prentic Esq, PS/Secretary of [illegible]
M A Jay Esq, FCO

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Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

12 March 1991

Christopher Prentice Esq
Private Secretary to the
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

A rather more coherent Delors than you had to deal with. CTBD 13/3.

Dear Christopher,

CHANCELLOR'S LUNCH FOR PRESIDENT DELORS, 7 MARCH 1991

The Chancellor gave a lunch at Lancaster House on Thursday, 7 March for President Delors, who was accompanied by Pascal Lamy and Joly Dixon. Sir Peter Middleton and Mr Wicks were also present.

2.

3. After some purely social exchanges the Chancellor made a speech of formal welcome. Delors having left the choice of an opening topic of discussion to the Chancellor, we kicked off with Barber.

Barber

4. The Chancellor explained that private sector pension provision was much more extensive in the UK than elsewhere in the Community. The recent ECJ judgement on the "Barber" case would impose substantial costs on UK industry, even if we interpreted it to refer only to future service. On one view, which was simply not practicable for the UK, the judgement also had retrospective effect. It was vital to the UK that we found a way through and he

hoped that the Commission would adopt a practical approach on this issue.

5. Delors said there were many possible interpretations of the judgement. For his part, he agreed that retrospection was impossible. He assured us that there was no danger that retrospection would be required, though he somewhat undermined this reassurance by referring to it later as a "personal" interpretation. The Commission had to "walk closely" with member states. He entirely recognised the problem which retrospection caused for the UK. He would ask Sir Leon Brittan and Mme Papandreou to cooperate with the UK authorities. It was a matter of concern for the Commission that a sensible solution should be found.

6. M. Lamy pointed out that the relevant EC legislation allowed for national derogations. Sir Peter Middleton pointed out that if, as the ECJ had suggested, the issue was one of compliance with the terms of the Treaty, rather than with the equal treatment Directive, a derogation would not help. Delors agreed that this made the problem more difficult. However, he insisted that the judgement was a purely theoretical one, which took no account of the practicalities. He observed that the existing pattern of benefits and contributions reflected a policy of positive discrimination between the sexes which was, he argued, the result of free collective bargaining between the sexes!

EC expenditure

7. Delors said that, following the recent ECOFIN lunch discussion on spending pressures in the Community, he had it in mind to make a personal presentation to a future ECOFIN meeting, probably in April on future financing under a range of possible scenarios. A lot of issues were coming up: the financial perspective from 1993, the CAP price fixing and longer term ideas for reform, the review of Community Structural Funds, the Community's own resources, the Budget guideline and discipline. Mr Wicks asked about the timetable for all this. Delors said he envisaged very early examination by each member state, followed by a discussion in the IGC (not clear which one). The aim must be to have a proposal on the financial perspective ready before January 1992. When Mr Wicks queried the connection with the IGCs, Delors replied that Ireland, Portugal, Spain and Greece had already called for an explicit link.

8. Continuing, Delors said that the Community lacked a good financial decision-making process. At present, responsibilities were divided between different Councils, and it was difficult to establish a clear view of what was and was not possible. Introducing some order into this process was not easy given that each Council had an independent status under the Treaty. Mr Wicks noted that the Treaty provided for individual Councils to be given special powers, though doubtless all Councils would argue for

equivalent 'special' powers if we went down that route. Sir P Middleton added that it should be, nonetheless, possible to replicate, at Community level, the kind of arrangements which individual governments had for ensuring coherence and discipline in financial decision taking.

EMU

9. The Chancellor asked how Delors saw discussions on EMU developing. Delors began by telling us that surveys of informed opinion in Germany found that three out of five respondents were against EMU. There would only be progress on EMU if there were also progress on political union. German opinion regarded the DM as the symbol of the new Germany. There were also fears that a move to EMU might undermine the much valued monetary stability which the Bundesbank had achieved. So unless Germany regarded the outcome on political union as successful, it would be difficult to make progress on EMU. Delors did not dispute Mr Wicks' comment that others, apart from the UK, had considerable difficulties with German ideas on political union, notably with the proposal for increased powers for the European Parliament. He thought Kohl attached most significance to two key points: the "democratisation" of European institutions and the establishment of a common foreign policy. The Chancellor said that Kohl appeared to be, nonetheless, a strong supporter of EMU. Lamy suggested that he saw acquiescence in EMU as the price for closer integration of Germany into the European Community, which was his main objective.

10. At this point Delors said he thought the IGC on political union was being very badly handled, and no satisfactory decision-making process had been established. He thought the June European Council might step in to reorganise and give some orientation to the work. He did not rule out a Council discussion on EMU at the same time.

11. Mr Wicks said that the state of discussion in the IGC on political union contrasted with the orderly, if slow, progress of the IGC on EMU. There were differences, of course, but there was a coherence to the discussions which was lacking in the other IGC. The Chancellor said that there were a range of views on EMU, with France and Germany some distance apart and perhaps even diverging. There was also a range of views over UK proposals. But he had been surprised in a number of bilateral discussions by the extent to which contact was possible, though he feared that in the last analysis the UK might still stand alone.

12. Mr Wicks referred to Mitterrand's "four pillars" of a new European order. Debate had so far skirted around these ideas: how did Delors envisage they would be discussed? Delors said he disagreed with the French approach. It was also unhelpful that there was no authoritative exposition of it. French Ministers

referred grandly to a new structure to replace the EC Treaties, but the detail varied depending upon who was talking.

13. The Chancellor suggested that the French Government were divided on EMU. Delors agreed. Berogovoy was reluctant, but it was Mitterrand who was in charge.

14. Delors then said that, in practice, only France, Germany and the UK would influence the outcome on EMU. The others were not firmly positioned in the debate. If a trilateral agreement was worked out it could be implemented. If not, progress would be stalled. The fact that the UK was participating actively had made a fundamental difference. The Chancellor demurred at this as mere politesse. In reality, agreement between France and Germany alone would be sufficient to unblock the negotiations. But was that likely? What would Mitterrand and Kohl sort out between them? Delors thought that the outcome would be a horse trade. Mitterrand might be prepared to accept enhanced powers for the European Parliament in return for greater powers for the European Council. If so, it would be at the expense of the Commission. He did not object to this provided it resulted in more, not less, efficiency. He interpreted the Commission's role as sustaining momentum between Council decisions. But if there were fragmentation, with each Council serviced by a separate Secretariat, the process would be less efficient and less cohesive. In response to a question from Mr Wicks, Delors thought that, if faced with a straight choice, Kohl would prefer a fully independent Bank to enhanced powers for the European Parliament. Mr Wicks agreed. If an ESCB were granted full independence under the Treaty it would be very difficult to rein back subsequently. But it would remain possible to increase the powers of the European Parliament.

15. Delors said that, with GEMU under his belt, Kohl's final target was to "put the European train on the rails". This contrasted with Mitterrand's key objective, which was to establish EMU, which he saw as a means to increase French influence in economic decision-taking.

16. The Chancellor commented on the awkwardness of Beregovoy's position. Delors said it reflected the usual difference of perspective between finance and foreign Ministries. Continuing, he said that ESCB independence raised a number of difficulties for France. French opinion would support an outcome in which France retained a say in issues affecting the currency. It would not support a move to a DM zone. The Tresor was concerned to maintain the discipline of the exchange rate constraint. Monetary policy had been directed to the maintenance of external stability for twenty five years. The Tresor was also concerned that the absence of a more immediate external constraint would weaken their hand in relation to domestic spending. Another concern was to prevent German protectionist instincts from finding expression. There were also fears that, after Kohl had disappeared from the scene;

Germany might view Europe as an obstacle to expansion. The Chancellor disputed this. Regardless of the outcome on EMU, surely Germany would be the motor of growth in Europe, both East and West? Market forces would see to this. Delors said that the fear of Germany was a psychological hangover from the war. The posture of Germany and Japan during the Gulf War reflected the sensitivities. But it remained possible that economic nationalism might resurface in either country. The Chancellor disagreed. Post-unification Germany was already a different nation with a different psychology. Market forces would dictate economic developments, not the politics or psychology. He had always assumed that EMU was an economic concept with economic benefits, not pure politics! Delors acknowledged that EMU was political. Under current monetary arrangements, Germany's room for manoeuvre was still considerable. But from 1993 it would be more restricted. EMU was a form of joint decision-shaping which explained the negative attitude of the informed classes in Germany.

17. The Chancellor reverted to the UK's position. Delors has perhaps flattered us over the UK's influence. But we had tried to avoid confrontation. Maybe in the longer term, there would be some evolution. He would prefer to proceed in this way, responding to market pressure. In the meantime, the UK would be looking constructively for areas of agreement in the discussions ahead.

18. Delors said that he saw two key differences between the Commission and the UK. First, we did not have much time left to get Germany fully involved. Hence the emphasis on setting timetables. Second, he had after long reflection, concluded that the parallel currency route to EMU was not possible. The costs would be greater than the benefits. He did not see how a currency "without content" could help matters (but perhaps he was wrong?).

19. The Chancellor said he believed that the hard ecu would be attractive to business. Indeed he had already been approached by one business wanting to pay tax in ecu. He believed our proposals were workable. We had studied the technical details carefully, and discussed them bilaterally with others. He believed that once established in commercial use, wider use of the hard ecu would grow. Whatever the route chosen, a difficult transition would, at some point, have to be managed. The French and Spanish had also put forward ideas for a "hardened" ecu. We would also look at these carefully.

20. Delors then said he was concerned that the ecu market was not adequately managed. He referred to the market reception of the recent Italian ecu bond issue following on the heels of the Belgian and UK issues. He was inclined to raise the possibility of organising a queue for the ecu bond primary market at a future ECOFIN, possibly over lunch. Sir Peter Middleton said that we should be cautious about moves to increase regulation of the bond

markets. In the UK, we had abandoned the queuing system which used to operate in the corporate bond market, without adverse effects. Mr Wicks said that the UK issue had not caused any crowding out. On the contrary, the market had demanded more than we had originally offered. M Lamy rather undermined Delors by commenting that the Italian issue had run into problems because it had been incorrectly priced, and the size of the issue was over-ambitious.

Agriculture

21. The Chancellor said that the recent Agriculture Council discussion had been very disappointing. The UK had found itself practically isolated from the need for measures to restore financial discipline. Even the Dutch and the Danes were against us.

22. Delors said that it was impossible to have both a tough deal on price reductions and a tough reform package (he did not explain what reform without price reductions might amount to). Of the two, he would opt for the latter. He had told MacSharry that if he persisted with his present package, he would provoke a political crisis in the EC and the prospect of reform would be lost. However, the existence of proposals for reform had helped the negotiations over GATT. In his view, it was impossible to get EC agriculture prices down to world levels, while matching the level of US subsidy for agriculture. However, he believed that it would be possible to get agreement on a decent package, provided the US were prepared to make some compromises, at prices which were nearer than now to world levels. He hoped to discuss the issues with Mr Baker, who had been helpful. He would also take the opportunity to thank the Prime Minister for his helpful contribution at the last European Summit.

USSR

23. Delors said that the key difference between Eastern Europe and the USSR was that the Communist Party remained influential in the USSR. As a result, Gorbachev had to struggle to implement whatever reforms he adopted. The Chancellor said that he understood Gorbachev to be rather bitter at the West's reaction to the events in the Baltics and had argued predictably that any alternative leader would be less attractive to the West. Delors said he could understand Gorbachev's resentment, but that it would have been impossible for the West to behave otherwise. It would have been much better if the Baltic states had looked for some kind of federal solution. The Chancellor said that, in his view, the real tragedy was Gorbachev's apparent loss of interest in economic reform. Delors disagreed with this. When he met Gorbachev, he spoke and sounded like a real economist. There was some further discussion of the depth of economic incomprehension in the USSR, though Delors stuck to his guns on Gorbachev, saying

that perhaps there were two or three different Gorbachevs depending on who he was speaking to.

24. I am copying this letter to Charles Powell (No. 10), Alan Woods (DSS), Andy Lebrecht (MAFF) and Paul Tucker (Bank of England).

Yours Tarkowski.

T TARKOWSKI
Private Secretary

The National Archives

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MEETING WITH JACQUES DELORS

Introduction

- very glad to have this sort of meeting, which you hope will become a regular feature.

- enquire about his speech earlier in the evening to the Institute for Strategic Studies.

- underline the reasons why we think NATO not the Twelve must remain the corner-stone of defence. [His speech will argue for an EC role]

- explain your thinking generally on a common foreign policy, on the lines of your German television interview.

EMU

- there are real concerns, particularly in Parliament, about the far-reaching political and constitutional changes involved in EMU; Parliament would not accept a treaty with a commitment to move to a single currency.

- but we want an agreement acceptable to all Twelve and are working constructively to that end; our proposals are aimed at achieving progress on monetary integration in Stage II.

  - we recognise the treaty will have to deal with Stage III

  - we are not trying to prevent others from committing themselves now to an eventual single currency.

For our part, any such move would require a further decision, at the right time, by Westminster.

Political Union

- we want a more coherent European foreign and security policy; UK draft text now tabled marks a genuine step forward; but while we want common positions on a wider range of foreign and security issues, defence must be kept separate.

- as we develop new European structures, it is crucial that the transatlantic link is well established - this requires all the more effort in a post-Cold War period.

- we see no need to change the overall institutional balance within the Community, and are sceptical about radical proposals for amending, for example, decision-making procedures. We oppose wholesale extension of qualified majority voting under the Treaty; or significant extensions of competence.

- we have to get the Treaty through Westminster. That is a political fact of life. We may need Delors' help in moderating excessive demands for change.

CAP Reform

- support desire to reform the CAP. We worked closely with the Commission in 1987/88 and will do so again.

- both for GATT and budgetary reasons, we must keep the 1991 price-fixing within the guideline. Raising the guideline would send quite the wrong signal.

Gulf

- Europe's role variable. Should incline people to be more sober in their assessment of the scope for a common foreign policy.

- give him an account of moves to set up regional security arrangements. Its for the Arab countries themselves to say what they want.

- economic reconstruction primarily for the countries of the region. Do not see a major economic role for the EC: there is no shortage of money in the region.

Soviet Union

- give him an account of your talks with Gorbachev and your assessment of the situation in the Soviet Union.

- in view of uncertain prospects for economic reform, need for EC to proceed cautiously with financial and technical assistance.

CHARLES

Working Dinner for M. Delors
Thursday, 7 March

I attach a revised guest list and seating plan for tonight's working dinner.

Sue

7 March 1991

LIST OF GUESTS ATTENDING THE WORKING DINNER TO BE GIVEN BY THE PRIME MINISTER IN HONOUR OF HIS EXCELLENCY MONSIEUR JACQUES DELORS, PRESIDENT OF THE EUROPEAN COMMISSION ON THURSDAY 7 MARCH 1991 AT 8.00 PM FOR 8.15 PM INFORMAL

The Prime Minister	
His Excellency Monsieur Jacques Delors	
Mr David Williamson	Secretary General, European Commission
Monsieur Pascal Lamy	Chef de Cabinet to the President
Mr Joly Dixon	Member of M. Delors' Cabinet
Mrs Sarah Hogg	
Sir John Kerr	
Sir Charles Powell	

DRAFT SEATING PLAN FOR WORKING DINNER ON THURSDAY, 7 MARCH

Mr John Dixon

Sir Charles Powell | Mr David Williamson

PRIME MINISTER | HE MONSIEUR JACQUES DELORS

Mrs Sarah Hogg | Monsieur Pascal Lamy

Sir John Kerr

ENTRANCE

ANNEX

DRAFT SPEECH BY PRESIDENT DELORS TO IISS, 7 MARCH:

SUMMARY

- Two main themes are deployed:

  (a) The two IGCs, closely linked together, should mark a qualitative change in the Community and lead progressively to full European Union. This is essential to political and economic health, and to the security of Europe. The choice whether and how to move ahead lies in European hands.

  (b) Defence policy must be included in this process.

- There follow reflections on the nature of security: respect for the rule of law; the need to resolve ever-changing problems in society, based on a concept of social solidarity between partners; and cooperation in defence efforts.

- Next comes a tour d'horizon of EC developments, both internal and external. It is now necessary to move beyond the "Common Market flanked by common policies", to enhance and achieve new steps in integration. Fears about losses of sovereignty are unfounded, as are US concerns.

- Moving to defence policy, the speech argues that this must be an integral part of European Union. Several communities (economic, political, security) are unacceptable. Heavy emphasis is placed on the need for transitional periods, and for a step-by-step approach.

- Defence should be based on the WEU, defence guarantees should be incorporated as part of the Union, decisions taken by unanimity, and an overall responsibility exercised by the European Council. Commission proposals (already tabled in their draft Treaty text - Articles 11-15) are sketched out.

- The speech rejects the concept of WEU as "a place for increased cooperation between European countries and as a bridge with the Atlantic Alliance". Instead it should be the crucible for a European defence based on the Community and becoming the second pillar of the Alliance, alongside the US pillar. The development of WEU (to incorporate multi-national units and intervention forces) should proceed in parallel with the new NATO, equipped with redefined aims and machinery.

- Concerns on these scores raised by the US and other countries are dismissed. Specifically, the speech rejects US demands that there should be no "bloc interne", and states that worries about the global response of the Allies and command structures are unjustified.

- The speech concludes that the deepening of the Community is necessary just as much for the greater Europe as for the Atlantic Alliance.

There is virtually no reference throughout to the future role of the Commission.

(REV 2)

INTEGRATION EUROPEENNE ET SECURITE

Je suis très honoré que vous ayez invité le Président de la Commission Européenne à prononcer votre conférence annuelle en hommage à la mémoire d'Alastair Buchan.

Premier Directeur de cet institut, il eut la tâche et le mérite de jeter les bases d'une réputation de sérieux, qui n'a fait que croître. Grâce à la qualité de sa recherche et de ses analyses, l'institut a beaucoup apporté au débat public sur les questions stratégiques et de sécurité. Dès ses débuts, il a pensé à l'Europe comme en témoigne le rôle éminent qu'y joua, à l'époque, Raymond Aron.

Les événements des derniers mois nous obligent à prendre du recul et à nous interroger, plus encore qu'hier, sur les fondements de la sécurité.

Comment se présentent, de mon point de vue, les aspects de sécurité dans l' intégration politique et économique de l'Europe ?

La guerre du Golfe, a démontré, si besoin en était , les limites d'influence et d'action de la Communauté Européenne, même si elle progresse à pas de géant vers son intégration économique, même si la coopération en matière de politique étrangère a marqué des points ces deux dernières années.

Ce constat n'est qu'un stimulant de plus pour aller vers une forme d'Union Politique, comportant une politique commune en matière de relations extérieures et de sécurité. Tel est le but assigné à la Conférence Intergouvernementale qui s'est ouverte à Rome, en décembre dernier, sur la base des orientations adoptées par le Conseil Européen.

L'idéal des pères de l'Europe était bien d'associer nos pays et nos peuples dans une Communauté mieux à même que chacun des pays pris séparément de concrétiser les valeurs qui leur sont communes, et capables de les défendre, là où elles sont menacées, de les promouvoir, là où elles n'existent pas.

En d'autres termes, cette Conférence sera le test de l'ambition que l'Europe des Douze s'assigne dans le monde d'aujourd'hui et de demain. Un monde d'ailleurs semblable à celui d'hier, ponctué de progrès et de reculs, de nouvelles coopérations et de nouvelles tensions. Un monde où les risques changent de nature ou d'origine, mais n'en sollicitent pas moins les Européens, comme d'ailleurs tous les habitants de la planète. L'interdépendance croissante entre toutes les parties du monde est sans doute le phénomène central qui doit être pris en compte, lorsque l'on traite de politique étrangère ou de sécurité, comme lorsque l'on aborde les grandes questions économiques, monétaires et commerciales.

Les opinions publiques doivent en être convaincues, ce qui, dans nos démocraties, telles qu'elles sont, implique un niveau élevé de conscience des enjeux collectifs, des débats de grande portée. Pour ma part, j'avais, depuis deux ans, mis en garde contre un excès d'euphorie né de deux événements majeurs pour notre Europe. Le thème mobilisateur de l'après 1945 "plus jamais de guerre entre nous" avait porté l'espoir des constructeurs de l'Europe. L'objectif est atteint, sachons à quoi nous le devons. Plus récemment, l'effondrement

du communisme a ouvert la perspective d'une ère de paix, de liberté et d'échange dans toute l'Europe. Il nous reste à y travailler, patiemment et avec vigilance.

Mais notre horizon ne peut se limiter à la grande Europe. Autour de nous, les ambitions démesurées, les appétits de puissance, les révoltes nationales, le sous-développement se cumulent pour créer des facteurs potentiels d'explosion, de déstabilisation et de conflits, alimentés par la dissémination croissante des armes de destruction massive.

Le défi est là pour la Communauté. Si elle veut être digne de l'idéal qui l'inspire, elle doit affronter les défis de l'histoire et prendre sa part des responsabilités politiques et militaires qui incombent à nos vieilles nations, lesquelles ont toujours marqué l'Histoire de leur empreinte.

Les turbulences sont donc là, les risques aussi. La politique européenne de la Sécurité n'existe pas encore. Mais il faut en débattre dès maintenant, avec la volonté d'accélérer le processus d'intégration politique de l'Europe, seule réponse à l'accélération de l'Histoire.

Mais avant d'entrer dans une réflexion sur ce que pourrait être une politique commune de défense, il faut la réintégrer dans la notion beaucoup plus large de sécurité, qui fait appel aussi bien à une conception de l'ordre mondial qu'à la solidarité de nos systèmes sociaux. C'est dire que le problème de la défense se pose différemment que dans les années '50, où les architectes de la construction européenne avaient imaginé de mettre l'Europe politique sur les rails grâce à la création de la Communauté Européenne de Défense.

Aujourd'hui, il existe une dynamique de la construction européenne, qui fournit certaines conditions favorables à de nouveaux pas en avant.

I. LA SECURITE, UN CONCEPT GLOBAL

Nous vivons une de ces phases intenses de mutation dont les données s'imposent à nous : la perspective d'un désengagement des deux grandes puissance en Europe; les conséquences mondiales du changement de nature du duopôle Etats-Unis/Union Soviétique; ce duopôle se faisant moins pressant sur le reste du Monde, la recrudescence des tensions et des conflits; enfin, et pour ne citer que quelques paramètres essentiels, le fossé qui se creuse entre le Nord et le Sud.

On évoque, comme toujours en période d'incertitude et de menace, la nécessité d'un nouvel ordre mondial qui renforcerait les chances de la sécurité et de la paix.

La sécurité ou le problème de respect du droit

Faire respecter le droit dans les affaires internationales, tel a toujours été le but poursuivi par tous les architectes d'un nouvel ordre mondial. La Société des Nations, avant la dernière guerre, l'organisation des Nations Unies, aujourd'hui.

Répétons-le : l'interdépendance croissante du monde relance le débat sur, sinon un gouvernement mondial - perspective hors d'atteinte - du moins l'établissement de règles favorisant la sécurité et l'échange, la mise au point de procédures de solution pacifique des conflits. Et avec la crise du Golfe a surgi une question encore plus délicate : au nom de quoi et comment faire respecter, au besoin par la force, le droit international?

La dimension tragique de l'Histoire fait surgir des doutes quant à la possibilité, non seulement de répondre intellectuellement à ces questions, mais surtout de mettre en place des dispositifs réalistes et efficaces.

Pourtant, nous n'avons pas le choix. Renoncer à cette tâche, combien difficile, constituerait une sorte de démission collective et un mensonge à l'égard de nos peuples, trop longtemps bercés par leur prospérité matérielle, trop souvent myopes à l'égard des grands défis qui nous assaillent. Il faut leur rappeler que la démocratie et la liberté se méritent, qu'elles sont exigeantes, qu'elles réclament cohésion à l'intérieur, générosité et fermeté à l'extérieur.

Ces propos s'appliquent pleinement à la guerre du Golfe. Faire triompher le droit, et notamment celui lié à l'intégrité de chaque Etat souverain - en l'espèce le Koweit, c'était vital. Mais comment le réussir pleinement, sans intégrer dès maintenant une vision de l'après-crise? Il s'agit de combiner des réponses à des problèmes variés et d'une très grande complexité : la solution des tensions nées des problèmes palestiniens et libanais; une garantie crédible donnée à chaque Etat en ce qui concerne sa propre sécurité; l'indispensable diminution des armements qui font de cette région une gigantesque poudrière; le respect des droits des minorités, comme les Kurdes; l'organisation d'un espace de développement économique dans la perspective d'un progrès et d'un avenir ouverts à tous les habitants de la région.

Aujourd'hui, le Golfe. Demain, une autre région du globe. La manière dont nous contribuerons à la solution de cette crise sera lourde de conséquences, positives ou négatives, pour le renforcement de la sécurité dans le monde entier.

Nous y jouons, sinon le sort, tout au moins la capacité d'influence de l'Organisation des Nations Unies. Celle-ci doit gagner, une fois que les armes se sont tues, la bataille de la paix et, partant, démontrer qu'elle est en mesure de prévenir de nouvelles crises.

La sécurité, un problème de société

Tocqueville a tout dit sur les grandeurs et les servitudes de la démocratie. S'il vivait encore aujourd'hui, il pourrait illustrer ses analyses fondamentales, en prenant en compte les phénomènes d'opinion publique liés à l'importance des médias, les tendances au repli sur soi, la difficulté de faire vivre un grand dessein porté par un civisme véritable.

Tel est notre défi interne, alors que nous devons intégrer des dimensions nouvelles dans nos politiques, comme la protection de l'environnement ou, plus fondamentalement, les relations entre l'homme et la nature. Les opinions publiques ont l'intuition qu'il s'agit là d'un problème majeur, mais elles n'ont pas encore intégré toutes les contraintes d'une politique à long terme visant à transmettre aux générations futures un capital nature préservé.

Dans un autre ordre d'idées, il devient de plus en plus difficile dans nos pays de maîtriser les flux migratoires et de les intégrer dans une vision harmonieuse des relations entre les hommes et entre les communautés.

Notre sécurité dépend pourtant de la capacité dont nous ferons preuve pour accroître l'attrait et l'harmonie de nos sociétés. Si celles-ci sont minées de l'intérieur par la baisse du civisme, l'indifférence aux autres, les tensions sociales, comment espérer que les citoyens se mobilisent

pour défendre leur sécurité et, encore moins, pour accepter que leur pays prenne le risque de partager, avec d'autres, des responsabilités mondiales ?

C'est la raison pour laquelle - et en revenant pour un instant sur la construction européenne - nous nous attachons à convaincre de la nécessité d'un projet européen global. Non pas seulement un grand marché sans frontières internes, facteur de prospérité, mais aussi un espace organisé avec le souci de la dimension sociale et de la solidarité entre toutes les régions de la Communauté. Sinon, nous n'arriverons pas à provoquer, chez les Européens, ce sentiment nécessaire d'appartenance à une Communauté qui se veut exemplaire, par les valeurs qu'elle affiche, mais aussi par la manière dont elle les traduit en actes.

A côté des thèmes de la liberté et de la responsabilité, celui de la solidarité est au coeur du projet communautaire : la solidarité interne entre les nations, entre les régions, entre les individus; la solidarité externe vis-à-vis de ceux qui ont besoin de la Communauté, depuis les pays de l'Europe de l'Est et du Centre, sur notre flanc est, jusqu'aux pays de la Méditerranée et du Moyen-Orient que l'on caractérisera, pour simplifier, comme notre flanc sud. Mais au-delà de nos devoirs liés à la proximité de ces pays, la Communauté est sollicitée plus largement d'apporter sa contribution à la solution des problèmes Nord-Sud. Elle agit, chacun le sait, dans toutes ces directions. Mais on lui demandera de faire davantage. Là, doit être notre grand dessein, là réside la difficulté politique de le faire accepter, puis de le réaliser.

La sécurité, un problème de défense

En dernier ressort, assurer sa sécurité, c'est pouvoir se défendre, les armes à la main. Vouloir contribuer à l'émergence d'un nouvel ordre mondial, c'est accepter de participer, si nécessaire, à des forces chargées d'intervenir

pour faire respecter le droit international, après que tout ait été tenté pour créer les bases de l'entente et de la coopération entre les peuples. Mais, comme chacun sait, et en dépit de nos efforts, la tragédie peut toujours surgir.

Revenons, pour illustrer notre propos, à la crise du Golfe. Il est vrai que, dès le premier jour, le 2 août 1990, la Communauté Européenne a pris les positions fermes que l'on attendait d'elle, a confirmé l'engagement de ses Etats membres à faire respecter l'embargo, l'arme première de la dissuasion de l'agresseur. Mais, dès qu'il fut clair que les armes allaient parler, la Communauté ne disposait ni des outils institutionnels, ni de la force militaire d'intervention qui lui auraient permis d'agir en tant que Communauté.

Nos douze Etats membres sont-ils en mesure d'en tirer les enseignements? Le veulent-ils vraiment? Les événements tragiques que nous vivons les poussent à répondre sur le principe, même si, pour ce qui concerne les modalités, chacun conviendra qu'il ne pourra s'agir que d'une évolution progressive, tant les sensibilités sont encore éloignées les unes des autres, tant de paramètres demeurant encore incertains. Qui pourrait assurer, par exemple, que la menace nucléaire va disparaître rapidement ou que la tension Est-Ouest est définitivement derrière nous?

C'est donc sur un terrain mouvant que nous engageons la réflexion, puis la négociation entre les Etats membres, sur une politique commune des relations extérieures et de la défense. Mais, au moins, assurons-nous que la prise de conscience est bien faite des liens qui existent entre notre engagement pour un nouvel ordre international, d'un côté et, de l'autre, la nécessité de bâtir un modèle exemplaire de société, qui renforcera l'attachement de nos peuples à nos valeurs et leur disponibilité à les promouvoir et à les défendre, y compris au prix de contraintes économiques et financières, voire de plus grands sacrifices.

II. LA DYNAMIQUE COMMUNAUTAIRE

Avant de répondre à ces questions, il est indispensable de dresser un rapide "état de l'Union". Où en sommes-nous ? De quoi disposons-nous ? Quelles sont les potentialités inscrites dans les décisions déjà prises et progressivement mises en oeuvre ?

La dynamique interne

Partons de ce qui est incontesté : le renouveau économique de la Communauté, même si beaucoup reste à faire pour la hisser au niveau des deux plus grandes puissances économiques mondiales.

Il est de fait que le mouvement imprimé ces six dernières années par l'objectif 1992 provoque des changements positifs dans nos structures économiques, comme le montrent l'accélération de la croissance, l'augmentation des investissements et les importantes créations d'emplois. Nos peuples le constatent et s'intéressent davantage à la construction européenne, nos partenaires aussi, qui s'en inquiètent parfois, au point d'avoir mené un combat douteux contre l' "Europe forteresse". Première puissance commerciale du monde, et désirée comme telle, la Communauté est considérée par beaucoup, à l'extérieur, comme un géant économique. Or, on ne prête qu'aux riches et, partant, on attend énormément de nous.

Mais nos peuples aussi deviennent plus exigeants à l'égard de la Comunauté, au nom de la solidarité de destin ou d'une juste balance entre les avantages et les coûts de la création d'un grand espace économique commun. D'où cet objectif de la cohésion économique et sociale, inscrit dans l'Acte Unique et poursuivi dans le cadre de nos politiques structurelles. Des efforts considérables lui sont consacrés, et aussi d'importantes ressources financières : 60 milliards

d'Ecus en cinq ans, à l'appui de plans de développement régional, de programmes de reconversion de régions industrielles en pleine crise de mutation, du développement rural, condition pour une société plus harmonieuse.

C'est pourquoi l'expression "marché commun", encore utilisée par certains, ne correspond plus à la réalité. Nous construisons une Communauté dont les Etats membres exercent, en commun, une partie de leur souveraineté, grâce à des politiques communes de plein exercice, comme l'agriculture ou la cohésion économique et sociale, ou bien partielles, comme les actions communes en matière de recherche et de technologie, dans le domaine de l'environnement ou bien encore au titre de la dimension sociale. Tels sont les fondements d'une Communauté qui, grâce à cela, engendre aujourd'hui une Union Politique; l'Union Européenne, comme l'Acte Unique en formule l'objectif.

Par un effet d'entraînement, qui est une des caractéristiques de l'ingénierie communautaire, nous sommes conduits à ouvrir de nouveaux chantiers, dont un est très lié à une conception globale de la sécurité. Il s'agit des conséquences de la libre circulation des personnes, de l'exigence d'une action commune ou, à tout le moins, d'une très étroite coordination, pour lutter contre ce qui menace la sécurité individuelle : la grande criminalité internationale, les trafics de drogue, les menaces terroristes... La solidarité, une des pierres angulaires du pacte européen, passe aussi par des initiatives politiques dans ce domaine, qui relève bien de la sécurité.

Toujours au titre de cet engrenage vertueux, se profile l'Union Economique et Monétaire. Certes, sa réalisation pleine et entière nécessitera des transferts de souveraineté, notamment avec la création d'une Banque Centrale Européenne. Mais, il s'agit moins d'un saut qualitatif que d'un mouvement entraîné par le succès du Système Monétaire Européen. On imagine aisément ce que représente pour la Communauté, dotée d'une monnaie unique, la possibilité de jouer un rôle majeur

dans le domaine international, pour remédier aux facteurs de désordre qui peuvent perturber les marchés des changes et les marchés financiers. En pesant de tout son poids pour une plus grande stabilité monétaire - ce qui implique des responsabilités mondiales pour la monnaie européenne -, en plaidant pour une meilleure allocation des ressources financières entre pays riches et pays pauvres, la Communauté apportera une contribution significative au renforcement de la sécurité dans le monde. Mais, là aussi, répétons-le, non sans accepter les contraintes et les coûts d'une responsabilité mondiale lucidement assumée.

La dynamique externe

La représentation de la Communauté qu'ont les autres pays du monde explique les sollicitations multiples dont elle fait l'objet. Elle ne peut ni se dérober, ni, bien entendu, tomber dans un activisme angélique ou désordonné. C'est pourtant la tentation qui, parfois, menace la coopération politique.

Mais revenons à des perspectives plus positives. La Communauté joue un rôle central dans l'architecture de la grande Europe de demain. Elle attire les demandes d'adhésion des pays européens, les demandes d'aide des autres. Elle y fait face, dans une stratégie diversifiée, prenant en compte les situations respectives de ces pays. A l'initiative de la Commission européenne, elle a entrepris des discussions avec l'AELE, afin de faire bénéficier les pays membres de cette organisation des avantages d'un grand marché sans frontières. Aux pays de l'Est et du Centre de l'Europe, elle a d'abord concédé des avantages commerciaux dans le cadre d'accords bilatéraux, et elle se charge, au surplus, de coordonner l'effort d'aide et d'assistance accompli par l'ensemble des pays industrialisés. Mais il faut noter, à ce sujet, que la majeure partie du fardeau repose sur les épaules de la Communauté. Celle-ci veut encore aller plus loin, avec la

perspective d'accords plus engageants , sur tous les terrains possibles d'une coopération : politique étrangère, culture et économie.

Pour passer à ce que j'ai appelé le flanc sud de la Communauté et, en plus des aides liées à la crise du Golfe et aux conséquences de l'embargo, elle renforce ses liens avec les pays du Maghreb, du Machrek et du Moyen-Orient : accords commerciaux, protocoles d'aide financière, assistance technique, actions destinées à améliorer l'environnement... Et il faudra certainement passer à un stade supérieur d'ambition et, donc, à un effort accru, pour établir et organiser les conditions économiques pouvant contribuer à la stabilité de la région, dans la paix et le développement.

Une exigence du même ordre s'impose pour la contribution de la Communauté à la solution des problèmes Nord-Sud. Celle-ci est illustrée, notamment mais pas exclusivement, par la Convention de Lomé qui bénéficie aux pays d'Afrique, des Caraïbes et du Pacifique. L'Afrique, en particulier, demandera davantage d'attention dans les années à venir, car les graves difficultés économiques et sociales que ce continent connaît ne seront pas sans conséquence pour la sécurité de cette partie du Monde.

Une Europe européenne

A ce stade, il faut parler clair, afin que les débats engendrés par la perspective d'une Union Européenne se déroulent dans les meilleures conditions et provoquent l'intérêt de nos peuples. L'Europe a besoin, pour porter ses ambitions - si elle les a vraiment - d'une identité politique. L'Europe doit se vouloir européenne.

Cette formule a soulevé, en d'autres temps, bien des polémiques. Et pourtant, la question est à nouveau posée. L'Europe peut-elle consentir à tant d'efforts, peut-elle les justifier auprès de ses opinions publiques, si elle ne les

inscrit pas dans un dessein d'ensemble ? Elle ne peut donc le réaliser, sans les atouts d'une personnalité politique et les capacités qu'offre la puissance économique. Les deux éléments sont intimement liés.

Or, un tel projet n'est pas réalisable avec une conception de la Communauté réduite à un grand marché flanqué de quelques politiques communes. Il implique une volonté politique fondée sur une conscience claire des intérêts essentiels que les Etats membres ont en commun, sur la conviction qu'ils assureront mieux la défense et la promotion de ces intérêts en agissant ensemble, dans l'exercice partagé de la souveraineté.

Voilà pourquoi il est heureux que les pas en avant qui ont été faits et qui seront faits dans les domaines économiques et monétaires soient accompagnés, mieux même, encadrés par un cadre politique adéquat. Vous comprendrez, dans ces conditions, les liens qui unissent les travaux des deux conférences intergouvernementales, l'une sur l'Union Economique et Monétaire, l'autre sur l'Union Politique, permettant de nous doter d'institutions responsables, efficaces et placées sous contrôle démocratique.

Je vois bien les réticences ou les inquiétudes que suscite un tel discours. De la part de certains Etats membres, qui récusent l'analyse et s'en tiennent à la conception classique de la souveraineté nationale. De la part de puissances amies , qui semblent redouter l'épanouissement de la personnalité européenne. Puis-je dire à ces dernières qu'elles se trompent, ou encore, que leurs craintes ne sont pas justifiées.

Les Etats-Unis, puisque c'est d'eux dont il s'agit, n'ont rien à espérer d'une Communauté politiquement muette et économiquement subordonnée. Ils l'ont compris - je l'espère tout au moins - puisqu'ils ont signé la déclaration transatlantique du 20 novembre 1990, qui jette les fondements d'un partenariat renouvelé, au travers de la solidarité

atlantique renforcée, qui constate l'existence d'une identité européenne en matière de sécurité, ouvrant ainsi la voie d'un partage équitable des responsabilités et des charges. Si tel est bien le cas, la balle est donc dans le camp des Européens. A eux de prendre leurs responsabilités et d'en assumer le poids.

C'est alors que surgissent les questions liées à la politique étrangère et à la sécurité. Vingt années de coopération en matière de politique étrangère ont permis une meilleure connaissance réciproque, un rapprochement des méthodes du travail diplomatique, et ont abouti parfois à des positions unanimes. Mais ce n'est pas suffisant. Le Conseil Européen a donc fixé, comme l'un des objectifs essentiels de la réforme des traités, la mise en oeuvre progressive d'une politique commune des relations extérieures et de la sécurité. Si ces deux domaines sont intimement liés, cela n'implique d'ailleurs pas que les Douze puissent progresser selon des procédures identiques et au même rythme dans ces deux domaines.

Si le socle d'une politique étrangère commune est adopté, il n'en demeurera pas moins des options difficiles à traiter en ce qui concerne spécifiquement la défense. C'est, sans doute, le coeur de la difficulté. Aussi, convient-il de mettre toutes les cartes sur la table.

III. LES OPTIONS D'UNE POLITIQUE DE DEFENSE

Le seul choix compatible avec le dessein global de l'Union Européenne est de situer la politique commune de sécurité en son sein. Tel ne serait pas le cas si, comme le préconisent certains, on envisageait, pour le stade final de l'intégration européenne, la création de plusieurs communautés, l'une axée sur l'intégration économique, une seconde sur la coopération politique et une troisième pour traiter de la sécurité. Non pas qu'il faille exclure des transitions. Elles sont indispensables, notamment en matière de défense où l'Union de l'Europe Occidentale peut jouer un rôle très utile. Mais il faut parler clair. Ce que nous proposons, c'est une Communauté unique, dans le droit fil des ambitions d'union européenne affichées par l'Acte Unique. Et c'est donc, répétons-nous sans nous lasser, une Communauté fondée sur l'union des peuples et l'associaton d'Etats-nations, poursuivant des objectifs communs, approfondissant la personnalité européenne.

D'autres alternatives peuvent certes être défendues. Les manières de procéder peuvent être et doivent être étudiées avec soin. Mais il faut définir l'horizon. Et je rappelle que si les auteurs du traité de Rome n'avaient adopté qu'une démarche pragmatique sans indiquer jusqu'où ils voulaient aller, jamais la Communauté n'aurait accepté les pas en avant qui font sa réalité d'aujourd'hui, sa potentialité pour demain. Il en va de même aujourd'hui pour l'Union économique et monétaire, tout d'abord. La conception que nous avons de la Communauté de demain implique une monnaie unique, comme attribut de la capacité de faire, comme objet et instrument de notre ambition. Il doit en aller de même pour l'Union politique.

A ce stade de raisonnement, je vous épargnerai une longue digression sur le devenir de la souveraineté nationale. A mes yeux, celle-ci ne peut garder sa consistance que dans l'exercice en commun de la souveraineté, compte tenu de ce que sont les rapports de forces dans le Monde et de la nécessité quasi arithmétique de réunir les ambitions nationales face à la dimension des défis. Le patriotisme, valeur sûre de nos sociétés, ne pourra que s'y épanouir dans un enrichissement naturel entre nos nations. A celles-ci, il n'est demandé de renoncer à rien de ce qui constitue le legs le plus précieux de leur histoire nationale, de leurs traditions. Il s'agit essentiellement de mettre en commun toutes nos synergies au service de finalités acceptées par tous: tel est le pacte politique qui doit nous rassembler.

Alors, mais alors seulement, peut-on débattre utilement du processus global qui nous mènera à une politique commune de défense.

La politique étrangère et la politique de défense

Cette politique commune de défense n'a de sens que si elle exprime une double solidarité : l'unité dans l'analyse et dans l'action en matière de politique étrangère, l'engagement réciproque de venir en aide à un des pays membres qui se trouverait menacé dans son intégrité.

En matière de politique étrangère, la situation présente de la Communauté ne peut durer. On l'a vu à propos de la crise du Golfe. Nous le vivons tous les jours dans cette absence d'unité de réflexion pour tout ce qui concerne les relations extérieures de la Communauté: d'un côté, l'action communautaire dans le domaine économique qui réclame, plus que jamais, une analyse politique avant les grandes

décisions. La preuve en est la nécessité ressentie par nos Ministres des Affaires étrangères de mêler, dans une même enceinte, les aspects communautaires et les aspects de coopération politique. Ils l'ont fait, à plusieurs reprises, ces derniers temps, mais sans disposer du cadre institutionnel adéquat.

La dimension institutionnelle ne doit pas être négligée, même si, en dernier ressort, toute avancée ne peut se réaliser que par une volonté politique, forte et consensuelle. C'est pourquoi, la Commission européenne, propose, dans son projet de traité, de faire émerger un centre unique d'impulsion, d'une part,un centre unique de discussion et d'action, d'autre part. C'est pourquoi, aussi, la Commission suggère que soient regroupées, dans un titre du traité, les dispositions concernant tous les aspects extérieurs: la politique étrangère, la sécurité, les relations économiques, la coopération au développement. Cette cohérence est vitale, si l'on veut illustrer la prééminence du politique et éviter une action dispersée, mal préparée, insuffisamment motivée et réfléchie.

Bien entendu, des précautions doivent être prises pour éviter une progression à marches forcées qui ne pourrait déboucher que sur une crise interne ou sur l'impuissance. Il reviendrait donc au Conseil Européen, composé des Chefs d'Etat et de Gouvernement responsables démocratiquement devant leurs peuples, de se mettre d'accord sur les intérêts essentiels qu'ils ont en commun et qu'ils conviennent de défendre et de promouvoir ensemble.

C'est dans le cadre ainsi défini que travailleraient les Ministres des Affaires Etrangères. Ils s'efforceraient d'aboutir à une analyse commune, puis décideraient de l'action. Un vote à la majorité qualifiée constituerait, là comme pour les affaires relevant actuellement du schéma

communautaire, le stimulant indispensable, le ferment d'une Communauté en devenir. Tout laisse à penser qu'ils en useraient avec sagesse et modération, en prenant en compte les intérêts de chacun et le temps nécessaire au rapprochement des positions. Il en a d'ailleurs toujours été ainsi depuis la mise en oeuvre de l'Acte Unique. On ne peut violer les âmes, ni faire l'économie des délais nécessaires à une meilleure compréhension réciproque.

Au fur et à mesure que se développerait cette dynamique des intérêts communs, apparaîtrait la nécessité de se doter de cet élément vital qui est le moyen de se défendre, au nom de l'intégrité nationale, des valeurs qui nous font vivre, des solidarités qui nous unissent, des responsabilités qui sont les nôtres à l'égard du Monde.

Cette solidarité doit être exprimée dans le traité. Comment pourrait-elle l'être mieux qu'en reprenant les dispositions de l'article 5 du traité de l'UEO, selon une formule adaptée comme suit :

> "Au cas où l'un des Etats Membres serait l'objet d'une agression armée en Europe, les autres lui porteront, conformément aux dispositions de l'article 51 de la Charte des Nations Unies, aide et assistance par tous les moyens en leur pouvoir, militaires et autres".

La transition vers une politique commune de défense

Comme nous l'avons vu, une sage progressivité serait de règle pour la mise en oeuvre d'une politique étrangère commune. Cette règle vaudrait à fortiori pour la politique commune de défense qui doit prendre en compte des paramètres spécifiques.

La persistance de la menace nucléaire et les risques de dissémination de ces armes constituent des faits incontournables. Dans ces conditions, il serait vain de débattre du rôle et du devenir des forces nucléaires françaises et britanniques pendant tout le temps nécessaire à l'émergence d'une situation mondiale nouvelle.

De même, il est impossible de traiter de la défense européenne sans conjuguer cette réflexion avec celle qui est menée sur la réforme de l'Alliance Atlantique. Celle-ci y travaille. Dès le 1er décembre 1989, le Secrétaire d'Etat James A. BAKER posait des questions essentielles dans son discours fort judicieusement intitulé "A New Europe - A New Atlanticism - Architecture for a New Era."

Il ouvrait de larges perspectives :

"Working from shared ideals and common values, we form a set of mutual challenges, in economics, in foreign policies, the environment science, and a host of other fields. So it makes sense for us to fashion our responses together as a matter of common course".

J'ai choisi cette citation parmi d'autres pour relever qu' indépendamment des questions propres de défense largement évoquées dans ce discours, le Secrétaire d'Etat américain évoquait tous les domaines possibles pour une coopération avec les alliés européens.

On attend les réponses des Européens, tant il est vrai que la déclaration transatlantique, adoptée en novembre

dernier, ne saurait fournir une réponse complète et adéquate. Elle rappelle les idéaux communs, détermine des procédures de consultation, mais n'épuise pas la discussion à mener en commun, pas plus qu'elle ne résoud la difficulté inhérente aux multiples visages de l'interlocuteur européen face à l'unité de vue et d'action des Etats Unis. Pour cette simple raison, aussi, l'unification de l'Europe est plus que jamais nécessaire.

Sous ces réserves, il convient d'amorcer cette politique commune de défense, en utilisant ce qui existe, à savoir l'Union de l'Europe Occidentale. Les premiers échanges, au sein de la Conférence intergouvernementale, ont relevé un large consensus à cet égard. Là où les Etats membres divergent, c'est sur le rôle attribué à l'UEO: lieu d'une coopération accrue entre pays européens et comme pont avec l'Alliance Atlantique ou bien creuset d'une défense européenne inscrite dans la Communauté et devenant le second pilier de l'Alliance Atlantique, à côté du pilier américain ?

On comprendra que, selon les prémices de ma démonstration, seule la seconde option me paraîsse acceptable. En effet, c'est la finalité ultime qui sépare les deux approches. Il est inutile de vouloir en obscurcir le débat en prenant, par exemple, prétexte que l'UEO ne comprend que neuf des douze pays membres de la Communauté, ou bien en s'attardant sur la situation, au sein de l'Alliance Atlantique, des pays non membres de la Communauté, comme la Turquie, la Norvège ou l'Islande.

Allons à l'essentiel. Si l'on veut l'Union Européenne, alors doit s'engager un processus, qui demandera du temps, permettant l'intégration progressive de l'UEO et de son acquis dans la Communauté, son acquis actuel, mais aussi les progrès qui pourront être réalisés, notamment pour créer des forces multinationales et des unités d'intervention, deux expressions de l'unité européenne.

Il est donc proposé que, tout en laissant aux trois pays européens, non membres de l'UEO, le temps de la réflexion, les questions de défense commune puissent être évoquées dans le nouveau traité , par le Conseil Européen et par des Conseils communs aux Ministres des Affaires Etrangères et aux Ministres de la Défense. Peu à peu, s'établirait un cadre de décision et d'action entre les instances de la Communauté et l'Union de l'Europe Occidentale. Parallèlement, et j'aurai l'occasion d'y revenir, se mettrait en place la nouvelle Alliance Atlantique, ayant redéfini ses buts et ses moyens.

En proposant ce schéma, la Commission européenne est dans le droit fil du Conseil Européen qui, à Rome, en décembre dernier, a dressé une première liste des questions d'intérêt essentiel commun en matière de sécurité et de défense :

- Contrôle des armements et désarmements
- Questions de sécurité relevant de la CSCE et de l'ONU
- Coopération en matière de production, d'exportation et de non prolifération des armements.

Comment agir dans ces domaines sans avoir défini ce que sera demain une politique de défense adaptée aux risques de destruction et de guerre ? Et cette politique une fois définie, n'appelle-t-elle pas les moyens de la réaliser, autrement que par tiers interposé ?

Il reste alors s'engager plus résolument dans une politique de recherche et de production d'armements, afin de maximiser les avantages cumulés d'un marché commun et d'une politique commune. Cette coopération peut, bien entendu, se pratiquer de telle sorte que soit réalisés également, au sein de l'Alliance Atlantique, les meilleures allocations de ressources consacrées aux moyens de la Défense.

Pour bien confirmer le caractère progressif de l'ensemble de cette démarche, peut-être est-il nécessaire de préciser qu'à la différence du schéma proposé pour la politique étrangère commune, le principe et les actions de la politique de défense seraient décidés à l'unanimité. Au surplus, et afin de ménager les évolutions souhaitées, un Etat membre serait dispensé, à sa demande, des obligations résultant de ces décisions.

L'Alliance Atlantique et la Défense européenne

Pourquoi le cacher, de tels projets ont suscité, avant même d'être connus dans le détail, des inquiétudes du côté américain. Il me semble que les Etats Unis ont mis l'accent sur trois exigences : pas de bloc interne, maintien de la globalité de la réponse alliée, pas d'affaiblissement des structures de commandement.

Reprenons ces trois points :

Il est dans l'intérêt de l'Alliance que les Européens s'y expriment d'une seule voix.L'existence d'un bloc interne ne doit donc pas susciter de crainte. Ou bien alors c'est que l'on récuse la construction politique de l'Europe, ce qui serait inacceptable et contraire aux déclarations du Président Bush, souhaitant que l'Europe réalise son unité politique. Ou bien encore que l'on a des doutes sur l'engagement européen à l'égard de l'Alliance Atlantique. Je pense que les onze Etats Membres de l'Alliance n'auront aucun mal à apaiser ces craintes. L'Europe européenne entend confirmer son attachement à l'Alliance, à ses buts, tout en assumant, du fait même de sa politique commune de défense, une part accrue du fardeau. N'est-ce pas ce qui fut toujours souhaité du côté américain ?

Précisément, cette adaptation de l'Alliance à la nouvelle situation géopolitique permettra de définir et donc de maintenir la globalité de la réponse alliée pour tout ce qui concerne l'article 6 du Traité de Washington. Cette cohésion réaffirmée ne devrait pourtant pas interdire à la Communauté de mener une action propre en dehors du champ défini par le traité de l'Atlantique Nord, en procédant, bien sûr, aux consultations appropriées.

Quant aux structures de commandement, elles ne peuvent être que confortées pour assurer la crédibilité de l'Alliance dans les tâches qui lui sont confiées. Chacun sait combien toute action militaire ne peut réussir sans une infrastructure cohérente et efficace, comportant les communications, le renseignement, la planification et le contrôle.

Ne nous cachons d'ailleurs pas que dans le rôle que nous lui assignons pour demain, l'Union de l'Europe Occidentale devra, longtemps encore, s'appuyer sur l'infrastructure déjà mentionnée, que cela plaise ou non.

Ainsi, alors que s'amorce un difficile débat, le rappel de l'engagement des Européens et une approche réaliste des problèmes de défense sont de nature à lever bien des ambiguïtés.

***

En conclusion, je le répète, si, en partenaires de bonne foi, les Européens veulent se concentrer sur l'essentiel, la seule question qui vaille, est celle de leur conception, de leur rôle dans le Monde de demain. De leur rôle, mais aussi des moyens de le remplir. De leur responsabilité vis-à-vis de la grande Europe, dont chacun souhaite faire un vaste espace de paix, de liberté et d'échange.

C'est pourquoi, l'approfondissement de la Communauté est nécessaire tout autant à la grande Europe qu'à l'Alliance Atlantique. Je me suis efforcé d'en traiter les aspects les plus délicats avec la politique étrangère, les plus explosifs avec la politique commune de la défense. Inutile de se réfugier dans le "Comment faire" pour ne pas répondre au "Que faire ensemble". L'Histoire frappe, une fois de plus à notre porte. Nous serons jugés à la réponse concrète que nous apporterons à la question la plus simple : "Quel destin proposons-nous à nos peuples ? Quel destin et quelle ambition ?".

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ADV PS FOR DIST ADVC, NONE SUGG COPY TO MR JAY, PS/NO 10
LNMDAN 3641 UCLNAN 3600
CONFIDENTIAL
DD 061945Z FCOLN
FM BREEC TO FCOLN
061930Z MAR
GRS 463

CONFIDENTIAL
FM UKREP BRUSSELS
TO DESKBY 061945Z FCO
TELNO 545
OF 061930Z MARCH 91

FOLLOWING PERSONAL FOR PRIVATE SECRETARY, JAY AND PS/NO.10

DELORS ADDRESS TO IISS, 7 MARCH

1. WE HAVE FAXED TO JAY THE FINAL DRAFT OF DELORS'S SPEECH, PROVIDED BY LAMY IN STRICT CONFIDENCE, (WHICH WE MUST RESPECT, INCLUDING VIS-A-VIS DELORS.)

2. TWO THIRDS OF THE SPEECH ARE NOT ABOUT CFSP AT ALL, BUT GIVE A CONSPECTUS OF EC DEVELOPMENTS AND THE EFFECTS ON EUROPE OF WIDER WORLD DEVELOPMENTS. MAINLY ANODYNE STUFF, THOUGH WITH A STANDARD EMU PITCH.

3. THE CFSP SECTION REFLECTS THE COMMISSION PAPER TABLED LAST WEEK IN IGC(P), AND THEREFORE SETS OUT A STALL MARKEDLY DIFFERENT TO OUR OWN. DEFENCE POLICY IS SEEN AS AN INTEGRAL PART OF EUROPEAN UNION. THE IDEA OF SEVERAL DIFFERENT COMMUNITIES (ECONOMIC, POLITICAL, SECURITY) IS DISMISSED AS UNACCEPTABLE, THOUGH HEAVY EMPHASIS IS PLACED ON THE NEED FOR TRANSITIONAL PERIODS, AND A STEP-BY-STEP APPROACH. THE TEXT ASSERTS THAT DEFENCE GUARANTEES SHOULD BE INCORPORATED AS PART OF THE UNION, WITH DECISIONS TAKEN BY UNANIMITY, AND AN OVERALL RESPONSIBILITY EXERCISED BY THE EUROPEAN COUNCIL. IT REJECTS THE CONCEPT OF WEU AS ''A PLACE FOR INCREASED COOPERATION BETWEEN EUROPEAN COUNTRIES AND AS A BRIDGE TO THE ATLANTIC ALLIANCE''. INSTEAD IT SHOULD BE THE CRUCIBLE FOR A EUROPEAN DEFENCE BASED ON THE COMMUNITY AND BECOMING THE SECOND PILLAR OF THE ALLIANCE, ALONGSIDE THE US PILLAR. THE DEVELOPMENT OF WEU (TO INCORPORATE MULTI-NATIONAL UNITS AND INTERVENTION FORCES) SHOULD PROCEED IN PARALLEL WITH WITH THE NEW NATO, EQUIPPED WITH REDEFINED AIMS AND MACHINERY. CONCERNS ON THESE SCORES RAISED BY THE US AND OTHER COUNTRIES ARE DISMISSED: THE DEEPENING OF THE COMMUNITY IS SEEN AS NECESSARY JUST AS MUCH FOR THE GREATER EUROPE AS FOR THE ATLANTIC ALLIANCE.

4. I HAVE HIGHLIGHTED THESE PASSAGES, BECAUSE THE PRESS WILL NO DOUBT SPOT THE DIFFERENCES FROM THE SECRETARY OF STATE'S 19 FEBRUARY LUXEMBOURG SPEECH. BUT THERE IS MUCH ELSE WITH WHICH WE DO AGREE, AND STRIKINGLY FEW REFERENCES TO A ROLE FOR THE COMMISSION.

5. MOREOVER, IT ISN'T SURPRISING THAT THIS TEXT (LIKE THE COMMISSION'S DRAFT TREATY TEXT) SHOULD BE IMBUED WITH THE PURE MILK OF MONNET DOCTRINE: I.E. THAT DEVELOPMENT MUST BE BASED ON THE PROGRESSIVE EXPANSION OF THE COMMUNITY AS SUCH, AND NOT ON OTHER INSTITUTIONS IN WHICH THE MEMBER STATES MAY DECIDE TO COOPERATE. THE DEGREE OF SUPPORT FOR THE FRENCH/UK ETC CONCEPT OF A EUROPEAN UNION COMPOSED OF SEVERAL AREAS OF ACTIVITY, ONLY ONE OF WHICH WILL

BE THE COMMUNITY, CAUSES INCREASING CONCERN IN THE COMMISSION. UNLIKE THE EMU BIT, THIS PART OF THE SPEECH IS NOT SPECIFICALLY TARGETTED ON THE UK AUDIENCE : INDEED ITS MAIN TARGETS ARE PROBABLY IN PARIS AND BONN.

6. RESIDENT CLERK : PLEASE ALERT PRIVATE SECRETARY.

KERR

YYYY
ADVANCE 11
PS JAY FCO 1
PS NO 10

UCLNAN 3600

Foreign &
Commonwealth
Office

London SW1A 2AH

6 March 1991

Dear Charles,

Delors' Speech to the IISS, 7 March

I enclose a copy of a draft, obtained by UKREP Brussels this evening, of the speech (in French) which we understand M. Delors will give at the IISS tomorrow evening, shortly before his dinner with the Prime Minister. I also enclose a short summary. We have not in the time available been able to produce a translation.

The draft is based on the traditional Delors theme that Europe must take its fate into its own hands, and on the over-ambitious draft Treaty text for a common foreign policy which the Commission recently tabled.

Delors will not expect the Prime Minister to have read the text in full; indeed it might be better if the Prime Minister were not to reveal that he had seen a text in advance. The Foreign Secretary has not yet seen the speech, but FCO officials suggest that it would be natural for the Prime Minister to ask Delors about his speech. After Delors had replied, the Prime Minister might say:

- Important that the Twelve should develop a more coherent foreign policy. The Gulf has shown that.

- But we must be realistic. Member states will not accept that key national interests should be confined in a straitjacket. France certainly won't; nor would we.

- Commend the gradualist, evolutionary approach set out in our draft Treaty text. This may not look ambitious, but it would mark real progress.

- Agree that we need to create a European defence identity. But this must not jeopardise the Alliance, and the American commitment to the defence of Europe. Strengthening WEU as a bridge between political union and the Alliance is the right way forward. But we need links in <u>both</u> directions.

/- Think

- Think it sensible to keep foreign and security policy questions separate from external trade issues. The latter fall properly within Community competence; the former should stay outside competence.

Yours ever,

Christopher Prentice.

(C N R Prentice)
Private Secretary

Sir Charles Powell KCMG
10 Downing Street

Foreign &
Commonwealth
Office

London SW1A 2AH

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5 March 1991

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Delors' present mood is gloomy. He believes that the Community performed badly in the Gulf crisis; that the Community lacks an efficient machinery for decision-taking on external financial commitments; that the Spanish, Germans and French are resiling from the Rome I EMU commitments; and that the CAP picture is bleak, with short-term economy liable to produce major agrarian unrest in, e.g., France and long-term reform stalled by the poor reaction to the MacSharry proposals. On all four points he is correct, but his deductions are not ones with which we agree. He fears that the present hyperactivity within the EC may be the prelude to a period of stagnation. To prevent this he wants a major EC role in post-Gulf reconstruction; a "contingency reserve" above the multi-annual EC financing ceiling ("the Financial Perspectives"); renewed political commitment - particularly in Bonn - to the Rome I EMU timetable (ECSB starting up in January 1994); and an increase in the CAP ceiling ("the guidelines"). There is therefore scope for major disagreement on 7 March.

On the other hand, Delors normally visits each EC Head of Government twice a year, but has visited the UK only once (in 1989) since the last UK Presidency in 1986. He will see this as an important opportunity to establish a good relationship with the Prime Minister. In the Foreign Secretary's view, that should be our main objective, best achieved by ensuring

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that the discussion covers major world issues as well as the contentious points in the current Community agenda. The Foreign Secretary urged Delors on 4 March not to spend the evening circling round the issues in search of common ground, but to explain frankly to the Prime Minister the nature of his anxieties and his remedies.

In order to achieve this, the Prime Minister might like to open with a frank assessment of developments in Moscow, and the prospects for the Soviet Union, Gorbachev's intentions, the risk of disintegration, and the Western interest. There should be no need to discuss details of possible EC assistance programmes (the 4 March Foreign Affairs Council decided to proceed with food aid and credits for food purchases), but the Prime Minister could as necessary say that our help should continue to be conditional on reform.

In the same vein, the Prime Minister might like to take Delors into our confidence on the Gulf, briefing him on the latest position on the ground, and discussing post-crisis planning in general (and without exciting hopes of any major Community role). The Prime Minister might say:

- the countries of the region must play the major part in political and security arrangements: not for outsiders to impose structures;

- first stage should be "hard security" arrangements, based as far as possible on the GCC, Syria and Egypt;

- as for the Twelve, look forward to Troika contacts with Middle East Foreign Ministers;

- economic reconstruction should also be primarily for the countries of the region: money is not a problem. Do not see a major economic role for the EC.

It would be best to tackle the IGC issues only after discussing these major global issues - so setting the right perspective.

On EMU, the IGC is now working slowly through the Commission's draft treaty, with discussion showing up many of the divisions papered-over in the Delors Report and the Rome I Conclusions. The German treaty articles submitted last week illustrate this. In many ways they are helpful, for example in delaying Stage III until adequate convergence conditions have been met; and in proposing that the ecu should be hardened, on lines similar to Spanish proposals. The Prime Minister might say:

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- there are real concerns, particularly in Parliament, about the far-reaching political and constitutional changes involved in EMU; this parliament would not accept a treaty with a commitment to move to a single currency. Any such move would require a further decision, at the right time, by Westminster;

- but we want an agreement acceptable to all Twelve and are working constructively to that end; our proposals are aimed at achieving progress on monetary integration in Stage II, as Spain, France and Germany recognise; we recognise the treaty will have to deal with Stage III - we are not trying to prevent others from committing themselves now to an eventual single currency. For our part, the decision will be for a future parliament.

On political union, the Commission have been playing an active and ambitious role. They have made maximalist draft proposals on most subjects. Discussions are still at a fairly early stage in the IGC, though the Luxembourg Presidency may soon start to draw the threads together. Ministerial discussion has focussed so far on common foreign and security policy (CFSP) and the role of the European Parliament. On both the Commission's ideas are unhelpful. On CFSP they envisage a major role for themselves, and majority voting: on the parliament they envisage a form of legislative co-decision which would increase their powers, and the Parliament's, at the expense of the Council. Neither proposal will be popular with most Member States.

These ideas have only been tabled within the last ten days, and the Prime Minister need not display detailed knowledge of them. But it would be helpful if he were to say:

- we want a more coherent European foreign and security policy; UK draft text now tabled marks a genuine step forward; but while we want common positions on a wider range of foreign and security issues, defence must be kept separate;

- as we develop new European structures, it is crucial that the transatlantic link is well established - this requires all the more effort in a post-Cold War period;

- we see no need to change the overall institutional balance within the Community, and are sceptical about radical proposals for amending, for example, decision-making procedures. We oppose wholesale extension of qualified majority voting under the Treaty; or significant extensions of competence;

/- we

- we have to get this treaty through Westminster. That is a political fact of life, on which we may need Delors' help in moderating excessive demands for change at the IGC.

On CAP reform, Delors is rightly worried about the growing surpluses and spiralling costs, though his proposals would cost more. He has stimulated a radical re-think on the CAP. It is important to make clear to him that, while we reject MacSharry's unacceptable first attempt, we strongly support radical reform. Stage I will be the 1991 price-fixing, where tight budget discipline is required if we are to remain within the guidelines set under the 1988 budget discipline arrangements. The Prime Minister should know that Delors wanted the Commission to propose an increase in the ceiling "guideline" on CAP expenditure introduced in 1988: the justification would be German unification. He was outvoted on this in the Commission - to our relief - but the idea of raising the ceiling is not dead, and the French will pursue it hard. The 1991 price-fixing had a first round in the Agriculture Council on 4 March. The Prime Minister might say:

- we support Delors' desire to reform the CAP; we worked closely with the Commission in 1987/88, and will do so again;

- both for GATT and budgetary reasons, we must keep the 1991 price-fixing within the guideline; raising the guideline would send quite the wrong signal.

On GATT, there was a risk the Community would not accept the terms of Dunkel's statement on agriculture which allowed for resumed negotiations. On this, Delors was helpful, and the Commission have since robustly defended their action. Delors shares our concern to achieve an early GATT agreement. The Prime Minister might say:

- congratulate Delors on recent handling of Uruguay Round;

- negotiations now likely to be low-key until fast-track extension is through Congress; we must avoid a high profile EC/US confrontation;

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5 March 1991

May I have key points on card (please) (as a memory aid)

Dear Charles,

/ 6.3

Prime Minister

CDP

B/2

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- we have to get this treaty through Westminster. That is a political fact of life, on which we may need Delors' help in moderating excessive demands for change at the IGC.

On CAP reform, Delors is rightly worried about the growing surpluses and spiralling costs, though his proposals would cost more. He has stimulated a radical re-think on the CAP. It is important to make clear to him that, while we reject MacSharry's unacceptable first attempt, we strongly support radical reform. Stage I will be the 1991 price-fixing, where tight budget discipline is required if we are to remain within the guidelines set under the 1988 budget discipline arrangements. The Prime Minister should know that Delors wanted the Commission to propose an increase in the ceiling "guideline" on CAP expenditure introduced in 1988: the justification would be German unification. He was outvoted on this in the Commission - to our relief - but the idea of raising the ceiling is not dead, and the French will pursue it hard. The 1991 price-fixing had a first round in the Agriculture Council on 4 March. The Prime Minister might say:

- we support Delors' desire to reform the CAP; we worked closely with the Commission in 1987/88, and will do so again;

- both for GATT and budgetary reasons, we must keep the 1991 price-fixing within the guideline; raising the guideline would send quite the wrong signal.

On GATT, there was a risk the Community would not accept the terms of Dunkel's statement on agriculture which allowed for resumed negotiations. On this, Delors was helpful, and the Commission have since robustly defended their action. Delors shares our concern to achieve an early GATT agreement. The Prime Minister might say:

- congratulate Delors on recent handling of Uruguay Round;

- negotiations now likely to be low-key until fast-track extension is through Congress; we must avoid a high profile EC/US confrontation;

Delors' term of office expires in December 1992. He is expected to serve his full term. After eight years at the Commission, we doubt he will want another extension, and most Member States would think the time had come for a change. Delors presumably has an eye on political developments in France, where he may have Presidential ambitions for 1995. There is a wide slate of potential successors in Brussels. It is too early to identify front runners, though Lubbers and Gonzales are mentioned.

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I am sending a copy of this letter to John Gieve (Treasury) and to David Hadley (Cabinet Office).

Yours ever,

Christopher Prentice.

(C N R Prentice)
Private Secretary

Sir Charles Powell KCMG
10 Downing Street

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file cats

(C2\foreign\Delors)

bc: PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 February 1991

BILATERAL WITH M. DELORS

Thank you for your letter of 12 February asking whether the Prime Minister could give a working supper for M. Delors on the evening of 7 March. I confirm that he is content to do so.

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

C. D. POWELL

Christopher Prentice, Esq.
Foreign and Commonwealth Office

(1)

PRIME MINISTER

MEETING WITH M. DELORS

We have had some difficulty matching your diary and that of M. Delors, to enable you to meet for a working lunch or supper. The only date we have been able to find is the evening of 7 March, when he is over here to address the International Institute for Strategic Studies. I attach the relevant page from your diary. It is not ideal from your point of view: you will have been in Moscow on the Tuesday. But it seems likely to be the only opportunity for some time. Agree to invite him on 7 March?

CDP

Yes

Charles Powell
13 February 1991

a:\delors.dsg

Tuesday 5 March

0800	Keep Free for SH
0900	Questions Briefing
1300	Lunch and Questions Briefing
1515	QUESTIONS
1545-1700	KEEP FREE FOR MPS
1830	AUDIENCE
2000-2200	NUMBER EIGHT DINNER

Wednesday 6 March

0800	Press Breakfast + GO
1645	Keep free for speech
1730	Chancellor of the Exchequer +BP
1800-1930	Host Reception for Commonwealth Parliamentary Association +GB, +CDP

Thursday 7 March

0900	Questions Briefing
1030	Cabinet
1130	Keep free for AT
1300	Lunch and Questions Briefing
1515	QUESTIONS
1545-1700	KEEP FREE FOR MPs
1700	Foreign and Commonwealth Secretary +CDP

Friday 8 March

REGIONAL TOUR
PARTY FUNDRAISING DINNER

Saturday 9 March

CONSTITUENCY DINNER WITH WILLIAM PROBY + MRS. MAJOR

Monday 11 March

OVERSEAS

Tuesday 12 March

0800	Keep Free for SH
0900	Questions Briefing
1300	Lunch and Questions Briefing
1515	QUESTIONS
1545-1615	KEEP FREE FOR MPs
1630	Cranley Onslow MP
1700	Foreign and Commonwealth Secretary +CDP
1830	AUDIENCE

Wednesday 13 March

0800	Press breakfast +GO
	?Host lunch for Hong Kong businessmen +JC
1600	Chancellor of the Exchequer +BP
1645	DEPART NO. 10 FOR
1700	KEEP FREE FOR AT

Thursday 14 March

0900	Questions Briefing
1000	OPD(G)
1100	Cabinet
1230	Sir Robin Butler +AT
1300	Lunch and Questions Briefing

Charles
we spoke
You will want
to reply to this
i.d.c.
S 13/2

Sandra
Can we have a
word please
CN

Foreign and Commonwealth Office

London SW1A 2AH

12 February 1991

Dear Charles,

Bilateral with Delors

The Prime Minister has agreed in principle to an early meeting with M. Delors. Delors is unfortunately unable to come to London for lunch on either the dates we have offered, 27 February (weekly Commission meeting) or 18 March (ECOFIN Council).

Delors will be in London on Thursday 7 March to give a speech at the International Institute for Strategic Studies in the late afternoon. He would be free for a working dinner that evening. I understand that the Prime Minister would not be available on 8 March, were Delors to stay overnight.

Given the difficulty of finding a mutually convenient date, and the importance of an early talk with Delors (IGCs, GATT, CAP reform), we hope that a working dinner on 7 March will prove possible. If not, I hope you may be able to suggest other dates we can put to Delors' cabinet.

I am sending a copy of this letter to David Hadley, Cabinet Office.

Yours ever,

Christopher Prentice.

(C N R Prentice)
Private Secretary

Sir Charles Powell
10 Downing Street

CONFIDENTIAL

file c'President

10 DOWNING STREET
LONDON SW1A 2AA

cc Sandra.

From the Private Secretary

16 January 1991

PRESIDENT OF THE COMMISSION

The Prime Minister told the Foreign Secretary this morning that he would be happy to invite M. Delors to London for a talk and a working lunch some time in the next month or two. He would encourage M. Delors to come with Mr Williamson and one other. The Foreign Secretary would also be present for the lunch. I will ask Sandra Phillips to look for dates and be in touch with you.

Charles Powell

Richard Gozney Esq
Foreign and Commonwealth Office

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The National Archives

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copy seen by COP in Houston.

10 July, 1990

Simon Gass Esq
Private Secretary to
Secretary of State
Foreign and Commonwealth
Office

Dear Simon

CHANCELLOR'S BREAKFAST WITH PRESIDENT DELORS

The Chancellor met M. Delors over breakfast at the Ritz Carlton Hotel, Houston yesterday. M. Delors was accompanied by M. Lamy and Mr Dixon. Mr Wicks and Mr H P Evans were also present.

Introduction

The Chancellor said he was delighted to have this opportunity of seeing M. Delors. He hoped to give him dinner in London before too long. M. Delors said he would be delighted if that could be arranged. He went on to spell out the considerable agenda before the Commission: the completion of a single market, management of German union, Stage 1 of EMU, the Uruguay round, relations with EFTA, a new relationship with Eastern Europe, an analysis of the Soviet Union etc.

The Chancellor agreed that there was a huge amount to do for example in completing the single market and Stage 1 of EMU. Some other issues might have to be dealt with in slower time. M. Delors agreed and said that without a successful Stage 1 there would never be a Stage 2 or 3 of EMU.

EMU

The Chancellor said that we had made our concerns about the Stage 3 proposals clear. The government's objections were shared by both the main parties in Parliament and were well known. But apart from these constitutional points, a rapid move to a single monetary policy and currency would produce great economic difficulties. The economies whose performance was less good would find their lack of

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competitiveness reflected in high unemployment and falling asset values. This would create enormous pressure for huge regional transfers within the Community which would reduce the prospect of those economies improving their performance. It was against that background that he had put forward his proposals for moving beyond Stage 1. These involved the creation of a parallel currency which, unlike the ideas considered by the Delors Committee, would be anti-[illegible] single currency. The proposals offered a way forward for the whole Community. He was strongly opposed to the idea of creating an inner core which would move ahead of the rest. His proposals were not fully worked up, but he hoped they would provide a useful basis for discussions in the Monetary Committee, Central Bank Governors' Committee, ECOFIN and the IGC.

M. Delors said that he had welcomed the Chancellor's proposals when they were first produced and hoped they would be the basis for a full debate on the transition from Stage 1. He did this both because it was his function to promote consensus within the Community and because he wished to be helpful in a UK context. He had been surprised, therefore, by the Chancellor's speech in Wales on Friday and by the article in the European press. Both had appeared to reject completely the ideas put forward in the Delors report. This made it difficult for him and could lead back to a confrontation between the UK and the other 11 members. Returning to the substance of the proposals, he said that the problem of regional poverty and under-development already existed and needed to be addressed whether or not EMU proceeded. He did not think that monetary union would aggravate the problem. Secondly, while any approach had to work with the market, there was no example in history of markets creating a new currency. That needed a political decision.

The Chancellor said that there had been no difference of intention or substance between his initial presentation and his speech in Wales. They were both intended to open up the debate and to point to the economic difficulties of trying to move from Stage 1 to Stage 3 before European economies had converged fully. He agreed that there was no precedent but he was convinced that the hard ECU proposals were sound and could be made to work. They represented a major development in the UK's thinking: a new institution and a common currency for Europe.

M. Delors said that he too was not in favour of "a big bang" approach to Stage 3. The first step was for ECOFIN to discuss monetary policy more openly and explicitly. He noted that in 1986 he had occasioned surprise and some consternation by announcing the goal of capital liberalisation. That was now on the way to completion although different countries had required different transitional periods. This approach might be appropriate also for Stages 2 and 3. Turning to the Chancellor's proposals, he said he had been considering setting up a new study of a parallel currency

taking account, for example, of the ideas put forward earlier by Ciampi and De Larosiere. (His staff later confirmed that no such study is currently under way, though one might be commissioned later). His personal view was that it was important to "diffuse the ECU" ie to make greater use of it. He agreed that it had to be transformed from a basket of currencies into a real currency in its own right. For example, he would like to see the central banks in Europe using only ECU for their transactions within the ERM. Unless the ECU was built up, he feared that the DM would become the predominant currency in East and West Europe within 5 years. He added that he had doubts whether a majority of Germans would favour EMU when it came to the point not least because DM was a symbol of "the new Germany'. He would like to use the Chancellor's proposals as the basis for a full debate of the role of the ECU. This would not be possible if the UK government criticised comprehensively the alternative approach.

The Chancellor said that his speech had responded to criticisms of his hard ECU proposals by pointing out that the alternative approach raised great difficulties. He noted that the Belgian reaction to his proposals had been particularly unhelpful. It was important to proceed at a sustainable pace. M. Delors said it was important also to preserve the momentum of the Community. Turning to economic union he said that Germany and Holland wanted strict budgetary rules and he had accepted that in the Delors committee in order to preserve unanimity. However, in practice this would be impossible and budgetary policy together with decisions on defence, health, social security, etc should remain with individual nations.

Concluding this part of the discussion, the Chancellor said that he was very pleased to have had such a useful discussion. In commenting to the press he would say that it had been a constructive and friendly meeting, that his proposals were intended as a serious contribution to discussion and that both M. Delors and he had confirmed that they would be studied further in the various appropriate committees. M. Delors said that he too would maintain his positive line on the proposals and, within the Commission would certainly consider further the hard ECU and the implications of enhancing the role of the ECU.

ERM

In a brief discussion, M. Delors noted that ERM membership could have a psychological effect on industry and unions and thus help in the task of reducing inflation. He commented that it had played an important part in the disinflationary process in France in 1982/83.

Agriculture

The Chancellor said that there was general agreement in the G7 on the objective of reducing subsidies to agriculture over a period but there was a disagreement on the mechanism. The US wanted specific targets for different types of subsidy while the EC wished to focus on a measure of aggregate support. One way forward might

be to persuade the US to accept an aggregate measure but to acknowledge that this would have an impact on specific types of subsidy.

M. Delors said that he objected to the pressure from the US and the unreasonable and unfair comments they made. Clearly there needed to be a move towards greater reliance on markets and a reduction in total support to agriculture. The EC had done much in the last 6 years and he did not resist, in the long term, making a radical change to the CAP. However, there were particular difficulties in many countries at the moment and he did not accept that the market could be left entirely to itself in agriculture given the great variations in production from year to year. He had suggested to President Bush that a group of "wise men" should be appointed to examine the problem but Bush had refused. If the US seriously wanted a deal, he was sure one could be found but the EC should not succumb to bullying.

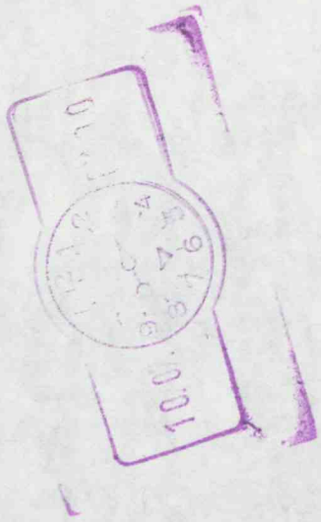
The Chancellor said that it was most important that the Summit should give a political push to the Uruguay round and should not fail to reach agreement on agriculture.

Soviet Union

M. Delors said that the European Council at Dublin had reached agreement on the need to support perestroika but had postponed any firm commitment to assistance until after an analysis of the Soviet economy had been carried out. The Commission's remit was clear. His own view was that any general credits given now would disappear without trace and that know-how was likely to be the first priority. The Commission intended to collect information in the next few weeks and then consult the IMF, OECD, IBRD, the US, and perhaps Japan, before putting a short paper to the October meetings of ECOFIN and Foreign Affairs Ministers. He said that he did not fully understand the nature of the present economic crisis in the Soviet Union nor, as far as he could see, did the Soviet Government.

I am sending copies of this to Charles Powell in the PM's Office, to Martin Stanley in DTI and to Paul Tucker at the Bank.

JOHN GIEVE



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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

1 December 1989

Dear Stephen,

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

The Prime Minister had a talk this morning with the President of the Commission of the European Communities. Monsieur Delors was accompanied by David Williamson (Secretary General of the Commission) and Monsieur Lamy (Chef de Cabinet). Sir David Hannay was also present. The meeting lasted 75 minutes and was conducted in a very friendly atmosphere, although this owed quite a lot to a conscious decision to steer round contentious subjects. Monsieur Delors was unusually taciturn, not to say disingenuous on the subject of EMU.

Monsieur Delors said that the most important task for the Strasbourg European Council was to demonstrate that the Community remained a pole of attraction for democracy and reform in Eastern Europe. The Prime Minister said that the excellent meeting of EC Heads of Government in Paris on 18 November had already delivered this signal. It had been an example of how the Community could come together quickly, assess developments and then take action. She agreed that the Council in Strasbourg should build on the Paris meeting. Developments in Eastern Europe must be right at the top of the agenda, with some practical decisions reached. Monsieur Delors said that the Commission had drawn up an assessment of the help reaching Eastern Europe from various sources (he handed over a copy). The problems of Poland were dramatic. In his view two essential steps were required: monetary reform and the introduction of a full market system for agriculture. Agreement with the IMF was urgent, both for Poland and Hungary. The Prime Minister wondered whether sufficient food was getting through to people in Poland. It might be necessary to do more through NGOs. Monsieur Delors was not aware of any problems. One reason for the shortages was that Polish farmers were still holding two-thirds of this year's harvest on their farms because of low prices. The Prime Minister suggested that the Community might buy some of this in hard currency. Monsieur Lamy confirmed that the EC was already conducting some triangular operations with Poland and Hungary.

Monsieur Delors asked whether the Prime Minister agreed that the Community should extend aid to Czechoslovakia. The

Prime Minister said that it should do so on the same terms as to other East European countries, ie there must be substantial progress towards democracy. Monsieur Delors asked how the Community should proceed towards East Germany. The Prime Minister observed that East Germany did rather well out of the special trading arrangement which it already enjoyed. But she understood that it was now proposed to have a formal trade agreement. She did not know whether this would be more or less advantageous to East Germany.

Monsieur Delors said that he assumed the Prime Minister would want the Strasbourg Council to examine different forms of association between the Community and Eastern Europe. The Prime Minister confirmed this, while emphasising that it should not be association leading automatically to membership. (I handed over to Mr Williamson our paper on relations with Eastern Europe.) The Prime Minister added that it would be useful if the European Council confirmed that there could be no further enlargement of the Community, at least until after 1993, and possibly longer.

Monsieur Delors said that he would be encouraging the French Presidency to open the Strasbourg Council with an assessment of progress on the Single Market. The Prime Minister commented that completion of the Single Market would do more than anything else to change the nature of the European Community. But the record of the French Presidency hitherto was not very good. Monsieur Delors said that there was a chance of getting agreement on several measures at the Internal Market Council on 18 December, but the prospects for this would depend crucially on getting the support of the European Council. The Prime Minister referred to the need to secure full implementation of decisions by all member states. Monsieur Delors indicated that he was aware of the importance of this. If the time-table were to slip, and it were to become apparent that some measures might not be in place by 1992, confidence in the Single Market process would be shaken. He agreed with Sir David Hannay that the implication was that all the necessary decisions needed to be reached by mid-1991. More generally, the Strasbourg Council needed to give new impetus to achieving what had been agreed in the Single European Act.

Monsieur Delors said that the Community should be ready to study carefully the United Kingdom's paper on economic and monetary union. The Prime Minister recognised that Monsieur Delors himself had been scrupulous about this. Monsieur Delors continued that the Commission would be making a report to governments by next Spring on the costs and benefits of EMU and would also be commenting on alternative ideas. Meanwhile, work in the Community should focus on implementation of the first stage of the Delors Report. The Prime Minister referred to our well known objections to Stages 2 and 3 of the Delors Report. Monsieur Delors said that these needed to be discussed in further work on EMU. He cautioned against relying too much on Karl-Otto Poehl, who tended to make conflicting statements. The Prime Minister referred to the need for a revaluation of the Deutschmark. Monsieur Delors seemed dubious about the

usefulness of this. The Prime Minister referred to Chancellor Kohl's comments in the Bundestag on EMU. It was not wise to try to set a time-table for completion of the work of the IGC. Monsieur Delors said that he had not read them in detail, but at first sight they seemed to create difficulties for the Community. He did not know whether the French Presidency intended to press for a vote on the date of an IGC, but assumed that they would. The Prime Minister said she had not welcomed Chancellor Kohl's comments about enlarging the powers of the European Parliament.

The Prime Minister said that there had been a debate in Parliament this week on the Social Charter and a majority against it. It was a pity that President Mitterrand had not followed up the agreement which she had reached with him in September to start from the basis of a document which <u>everyone</u> could accept. We would need to explain at Strasbourg what we <u>could</u> have accepted. She hoped that, when Commission proposals came forward, they would observe the principle of subsidiarity. Monsieur Delors said that this could be reinforced in the preamble to the Social Charter.

Monsieur Delors concluded that it should be possible to have a very good European Council in Strasbourg. There would be differences over the Social Charter, but this was not a tragedy. The focus should be on the Community's response to developments in Eastern Europe, on the Single Market, and on implementing Stage 1 of EMU. It was, above all, important that the Community should not appear divided at this crucial juncture. The Prime Minister said she agreed that the Community should be as united as possible.

I enclose a transcript of Monsieur Delors' comments to the press after the meeting.

I am copying this letter to John Gieve (HM Treasury), Neil Thornton (Department of Trade and Industry), Clive Norris (Department of Employment) and Trevor Woolley (Cabinet Office).

Yours ever,

CHARLES POWELL

J S Wall Esq
Foreign and Commonwealth Office

REMARKS MADE BY M. JACQUES DELORS, E.C. PRESIDENT, IN DOWNING STREET ON FRIDAY 1 DECEMBER 1989, AFTER HIS TALKS WITH PRIME MINISTER

Q. Monsieur Delors, what did you discuss with the Prime Minister?

A. I enjoyed the meeting with the Prime Minister ?? the next European Council and we have discussed ?? about all the items, but we agreed to reaffirm the cohesion of the Community as a pole of attraction in Europe in relation with what happened in East Europe.

Q. Did you progress with the Prime Minister in agreement on let's say, the Social Charter, for example?

A. No, no, the Prime Minister maintained that in spite of (?you?). This is not a reason to have a bad European Council because the priorities are to reaffirm the political will to build Europe to a good relation with the other countries in Europe, to have democracy, pluralism and freedom in other countries and also to achieve what we have decided - and the single market of the ?

Q. You are saying that you are papering over the differences to make sure that Strasbourg is a good summit?

A. I hope, and I am really prepared to hope the best for its best success.

Q. Did you agree with the Prime Minister on every single thing this morning?

A. It is too much, be we had a very good discussion and in the present mood I am very happy with that.

PRIME MINISTER

MEETING WITH M. DELORS

You have an hour with M. Delors tomorrow morning. The purpose is to prepare for the Strasbourg European Council. But Rover Group may also come up in the light of today's developments.

On Strasbourg, there is little to add to my note for your meeting with David Hannay earlier in the day. The Foreign Secretary's minute and David Hannay's telegram (both attached) summarise the issues. There seems to me everything to be gained from an affable meeting with Delors, in which you convey the impression that the Social Charter and EMU are rather subsidiary and what really matters at Strasbourg is the Community's response - political and economic - to developments in Eastern Europe. You hope the greater part of the discussion will be on this: history will judge the Community by its response. *

If Rover Group is raised, you will want to say that Mr Ridley informed Leon Brittan in advance of his statement. If, when they have studied the statement, the Commission feel there are any points which they want to discuss further, we shall be happy to co-operate.

C.D.P.

* you might also hand over a copy of our note - in FT folder - on EC Relations with Eastern Europe.

CHARLES POWELL
30 November 1989

c:\wpdocs\foreign\delors.eam

Foreign and Commonwealth Office

London SW1A 2AH

30 November 1989

Dear Charles,

Call by M Delors: Friday 1 December

The President of the Commission is calling on the Prime Minister at 11.30 on 1 December. The Prime Minister may wish to discuss with him the main items of interest at the Strasbourg European Council.

As background to the discussion, Sir D Hannay's telegram (UKREP no 3751) sets the scene for Strasbourg.

The Prime Minister might start the discussion on Eastern Europe, setting out our ideas on the framework for future EC relationships with the new democracies. The Prime Minister may wish to give Delors our paper, as an input to the Commission's parallel work.

On the proposed Regional Development Bank, The Prime Minister might argue that:

= Commission coordination has shown that there appears to be no shortage of financial resources for Poland and Hungary through numerous national and international bodies. We should not cut across their activities;

/= the key

= the key to increased prosperity of Eastern Europe lies in encouraging private sector. Can the proposed bank do this? Monetary Committee should study alternative mechanisms;

= political control is essential to sustain the EC's successful policy of differentiation between individual East European countries.

On economic and monetary issues, M Delors has been scrupulous in respecting the Madrid Conclusion that the Delors Report provided only a basis, not the basis for further work, and the Madrid refusal to accept the Report's "in for a penny, in for a pound" thesis (para 39). He has also argued that there must be no automaticity about any move beyond Stage 1. The Prime Minister might take the line that:

= calling an IGC at Strasbourg would be premature; she could not vote for an IGC, with its presumption of Treaty change, on the timescale envisaged;

= whether or not an IGC is agreed next year, we shall press for full consideration of our evolutionary approach and shall not, then or later, accept the full Delors Stages 2 and 3 prescription;

= but there are elements in it with which we do agree, as our paper shows, eg the central importance of pressure against inflation (and hence the need to outlaw monetary financing of budget deficits), and the importance of subsidiarity.

/Overall

Overall the French Presidency has made slow progress on the Madrid Single Market priorities (financial services, public purchasing, standards and transport). But there now is a good chance of a useful package, including the Merger Control Regulation, going through at the December (post-Strasbourg) Internal Market Council. Some impetus for this from Strasbourg would be useful. Strasbourg should also reaffirm the particular priority of action on investment services, insurance and transport. It should also stress the need for implementation by member states (the UK's record is good), and support the Commission's continuing tough line on state aids - they have for example demanded repayment of £1.2 bn from Renault. The Prime Minister might like to say that:

= we have urged the French Presidency to go for a December Internal Market Council package of key measures (including mergers, public purchasing, testing and certification): Strasbourg should endorse this;

= Strasbourg is a chance to reaffirm Madrid priorities, especially financial services, insurance and transport (road haulage cabotage, air liberalisation);

= Strasbourg should also support the Commission's efforts to improve implementation, and to cut state aids. Note good UK record on both, in close cooperation with the Commission.

The Prime Minister may wish to touch on the Social Charter. Following the disappointing reaction from President Mitterrand, an 11:1 split seems likely. It might

/be as

be as well to signal that we would regard it as wrong for the Commission to sign a text not agreed by all member states. The Prime Minister might like to say that:

= she had indicated to Mitterrand her readiness to work up a text which all could agree - French reaction disappointing;

= if a split inevitable, so be it. But bad for Community to highlight disagreement (eg by any signature ceremony), and naturally assume no question of Commission signing such a document, not agreed by all;

= we shall look at Action Programme legislation on its merits. Subsidiarity must be overriding criterion for judging what needs to be done at EC level.

I am sending copies to John Gieve (Treasury), Clive Norris (D/Employment), Neil Thornton (DTI) and Sir Robin Butler.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

PO2AAJ/4

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 November 1989

Dear Stephen,

VISIT BY M. DELORS: 1 DECEMBER

Thank you for your letter of 9 November. The Prime Minister agrees to see M. Delors and could manage 11.30 on 1 December.

I am sending a copy of this letter to John Gieve (HM Treasury) and Trevor Woolley (Cabinet Office).

Yours sincerely,

CHARLES POWELL

Stephen Wall Esq
Foreign and Commonwealth Office

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SCPC (1)

Foreign and Commonwealth Office

London SW1A 2AH

9 November 1989

Prime Minister

I think the time has come to tell M. Delors. Agree to tell him on 1 December?

Dear Charles. Yes

CDP 9/11

Visit by M. Delors: 1 December

M. Delors will be in London on 1 December to speak to a Financial Times Conference. The Foreign Secretary saw him in Brussels on Sunday night and encouraged him to use the opportunity to draw attention to the range of areas of Community policy - eg CAP reform, 1992, transport liberalisation, reduction in state aids - on which the UK takes the lead among member states, and sees eye-to-eye with the Commission. M. Delors seemed receptive to this argument, and the Foreign Secretary intends to remind him of their exchange.

In addition, M. Delors seemed concerned to assure the Foreign Secretary that he would not be party to any attempt to brush aside the UK "alternative approach" paper on EMU. Interestingly, he was at pains to make clear that he saw no automaticity about progress on Stages 2 and 3 (a point he might be encouraged to make in his speech on 1 December as well). He did, however, argue the need for some discussion of what might follow Stage 1. His thesis was that, if there were no clear vision for the Community's post-1992 development, German attention would concentrate instead on developments in Eastern Europe, and that the government in Bonn tended to react to, rather than lead, public opinion. The echoes of Mitterrand's line were obvious. The Foreign Secretary suggested, and M. Delors agreed, that developments in Eastern Europe should be a principal subject for discussion at Strasbourg.

The Foreign Secretary thinks that the Prime Minister might like to use the opportunity of M. Delors' visit to London on 1 December to go over the ground to be covered in Strasbourg. This could be useful, both on atmospherics and on substance. Though M. Delors is obviously parti pris on EMU, it was interesting that he urged the Foreign Secretary to pursue bilaterally with the French whether some common ground might be found on the Social Charter. His own view was that it should be possible: we shall no doubt find out when Mitterrand replies to the Prime Minister's message.

I should be grateful if you could let me know whether the Prime Minister would wish to see M. Delors on 1 December. The Foreign Secretary of course gave no indication that a meeting might be possible: indeed M. Delors did not ask for one,

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though he dropped a number of hints that he would like to see the Prime Minister. We have little doubt that an invitation to call at No 10 could serve our interests on this occasion.

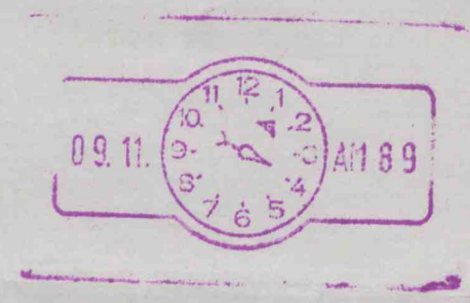
I am copying this letter to John Gieve (HMT) and Trevor Woolley (Cabinet Office).

Yours,

Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street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CONFIDENTIAL AND PERSONAL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

4 May 1989

Dear Stephen.

EUROPEAN COMMUNITY

The Prime Minister discussed with me today whether she should invite M. Delors to come over for a talk, perhaps at Chequers, this summer. The main purpose would be to discuss the question of Community competence, and she would wish to do it only after the projected OD discussion on this. But it would also be an opportunity to cover one or two other subjects such as EMU, preferably before the European Council in Madrid. But I emphasise that the main matter which the Prime Minister would want to raise would be competence. We shall need to consider whether the difficulties likely to arise in such a discussion would outweigh the benefits of a talk on other issues more closely related to the European Council's agenda. It may, for instance, be helpful to talk to David Williamson about competence, at least in the first instance.

There is no action to be taken for the time being: this letter is just to alert you that the possibility is in the Prime Minister's mind.

I am copying this letter to Roger Lavelle (Cabinet Office).

Yours ever,

CHARLES D. POWELL

Stephen Wall, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL AND PERSONAL

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 September 1988

Dear Linda.

You wrote to Dominic Morris on 1 September about the Chancellor of the Duchy of Lancaster's proposal to invite M. Delors to pay a short visit in October to one of the United Kingdom's regions being assisted from the European Community's Structural Funds. The Prime Minister is content for such an invitation to be issued, but assumes the visit will not involve her in discussions with M.Delors on this occasion.

I am copying this letter to the recipients of yours, together with Roger Lavelle (Cabinet Office).

Yours sincerely,

C. D. POWELL

Miss Linda Joyce
Chancellor of the Duchy of Lancaster's Office

dti

the department for Enterprise

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Dominic Morris Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Department of Trade and Industry

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London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date 1 September 1988

Dear Dominic,

This letter seeks agreement to this Department's inviting the President of the European Commission to pay a short visit in October to one of the UK's regions that is being assisted from the EC's Structural Funds.

In introducing the Commission's proposals for the implementation of the new Structural Funds regime, M. Delors announced at the end of July that he would be visiting some of the Community's structurally less developed ("Objective 1") regions. His cabinet has indicated that this does not rule out visits to declining industrial ("Objective 2") regions although he will have little time to visit them. Within the United Kingdom only Northern Ireland qualifies as an Objective 1 region.

M. Delors is due to visit the Irish Republic (also an Objective 1 region) on 28 October. The Chancellor of the Duchy proposes to invite him to stop off on 27 October to see something of what has been achieved in the United Kingdom with the help of the Structural Funds, probably at a ceremony at which he would speak on the Commission's future plans for the Funds. A possible location is the development at Salford Quays in Manchester, but others could be offered. The Secretary of State for Northern Ireland has expressed interest in M. Delors' visiting Belfast, in order to match the visit to Dublin.

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the department for Enterprise

The Structural Funds are now strongly oriented towards Objective 1 regions (which also include the Southern Member States). In negotiations this autumn on the implementing regulations, the UK must ensure that the continuing needs of our Objective 2 regions are also recognised. Our current receipts from the Funds are about £750m. Following the Brussels Council in February, the Prime Minister envisaged that this would increase to £1,000m by 1992. Under the new regime, this is not an automatic entitlement. We have to convince the Commission programme by programme that we have needs worth funding. A visit by M. Delors would help to strengthen our hand in dealing with the Commission.

I am copying this letter to Tony Galsworthy (FCO), Roger Bright (DOE), Nick Wilson (DE), Shirley Stagg (MAFF), David Crawley (Scottish Office), Jon Shortridge (Welsh Office) and David Watkins (Northern Ireland Office).

Yours sincerely,

Linda Joyce

LINDA JOYCE
PRIVATE SECRETARY

AU3ACM

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RECORD OF CONVERSATION BETWEEN THE SECRETARY OF STATE AND MR. DELORS AT DINNER : 22 NOVEMBER

ccPC (2)

Prime Minister
An important conversation.
CDP 24/11

Present:-

Secretary of State
Sir D Hannay
Mr Lavelle
Mr Kerr

M. Delors
Mr Williamson
M.Lamy

US DEFICIT

The Secretary of State stressed the importance of reacting positively to the US deficit reduction deal, if approved by Congress. Although its composition was not ideal, with little on the tax side, realistically it clearly represented the most which the US political process would produce, short of a major crisis, before the 1988 Presidential election. As such, one should talk it up, and look next to Japan and the FRG. M. Delors agreed, though doubting if the markets would be much impressed. They would be well aware that the real US deficit next year, even if the package were adopted in full, would be some $150 billion, ie higher than in the current year. There would be a case for trying, perhaps in WP 3 at OECD, to try to refine agreed rules, based on a clear analysis of the functioning of capital markets, which might prove more binding on the US administration, and eg the Japanese. The Secretary of State said that the problem was not really one of devising new rules, but of getting all concerned - eg the Americans - to respect existing rules, more promptly. The dangers of the US deficit had been evident to all, except in Washington, since 1982/83.

EUROPEAN COUNCIL : AGRICULTURE

M. Delors said that the key to success/failure at Copenhagen lay in agriculture. There were four essential requirements for effective CAP reform, viz:-

(a) a realistic re-basing of the agricultural guideline, based on the 1987 "real needs" figure of just under 27 becu;

(b) chapter-by-chapter management of EAGGF - guarantee expenditure;

(c) replacement of the advance payment scheme by a reimbursement system; and

(d) effective stabilisers, for use in-year.

On none of these four issues would the Commission give any ground. They were under strong Franco/German pressure to agree to globalised

stabilisers, rather than chapter-by-chapter management, particularly on cereals. But the stabilisers system could not work if this were conceded; and it must not be conceded at Copenhagen. On the advances/reimbursement question, some compromise was possible, and might have to be proposed. The guideline re-basing must be genuinely realistic.

The Secretary of State welcomed the Commission's intention to hang tough. There was a risk that Presidency enthusiasm for compromise might lead to pressure for concessions on key points. But the stabilisers package was not particularly rigorous, and if watered down would become ineffective. As for the guideline, a tightly-drawn $/ecu exceptional circumstances clause might be permissible, but anything more would be unduly permissive. The French view of exceptional circumstances was worrying, as was the German enthusiasm for set-aside.

M. Delors said that President Mitterrand would, in his view, probably settle for a strictly $/ecu exceptional circumstances clause. Guillaume of course wanted something much wider, and so perhaps did Chirac. As for set-aside, the fact was that the Germans would not settle at Copenhagen without at least a declaration: the question was whether they would want more than that.

The Secretary of State raised the question of stock disposal. One solution to the problem of "old stocks" might be write-off, with national financing, ie costs lying where they fell. Mr Williamson and M. Lamy pointed out that surpluses were not static in stock: there was much cross-frontier stock movement, eg from the Netherlands into Germany. So those in whose territories stocks now lay might be reluctant to take on full financial responsibility for them. M. Delors was clear that stock disposal should be included within the agricultural guideline. This was right in principle: moreover it carried the advantage that the Spanish and Portuguese would be obliged to pay, whereas they would undoubtedly evade participation in an IGA.

STRUCTURAL FUNDS

M. Delors said, with some passion, that his major concern pre-Copenhagen was with opposition in some capitals to the doubling of the structural funds. If doubling were not agreed, the Commission and the Council would have broken faith with the Parliament.

Two years Commission work would have been set at nought, commitments to "cohesion" and in the single European act would have been trampled underfoot. The Commission would be unable to continue in office. The Secretary of State said that the UK fully recognised the need to do more for the poorest Member States. It would be possible to achieve large increases for them - perhaps 70% in money terms - without breaching the maximum rate. M. Delors said that on this issue no compromise was possible.

UK ABATEMENT

M. Delors said that the Commission had been sharply criticised by the Germans and Dutch for proposing a further abatement scheme: in Bonn and The Hague opposition to any UK abatement was much harder than four years ago. Objectively, there were two new elements: the Community of Twelve, and the cohesion policy. But the Commission believed that the differential position of UK agriculture justified an abatement, and, unlike before Fontainebleau, had thought it right to say so. (M. Delors added that a majority on the Commission had in fact been against doing so, but that he had insisted.) What did however seem clear was that the UK could not hope to retain the present Fontainebleau scheme. The Secretary of State explained at some length why it would not be possible for us to settle at Copenhagen for anything less beneficial than the agreement secured at Fontainebleau. The Commission proposal, even taking account of the fourth resource, did not match the requirement. This was an issue on which it was not politically possible for us to compromise.

Mr Williamson asked whether the UK would accept an arrangement different from, but equivalent to, Fontainebleau. The Commission could revise their proposed scheme, which related only to agriculture, by offering a higher percentage abatement. The calculation of relative benefit would of course also have to take account of the fourth resource. Sir D Hannay pointed out that a higher percentage figure in the agriculture-only scheme might prove unnegotiable. Moreover, an arrangement on the lines suggested by Mr Williamson would be built only on estimates, whereas the Fontainebleau mechanism dealt in actual payments/receipts: reduced certainty would be a significant disadvantage. The Secretary of State said that we would reflect on Mr Williamson's suggestion, but that he did not himself think it offered a promising route.

OILS AND FATS TAX

The Secretary of State said that our view of the oils/fats tax had not changed. It would be seen abroad, particularly in the US, as a protectionist provocation. But we recognised that non-adoption would have budgetary consequences, which must be provided for. M. Delors said that he too did not like the tax. The right course would be to leave the proposal on one side.

There was also some brief discussion of the handling of the Copenhagen European Council; and about Commission threats to take us to the ECJ on sex discrimination. On the latter, M. Delors noted that the UK would be introducing legislation in the next Parliament which would dispose of the problem, and agreed to try to call off the Commission dogs in the meantime.

CONCLUSION

Mr Delors' views on agriculture CAP reform and stabilisers were reassuringly robust, though he clearly thought national write-off of "old" stocks would prove impracticable. His emotion over the doubling of the structural funds was striking, for he must know most northern Member States (eg UK/France/FRG/Netherlands) are not prepared to agree. On the abatement, the Williamson question appeared to presage a revived Commission proposal, which would be inconvenient: we have advised the Presidency.

23 November 1987

Distribution:

PS
PS/Mrs Chalker
PS/PUS
Sir J Fretwell
Mr Braithwaite
Mr Kerr
Mr Wall
Mr Meyer
PPS/Chancellor
PS/Mr MacGregor
Mr Powell, No 10
Sir D Hannay, UKREP Brussels
Mr Lavelle, Cabinet Office
Mr Edwards, Treasury
Mr Hadley, MAFF

file MJ

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

6 February 1987

Dear Lyn.

I enclose a copy of a note verbale which M. Lamy handed me after the Prime Minister's meeting with M. Delors, dealing with the problem of women's colleges and the Community's equal treatment directive. It seems to represent a satisfactory outcome. The Prime Minister assumes that the meeting proposed in the last sentence will take place.

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

Yours sincerely,

Charles Powell

Lyn Parker Esq
Foreign and Commonwealth Office.

ANNEXE II

(2)

Prime Minister

M. Delors wanted you to see this. CDP. 5/2

NOTE VERBALE

At their last meeting in London in December the Prime Minister drew President Delors' attention to the matter of finding a solution to the United Kingdom's problems in complying with directive 76/207/EEC on equal treatment for men and women with regard to training, and more especially to the Commission's position on the question of maintaining the present situation in the women's colleges at Oxford and Cambridge.

Any misunderstanding here should be removed : the Commission has never asked for a change in the statutes of the Oxford and Cambridge colleges, but rather for a revision of Article 51 of the 1975 Sex Discrimination Act to bring British legislation in line with the aims of Directive 76/207/EEC.

There have been various talks between the British authorities and Commission officials. During those talks a specific legal solution was proposed to the British authorities which would make it possible to leave the women's colleges' statutes as they stand and to remove the inequalities in British law.

The British authorities replied to the reasoned opinion delivered on 13 October 1986 as part of a procedure under EEC Article 169. They admitted that British legislation was not compatible with Community law and, hence, recognized the need to amend it to regularize the situation. A meeting between the British authorities and Commission officials would be desirable to consider the amendments required.

I assume this will take place

subject MASTER.

FILE DA

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

5 February 1987

Dear Lyn,

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

The Prime Minister received M. Delors this morning to discuss the ex novo review of European Community finances. M. Delors was accompanied by M. Noel and M. Lamy. Sir David Hannay was also present.

M. Delors said that he saw two essential conditions for a satisfactory outcome of the ex novo review. The first was to reduce the costs of the Common Agricultural Policy. The second was to introduce budgetary discipline which really worked. The CAP could not go on as at present. Production was outstripping consumption. The original objectives for the CAP set in the Treaty of Rome were scarcely relevant any more. The Community also had to consider its position in the GATT, and the interests of the developing countries. There were both economic and budgetary reasons to reduce the costs of the CAP. Since the Fontainebleau European Council, Agriculture Ministers had agreed measures which should produce some 4bn. ecu of savings. Even so, expenditure was continuing to grow. The Community needed a system which would provide "automatic stabilisers" for each commodity. Market mechanisms must be given their proper role in agriculture as in other sectors of the economy. The Commission would propose that intervention should be limited to specific periods. It must not be a means to stimulate artificial production. At the same time steps were needed to eliminate existing surplus stocks. The Commission was making proposals for this. But they made sense only if combined with agreement on measures which would prevent the surpluses being re-created.

M. Delors continued that budgetary discipline had hitherto failed to function for three reasons. First, agricultural expenditure had never had to respect the rules of budgetary discipline. There were several possibilities for making it do so. For instance those countries which benefited most from the CAP might have to take responsibility for meeting the costs once a certain fixed ceiling was exceeded. Secondly, the European Parliament had refused to commit itself to budgetary discipline. This was inadmissible. Speaking personally, he was ready to see the Treaty modified to constrain the Parliament in this respect, although he had not

yet consulted his colleagues about this. Thirdly, the Community's financial management rules were inferior to those of Member States. The result had been the creation of a large overhang of past commitments. These commitments were the reason why the Community's budget had been in deficit since 1982; and why, even before enlargement all the funds available within the 1.4 per cent VAT ceiling had been pre-empted.

The Prime Minister said that she would prefer to treat the two points mentioned by M. Delors the other way round. The first and most vital task was to get strict and automatic budgetary discipline, implemented if necessary by Treaty amendment. This had to be settled before any consideration was given to increasing resources. If the Community could not live within one income, it would not live within another. At the Brussels European Council she had tried to get provision for budgetary discipline written into the Treaty, but had not succeeded. The reason for this was that nine Member States took from the Community and only three contributed. Now that the Community had run out of funds, there was a unique opportunity to enforce discipline by making clear that there would be no increase at all in the Community's resources until a satisfactory, workable and automatic system of budgetary discipline was in place. There was in any event no question of providing the Community with extra funds this year. But beyond that she could not even consider an increase in the VAT ceiling to 1.6 per cent unless a satisfactory system of discipline was first agreed. She also wanted to make quite clear that we would not be prepared to discuss any alternatives to the Fontainebleau system, unless they were better from our point of view. Despite Fontainebleau the United Kingdom remained the second largest contributor to the Community. We paid some £800m. across the exchanges to the Community. We also had to meet the costs of keeping 66,000 troops in Germany. This was a burden which no other Member State had to bear.

The Prime Minister continued that she agreed with M. Delors on the need to reform the CAP. Withholding money was the only satisfactory way to achieve this. She welcomed the Commission's intention to limit intervention for all commodities. But experience in the past with cereals had been disappointing. Limits must be automatic to be effective. She also agreed that there was no point in making expensive arrangements to dispose of existing agricultural stocks until the Community also stopped building up fresh surpluses. The CAP had never been meant to be an instrument for creating surpluses. Agriculture must live within a budget, not determine the size of the budget. The Prime Minister added that the Community's agri-monetary arrangements were a matter of particular concern. Linkage to the strongest currency dragged prices up unnecessarily. She very much hoped that the Commission would propose the breaking of this link. M. Delors confirmed that they would be proposing this as well as the elimination of MCAs over a period of five years.

The Prime Minister concluded that her message was very precise. The Community had to exercise effective public

expenditure control and the only way to achieve it was by refusing additional resources. We would only look at an increase in the VAT ceiling to 1.6 per cent once effective arrangements to control expenditure were in place. It would also be necessary to bind the Parliament into budgetary discipline arrangements. At the moment, they regarded their task as being to extract more money from Member States. In any event there could be no question of putting decisions on additional funds to the United Kingdom Parliament before the election. Doubling of the structural funds was out of the question since the Community clearly did not have the necessary money. She intended to be tough in the negotiations which lay ahead. She had little confidence that other Community governments would be prepared to co-operate unless they were convinced that there would otherwise be no additional resources. There was a unique opportunity to put the Community's finances and financial management on a sound basis, and it must be taken.

M. Delors said that special arrangements might be necessary to enable small farmers to adjust to the more rigorous conditions under the CAP. But such arrangements should be financed on a national basis, without distorting competition between Member States and without the adoption of measures which led to further increases in production. The Prime Minister agreed. The purpose of changes in the CAP must be to bring supply and demand into balance.

M. Delors said that the Commission were also concerned to see the Single European Act implemented in three respects. First, there should be strengthened monetary co-operation, although speaking personally he could well understand the manner in which the recent readjustment within the EMS had occurred would not increase the United Kingdom's enthusiasm for joining the ERM. But the Community would enjoy the full advantages of a single market only if the currencies of Member States did not diverge too far from each other. Secondly, there should be improved co-operation in research and development. And thirdly, the internal market must be completed but without increasing regional inequalities within the Community. He also believed that methods of intervention under the Community's structural funds needed to be improved so that resources were properly used. This meant less projects and more programmes.

The Prime Minister said that more money could be found for research only if less were spent on agriculture. It was particularly important to ensure value for money. Too often research co-operation seemed to centre on making sure that every member country had an institution. M. Delors said that he was not proposing the setting up of any more institutions. He favoured using whatever framework, EC or EUREKA, was most likely to be effective. The Prime Minister said that research co-operation would only be really effective if the internal market was completed. M. Delors agreed, adding that the emphasis in future should be on public purchasing, liberalising of capital movements and standards.

The Prime Minister said that she wanted to return to her central point. Everything depended on establishing effective budgetary discipline. Until that was agreed there could be no progress. The Community had never had a better opportunity to secure this. Member governments would never agree voluntarily. They must be brought up against an external reality: the fact that there would be no more money unless there was agreement. The system must be automatic and preferably embodied in the Treaty. M. Delors should be tough. She certainly intended to be.

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

yours ever.

Charles Powell

(C.D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

EMS
Research

CONFIDENTIAL

PRIME MINISTER Intervention

c. Mr Ingham

Esprit
Eureka

5,000 p.a.

MEETING WITH DELORS

You are to have 45 minutes with Delors, before he meets your colleagues in the afternoon. The purpose is to give him in broad outline your views about the ex novo review of Community finances: and perhaps more important, to let him gauge the vigour of your feelings on the subject. Inevitably most Community governments look like being a push-over for the Commission's views. Only Chirac has so far been really tough. Delors has not yet met the Germans.

A minute by the Foreign Secretary and a brief are in the folder.

The main points which you will want to get across are:

- the Community's basic problem is lack of financial discipline. Each individual member state is trying to exert tight control over its own national expenditure. But the Community just seems to spend, spend, spend.

- the reasons are not hard to divine. Extra Community spending benefits 10 member states, while only 2 end up paying. Despite Fontainebleau, the United Kingdom remains the second largest contributor to the Community.

- the basic purpose of the ex novo review, in our eyes, is therefore to control expenditure, not to increase revenues. Any possibility of extra resources is the residual item, to be discussed at the end when measures which limit expenditure have been satisfactorily agreed. Indeed you can't tell whether more money is necessary until this has been done.

Control expenditure

- but there are three points to make absolutely clear now.

CONFIDENTIAL

First we stand by the text of Fontainebleau which says that the 1.4% ceiling "may" be raised from 1 January 1988, not that it "will" be. Second we are never going to agree an increase of anything like the Commission want. And third we are not going to be able to put any decisions to the UK Parliament before the General Election.

- the first and main issue in the negotiations has to be reform of the CAP. It's because of failure to constrain agricultural spending that the Community is up against the 1.4% ceiling.

- this means tough action on surplus products, above all cereals; weakening of intervention so that it is not automatic; reform of the agri-monetary arrangements to cut the link with the strongest currency. Agriculture must live within a budget, not determine the size of it. Any income aids to small farmers must be financed from national budgets not the Community budget.

- we also need much more effective mechanisms for overall expenditure control. We look to the Commission to make proposals.

- doubling of the structural funds is for the birds. They've already increased substantially and anyway the Community is not supposed to be a redistributive mechanism. But there is plenty of scope for better organisation of the funds and greater concentration of effort. Regions of industrial decline and high unemployment must be given a proper share.

- and by the way, if he is thinking of proposing any change to the system for our abatements, he will want to bear in mind that we shall be prepared to discuss alternatives to Fontainebleau only if they are more equitable from our point of view. If the Commission try to reduce our abatement, nothing will be agreed. We still pay far more

Budgetary Policy

CAP discipline - not effective

Parliament - refused to
commit itself

One can refuse discipline
change to Treaty

← to accept discipline

Out of line with
each country

Increasing total commitments

Council of Ministers

than in equity we should and our share in Community spending programmes is declining.

CDP

CHARLES POWELL

4 February 1987

VC2ANW

2 Preconditions

① Reduce CAP

② Discipline — effective

C, A, P

Not on present basis

'Independence motive'
— no longer exists

3rd world — revenue
decreasing
& reduce C.A.P.

Fontainebleau
Reforms —

Decisions taken before
Dec — 4 b'ens

$ rate changed
— without this
exp. would have
increased

Soln not accepted

Automatic Stabilisers

Green Pound — Selective
Certain
months

← Disappearance of surplus
stocks
— provided no more
accumulation

(1)

Prime Minister
CDP
4/2

Qz.05629

MR POWELL (10 Downing Street)

Prime Minister's meeting with M. Delors, 5 February

The Commission is today considering its 1987 agricultural price proposals and, if it takes decisions, they would be announced this evening and M. Delors may refer to them. The Prime Minister should be aware, therefore, that the main proposals put forward to the Commission (we have the documents but not officially) are:

(1) a price freeze or price reduction for almost all commodities (eg -2.6% barley intervention price, up to -10% for some tobaccos, -5% for some fruits);

(2) for cereals intervention would in future be restricted to the period February-May and all monthly increments would be abolished. The co-responsibility levy would not be increased;

(3) for sugar, for which the regime is in principle self-financing, there would be an extra levy on producers to offset about 185 million ecu by which cost is ahead of levy income;

(4) for olive oil a guarantee threshold in the form of a maximum quantity (1.3 million tonnes) for production aid. This is below average declared production in recent years;

(5) for oilseeds the Commission intends later to restrict intervention for rapeseed to certain (00) varieties and in the meantime to reduce support for other varieties;

(6) for wine the Commission proposes, for the third year in succession, to freeze the guide price and presses its proposal to limit replanting;

(7) a new form of guarantee threshold for tomatoes; if the Council does not adopt it, the Commission proposes a price cut of 15%;

(8) differentiated price changes for tobacco varieties, likely to produce at worst a neutral effect on expenditure and at best a substantial decrease;

(9) following the quota cuts and other measures agreed in December, milk product support prices and the co-responsibility levy would be frozen. Intervention for salted butter (a British interest) would end from 1 April 1988;

(10) following the restrictive measures for beef agreed in December, no price changes are now proposed;

(11) sheepmeat support price frozen; no specific proposal to introduce monetary compensatory amounts (good for Britain, we do not want one) but some suggestion that it might be proposed later; headage limit of 500 ewes, 1000 in less favoured areas, on premium (bad for Britain);

(12) green rates should be abolished by 1992. In the meantime the Commission proposes a change which would have the effect of abolishing the strong currency coefficient for the future while retaining the price increases which it has made possible in recent years. This means the end of the strong currency system which has created extra scope for national price increases of up to about 12½% in a recent period. It is expected that the Commission will propose a change of 4 points in the United Kingdom's monetary compensatory amount.

The Commission estimates the budget saving in 1987 at 619 million ecu (about £458 million) and in 1988 at 1109 million ecu (about £821 million). The longer term benefits of the continuing reduction of support in real terms and of the changes in intervention, in particular for cereals, would be considerable. The package is clearly rigorous.

We do not yet know whether the Commission will decide for a levy on oils and fats. We are opposed to such an approach. It would have serious implications for international trade because of the sharp reaction to be expected from suppliers of soya beans and other oilseeds and vegetable oils, in particular the United States. Lyn Parker (FCO) has written to you separately about this.

I am sending copies to Lyn Parker (FCO), Shirley Stagg (MAFF) and Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

4 February 1987

CONFIDENTIAL

PM/87/007

PRIME MINISTER

Community Financing: Your meeting with the President of the Commission

1. Over the past four years we have achieved a great deal in the Community - Fontainebleau, enlargement, the successful outcome to the institutional debate in the Single European Act, the priority now attached to completion of the internal market and the momentum we have been able to generate for CAP reform. We have just completed a successful Presidency. The election of a British President of the European Parliament is, as you said in your message to Henry Plumb, a further step for us in the Community. Achieving lasting reform of the CAP is the most important objective before us in our campaign to ensure that the Community works for our interests. The decisions on milk and beef achieved by Michael Jopling in December were an important breakthrough. The

negotiation about to be engaged offers us the opportunity to carry forward those reforms.

2. This more successful pursuit of our interests in the Community has been helped by the development of more effective cooperation with France and Germany - cooperation which Genscher and Raimond have made clear to me they want to pursue. We have been able to break down what threatened to become a systematic Franco-German alliance. Despite obvious conflicts of interest with the Germans over the CAP and the French over protectionism, we must continue to establish common ground wherever possible; and we must make sure that there is no reversion to earlier Franco-German tendencies to try to settle matters at our expense.

3. We have discussed our negotiating approach in OD(E). I have no doubt that we shall be able to protect our interests in these negotiations as successfully as we have in all previous rounds. They will be long drawn out; and it is in our interests that they should be, as we work to get the reforms we need. We remain the second largest net contributors to the Community budget - a point that needs to be emphasized very firmly to Delors. But it is very much in our interests to preserve Fontainebleau: by the end of this year that agreement

will have brought returns worth over £3 billions to the United Kingdom. We expect it to be worth another £1.8 billions to us next year.

4. Other member states are going to have to understand that:

(a) we are never going to agree to an increase of anything like the order the Commission want;

(b) we are not going to agree to anything before our election:

(c) we are not going to provide additional finance outside the own resources in 1987;

(d) we are going to insist on further fundamental CAP reforms and effective mechanisms of overall expenditure control;

(e) we are not going to accept any outcome that leaves us worse off in any way than Fontainebleau (we shall indeed be looking for some improvements in the Fontainebleau system);

5. The other member states and the Commission are likely to find the negotiation heading increasingly in the direction set out above. The attitude of all the others to our negotiating position will depend on whether we seem to be sticking to the terms of Fontainebleau ("the maximum rate may be increased to 1.6% on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures"). We must not let ourselves be pushed beyond, nor ourselves renege on "may". We should not commit ourselves to an increase: our whole purpose must be to use the pressure imposed by the VAT ceiling to get the further reforms we need. But if contrary to the terms of Fontainebleau we appeared to be ruling out 1.6 per cent in 1988, we should find other member states trying to challenge that agreement and our interests generally in ways which otherwise they will not be disposed to do. We should not make up our minds until the end of this process. The negotiation could get stuck on German insistence on a correction for them, or a failure to achieve adequate results on the CAP, or attempts by others to affect our correction, which we shall reject. But we should avoid it doing so in conditions which would prevent us getting our way on other matters of importance to us in the Community - as we have just done very successfully, for instance, in the agreement just arrived at to avert a

trade conflict with the United States and the 48 internal market opening measures we got adopted during our Presidency.

6. We are proposing that you should take a firm line with Delors - but without closing off our options for 1988. I hope you will make clear to him the points in paragraph 4 above. As the attached notes suggest, I hope you will point out that, following the decisions taken in December on milk and beef there have now to be fundamental reforms of the CAP regimes for cereals and vegetable oils; and that having taken the necessary decisions to bring production into line with the market, mechanisms must be built into each of these regimes to ensure they cannot exceed the budgetary limits in the future. The Commission themselves acknowledge the need for more effective mechanisms for overall budgetary control. This is a vital question so far as we are concerned. I hope that you will make absolutely clear also that we shall be prepared to discuss alternatives to Fontainebleau only if they yielded results which are more equitable from our point of view. We shall be discussing in more detail with Delors the mechanisms that will be required to control agricultural expenditure and will be handing over to him a note setting out our requirements on the structural funds.

7. The Chancellor and I will both be having talks with our French and German colleagues over the next weeks. They have already been made very clearly aware of the political realities here. They will join us in opposing the Commission's ideas for a large increase in the own resources. But both are likely in the end to consider an increase to 1.6 per cent of VAT in line with Fontainebleau, subject to more effective over-all arrangements for expenditure control. The Dutch and Danes are in a similar position. I have made clear to all my colleagues that so far as we are concerned, what the negotiations must be about is further fundamental and lasting reforms of the CAP. No one is in any doubt as to the strength of that position. I shall report to you in the light of our further consultations.

8. I am sending copies of this minute to Nigel Lawson, Paul Channon and Michael Jopling.

(GEOFFREY HOWE)

Foreign & Commonwealth Office

3 February 1987

PRIME MINISTER'S MEETING WITH PRESIDENT OF THE COMMISSION 12.15 pm, 5 FEBRUARY, 1987

Our Objectives

To make clear that:

- There will be no agreement to an increase in own resources of the size envisaged by the Commission;

- The correct solution is to control expenditure, not increase revenues, and we will certainly not be in a position to put any decisions in this area to the UK Parliament before the General Election.

- We shall be looking for improvements in the Fontainebleau system. Our shares of all the Community's main spending programmes have deteriorated since Fontainebleau.

- We rule out a massive increase in the structural funds as envisaged by the Commission, but will look for concentration on areas which include regions of industrial decline and high unemployment;

- The main and first issue in the negotiations is continued reform of the CAP, in particular an end to open-ended commitments, and the introduction of automatic mechanisms to prevent costs rising in individual commodities and a more effective mechanism to control the growth of spending overall.

His Objectives

- To persuade us that the 1.4% VAT ceiling is already used up, not least by our abatements which account for 0.15-0.2%.

- To argue that a large increase in own resources is justified on grounds of cohesion, the internal market, enlargement, development of new policies, existing commitments (cost of the past, agricultural stocks, payments to member states) and a decline in own resources as a proportion of GDP.

- To argue that a higher ceiling accompanied by better expenditure control within the Community is the best solution.

- To sound out our views on ideas likely to be proposed by the Commission eg a 1.4% GDP ceiling on own resources - equivalent to 2.1% VAT, an energy import or other direct tax, a doubling of the structural funds with greater emphasis on the poorer regions.

- To convince us of the Commission's determination to pursue CAP reform (eg through stabilisers) and more effective control of Community spending (by agreement between the Council and European Parliament).

Arguments to Use

- Fontainebleau agreement and Own Resources Decision say 1.4% ceiling may be increased to 1.6% on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures.

- The United Kingdom, like Germany and increasingly France, is a substantial contributor to the Community budget. That is why our attitude to expenditure is very different from that of the southern member states. Additional EC expenditure can be justified only if the money is better spent in the Community. That clearly is not the case when half EC budget is devoted to storage and disposal of surpluses.

- In national expenditure we have to make difficult choices between priorities. Like the French and German governments, we are interested in cutting taxes, not increasing them.

- Community is up against 1.4% ceiling because of failure to constrain agriculture.

SW1ACX,5

- CAP reform is therefore top priority.

- There will have to be effective mechanisms to ensure automatic policy response to CAP over-production.

- Commission papers show your commitment to adaptation of CAP. This must be central issue of negotiations. Good progress on beef and milk last year: successful cooperation between Commission and UK Presidency.

- Need similar approach this year:

(i) must take further tough action on surplus products, above all cereals;

(ii) where stabiliser mechanisms, such as guarantee thresholds, already exist they must be strengthened and they must be extended to additional products which are in, or risk going into, surplus;

(iii) must find ways of ensuring that the rate of growth of agricultural spending overall does not

exceed available finance and that excess production is not a charge on the Community budget.

- Will not agree to Community financing direct income aids to small farmers. That would add to costs, not reduce them. Social aids a matter for the member states under proper Community control. Article 43 provides for a genuine Common Market in agricultural goods: there must be no discrimination in the market regimes.

- It is the growth of agricultural spending which means that resources are not available for other programmes. So answer has to be constraining that spending, not looking for large increase in own resources to finance it.

- We stand by letter of Fontainebleau agreement. We see no case for going beyond it. The present British Parliament has already approved one increase in own resources. We will certainly not be in a position to put any decisions in this area to the UK Parliament before the General Election.

- We shall not agree to provide additional finance outside the own resources. Any shortfall later this year must be dealt with by moving from FEOGA advances to reimbursement.

- The Commission papers criticise the lack of adequate public expenditure control and note that the present arrangements are not working. We agree. What do you intend to put in their place? We are ready to look for common ground with you on this objective.

- There is no scope for doubling the Structural Funds. Internal market is a treaty obligation, of benefit to all. Large transfers to the poorer member states - particularly Greece and Ireland - are already being made. Italy too is a very substantial net beneficiary. March 1984 European Council committed Community to significant increase in Structural Funds in real terms within limits of financing possibilities. Since then, European Council in 1985 agreed IMPs for Mediterranean regions of EC 10. Draft 1987 budget represents increase in payments of 47% in real terms since 1984, including additional help for Spain and Portugal.

SW1ACX,8

- Do favour better organisation of funds and concentration of effort. Must give proper weight to regions of industrial decline and high unemployment.

If M Delors suggests changes in UK abatement mechanism

- The United Kingdom, despite Fontainebleau, remains second largest net contributor to the Community (1200 mecu - £800 million - a year) after abatement.

- Our shares in spending programmes declining. The Regional Fund was created originally in part as a solution to budget imbalances. We are now likely to be a net contributor to that too. And our share of the Social Fund - which has made a useful contribution in the UK - has dropped from 30% to 16% over the past three years.

- We shall be looking for improvements in the Fontainebleau system. Any change in mechanism would have to be a change for the better.

- No question of 1.4% GDP ceiling (2.1% VAT). Could not agree to additional Community taxes.

SW1ACX,9

- No reason at present to believe that any increase would not be swallowed up by CAP spending. That and overall expenditure control are the questions that are going to have to be addressed first.

If M Delors raises R and D

- Commission proposed a doubling of expenditure on R&D. Now proposing also doubling of structural funds. All this while CAP spending still not under control.

- Britain, France and Germany have to pay for all this. We support programmes like ESPRIT, RACE (advanced telecommunications) BRITE (technology for traditional industries). But these have to be cost effective. R and D programme cannot be another instrument of "cohesion".

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MY TELNO 89: EX NOVO REVIEW: CHIRAC'S MEETING WITH DELORS

SUMMARY

1. CHIRAC RAMMED HOME BLUNTLY POINTS WHICH HIS MINISTERS HAD WRAPPED IN VELVET, ABOVE ALL THE GOVERNMENT'S DETERMINATION TO OPPOSE ANY INCREASE IN THE EC BUDGET'S SHARE OF THE COMMUNITY'S COMBINED GDP.

DETAIL

2. SILGUY (MATIGNON) GAVE US TODAY A FULL ACCOUNT OF THE LINE TAKEN BY CHIRAC WITH DELORS. CHIRAC MADE CLEAR TO DELORS THAT THERE WAS NO QUESTION OF THE FRENCH GOVERNMENT AGREEING TO SUCH AN INCREASE AT A TIME WHEN THEY - LIKE THE GOVERNMENTS OF ALL INDUSTRIALISED DEMOCRACIES - WERE SEEKING TO KEEP PUBLIC EXPENDITURE UNDER CONTROL, AND FINDING IT EXTREMELY HARD. 1.4 PER CENT OF THE EC GDP WAS OUT OF THE QUESTION. DELORS HAD ARGUED THAT WITHOUT A SUBSTANTIAL INCREASE IN RESOURCES, THE EC COULD NOT FULFIL ITS EXISTING POLICY OBJECTIVES NOR DEVELOP NEW ONES. THE FRENCH GOVERNMENT WOULD FIND ITSELF ALIGNED WITH ONLY THE BRITISH AND THE GERMANS AGAINST THE REST OF THE COMMUNITY, AND THE GERMANS WOULD AS USUAL DESERT WHEN THE CRUNCH CAME. IN THE SHORT TERM, DELORS WOULD HAVE NO OPTION BUT TO CUT EC SPENDING BY 30 PER CENT, INCLUDING OBLIGATORY SPENDING. SO BE IT, CHIRAC RETORTED, WE MUST FASTEN OUR SEALT BELTS FOR A TURBULENT PASSAGE. IN VIEW OF THE ROUGH LINE HE HAD TAKEN, CHIRAC DID NOT ENTER INTO A DISCUSSION OF THE MERITS OF CHANGING FROM A VAT TO A GDP BASIS: THIS WAS A TECHNICAL ISSUE ON WHICH THE FRENCH HAD NO FIRM POSTION, SO LONG AS THE EFFECT WAS NOT TO PRODUCE A SIGNIFICANT INCREASE IN RESOURCES. SILGUY ADDED THAT, ALTHOUGH THIS WAS NOT (NOT) PUT TO DELORS, THE FRENCH GOVERNMENT TOOK THE VIEWS THAT A MOVE TO 1.6 PER CENT OF VAT COULD NOT NOW BE AVOIDED, GIVEN THAT EC SPENDING WAS IN REALITY ALREADY AT THAT LEVEL.

3. ON THE CAP, DELORS PROPOSED TO CHIRAC, AS TO HIS MINISTERS, A CONTINUATION OF THE REFORMS ALREADY IN TRAIN, IE RESTRICTIVE PRICING POLICY AND GREATER DISCIPLINE IN MARKET MANAGEMENT, COMBINED WITH DIRECT INCOME AIDS TO SMALL FARMERS. CHIRAC MADE CLEAR THAT FOR THE FRENCH GOVERNMENT THE PRIORITY WAS A MARKET-BASED CAP IN WHICH PRODUCTION RESTRAINT WOULD BE PURSUED ON LINES ALREADY ESTABLISHED.

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OTHER

OTHER REGIMES (OILS AND FATS AND OLIVE OIL) BROUGHT UNDER CONTROL, AND STRONG EXTERNAL POLICIES PURSUED. THEY REJECTED ON PRINCIPLE THE IDEA OF TRANSFORMING THE CAP INTO A SOCIAL SECURITY INSTRUMENT: TO GO DOWN DELORS' ROAD WOULD ALTER THE CHARACTER OF THE CAP TOTALLY AND RISK RENATIONALISTION OF AGRICULTURAL POLICY.

4. SILGUY CONFIRMED THAT THE COMMUNITY'S PROPOSED DOUBLING OF THE STRUCTURAL FUNDS WAS OUT OF THE QUESTION FOR FRANCE. CHIRAC WAS PREPARED TO SEE THE FUNDS USED AS INSTRUMENTS IN THE COHESION PROCESS BY PROGRESSIVELY GIVING GREATER EMPHASIS TO LESS FAVOURED AREAS OR RESPONDING TO SPECIFIC REGIONAL NEEDS, BUT WOULD NOT ALLOW THE FUNDS TO BE DIRECTED WHOLLY OR PREDOMINANTLY TO THE MEDITERRANEAN COUNTRIES TO THE EXCLUSION OF JUSTIFIED CLAIMS FROM THE NORTHERN MEMBER STATES, INCLUDING IN THE CASE OF FRANCE, THE OVERSEAS DEPARTMENTS AND CONTINUATION OF IMPS.

5. PLEASE ADVANCE:
RENWICK, WALL (FCO), WILLIAMSON, JAY (CABINET OFFICE), LAVELLE, EDWARDS (HMT), ANDREWS, HADLEY (MAFF).

FRETWELL

(ADVANCED AS REQUESTED)

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PRIME MINISTER

MEETING WITH SIR DAVID HANNAY AND MR WILLIAMSON

You have a meeting tomorrow with David Hannay and David Williamson, to talk through the points which you will need to make to Delors next week on the ex novo review of Community financing. I attach a useful note by David Williamson.

I think you need to have in your mind a number of unpalatable facts:

- since Fontainebleau we have failed to impose effective and automatic limits on CAP expenditure;

- equally, we have failed to impose effective budget discipline. There are too many ways round it;

- the abatement mechanism has prevented our net contribution from reaching astronomic figures. But the fact is that we are still net contributors to the tune of £700 million a year across the exchanges. If you include what we lose on intra-Community trade in agricultural products, the figure rises to £1.1 billion;

- you are frequently told that the French are net contributors. This is true in the strictest sense. But they make massive gains on intra-Community trade in agriculutral products and end up with net gains of £750 million a year;

- so it's the same old story. Germany and Britain pay and the rest benefit. And naturally those who benefit want to see Community expenditure increase;

- along come the Commission and propose a new ceiling of 1.4% of EDP, which is equivalent to 2.2% of VAT or an increase of 37% in Community revenues. That would add £800 million to our public expenditure;

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- despite the firm words you hear from Chirac and Kohl, it looks as though both the French and Germans will rapidly concede an increase in the VAT ceiling to 1.6%. That would ad £70 million a year to our net contribution and £200 million to public expenditure.

These facts point to a number of conclusions:

- the first tasks in any review must be how to restrict Community expenditure not how to increase revenue. We should not even discuss the latter until we agree on the former. With proper restraints on the CAP and proper budget discipline, there probably wouldn't need to be an increase in revenue;

- when the question of additional revenue is discussed - as it inevitably will be in the light of the Fontainebleau conclusions - we shall need to make clear that
  (a) we shall never agree to anything like the sort of increase which the Commission are proposing;
  (b) we shall not agree to anything before elections here; but
  (c) we shall honour the Fontainebleau commitment to consider an increase to 1.6% VAT, in the light of progress with reform of the CAP.

- we cannot agree to anything less favourable to us than the Fontainebleau abatement mechanism. Indeed there is a good case for something more favourable. But in pursuing this, we shall need to proceed with some care tactically. We don't want to focus too much attention on the Fontainebleau mechanism, on which we could become isolated. We shall want to get other points settled first.

You will want to leave both Delors (and indeed some of your colleagues and officials) of no doubt that you intend to pursue a very tough line on all this.

C.D.P.

CHARLES POWELL
29 January 1987
VSCAED

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MR POWELL (10 DOWNING STREET)

European Community: ex-novo review of financing: Prime Minister's meeting with M. Delors, 5 February

A brief is being submitted for the Prime Minister's meeting with M. Delors on 5 February. It may be helpful also if, in the light of experience in various Community budget crises and in the Fontainebleau negotiations, I underlined these points:

(1) the United Kingdom negotiating position is much stronger than in the past. The ceiling on own resources and the United Kingdom abatement system which the Prime Minister secured at Fontainebleau can only be changed by unanimity. In the interim we have also strengthened the area of understanding with the French and Germans who, with us, form the club of net contributors and are very likely to rein back the more exaggerated ideas of the southern member states and of the Commission about additional financing;

(2) in the opening rounds of this review we have two essential defensive objectives:

- to avoid harassment on the Fontainebleau mechanism which could put us in an isolated position. This is particularly important for the meeting with M. Delors because the Commission hankers after changes in the Fontainebleau abatement - the French and Germans are a lot more realistic - and the Prime Minister will wish to make clear very firmly that, if any changes were to be discussed, the result would need to be at least as good for us as Fontainebleau. These figures of United Kingdom contributions and receipts arising out of successive Community budgets (table 3.3.1 in the latest Public

Expenditure Blue Book) show in a nutshell the great value to us of what the Prime Minister negotiated at Fontainebleau:

	1983	1984	1985	1986	1987
Community budget expenditure million ecu	24313	27525 (+13%)	28435 (+3%)	35174 (+24%)	36248 (+3%)
United Kingdom refund/abatement £ million	440	591 (+34%)	1119 (+89%)	1338 (+20%)	1623 (+21%)
United Kingdom net contribution to allocated budget after abatement £ million	610	554 (-9%)	589 (+6%)	700 (+19%)	692 (-1%)

The abatement has tripled and the net contribution (although still too high) has steadied, despite the rise in Community expenditure. The current level of abatement is more than sufficient to finance payments from the NHS to all the doctors in general practice in the United Kingdom and most of the dentists as well;

- not to go beyond or back from the Fontainebleau statement that the VAT ceiling "may be increased to 1.6 per cent on 1 January 1988 by unanimous decision . . .". We want to camp on the 1.4 per cent ceiling as long as possible and any change before an election is out of the question. It is, however, important if we are to pull our full weight in these negotiations that it should not be thought that we are saying "never" while all other member states are saying "perhaps" or "yes". We can fairly argue that the level of own resources is not the first question

but rather the last in this review, since the review is concerned with budget discipline and other action to cut out the misuse of resources;

(3) we have three positive objectives in the review:

- it should be a means of generating further pressure for changes in the operation of the common agricultural policy. In particular, we want to see arrangements for each major commodity which make some automatic correction when there are, or risk to be, structural surpluses. The Commission gives some hint of this in referring to "stabilisers" in its paper. What we want is to get rid of completely open-ended guarantees either by restricting access to intervention (thus pushing a product back on to the commercial market) or by otherwise restricting support when there is a structural surplus. We have been pushing these ideas for some time but now have a better chance of getting them;

- we need more teeth in public expenditure control in the Community - not just in texts about budget discipline but in specific changes in public expenditure practice, eg we should, after a reasonable period, wipe out unspent Regional Fund commitments and not simply transfer them to new projects. We shall be putting forward a number of specific ideas in the negotiation;

- we want to keep the structural funds doing a good job for us. This means that we must put the emphasis on the importance of measures related to unemployment and training (Social Fund) and on measures related to action in declining industrial areas (Regional Fund). Doubling the funds (M. Delors' objective) is out of the question and we have to keep pressing our points on the objectives in order to prevent the Regional Fund in particular turning into a benefit for the south.

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The conclusions are:

- hands off Fontainebleau unless the Community can offer us something better;

- we stand by the Fontainebleau declaration about the possibility of a very limited increase in own resources. This is a question for the end of the review and not the beginning;

- the review is an opportunity for the Community to build in more automatic correction to agricultural surpluses. For us this is a prime objective;

- better public expenditure control means also changes in Community budget practice, eg changes in rules to prevent an accumulation of past commitments (the "cost of the past");

- we see some value in the structural funds but there is no question of the doubling of resources. For Britain problems of unemployment, training and declining industrial areas are vital.

I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

29 January 1987

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 January 1987

European Community: EX-NOVO Review: Visit of Monsieur Delors

Thank you for your letter of 19 January about the arrangements for M. Delors' visit.

The Prime Minister would like to see M. Delors in as restricted a meeting as possible, so that she can speak very frankly. Her preference would be to see him with M. Lamy only, although if he wishes to bring M. Noel also she would acquiesce. If Noel is there, she will want David Williamson to be present. I will take a note.

I am copying this letter to David Williamson, Cabinet Office.

C D POWELL

Lyn Parker, Esq.
Foreign and Commonwealth Office

10 DOWNING STREET

Prime Minister Speaker.

Visit of M. Delors.

Who would you like at the meeting when you see Delors?

I suggest David Williamson & me (or just me). The Foreign Secretary is quite keen to attend. But he is seeing Delors separately: and may try to soften the blows if he

) at your meeting.

CDP

Foreign and Commonwealth Office

London SW1A 2AH

19 January 1987

Dear Charles,

European Community: EX-NOVO Review:

Visit of M Delors, 5 February

Thank you for your letter of 5 January to Colin Budd confirming that the Prime Minister will see M Delors at 1215 on Thursday 5 February. This fits in with the rest of the programme.

We have now heard that M Delors will be accompanied on his visit to London by Commissioners Christophersen (Budget), Andriessen (Agriculture) and Varfis (Structural Funds) as well as by his Chef de Cabinet, M Lamy, and the Secretary General of the Commission, M Noel. Sir David Hannay will also be coming over for the visit.

The Foreign Secretary will be entertaining the Commissioners to lunch and will of course be seeing them, with other Ministers, in the afternoon. We recommend, however, that for the call on the Prime Minister we should aim to limit those present on the Commission side to M Delors, M Noel and M Lamy.

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

Yours ever,

Hugh Parker

(L Parker)
Private Secretary

C D Powell Esq
No 10 Downing St

EURO POL

VISIT of DELORS

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

Thanks.

CDP

Setting for 12 noon on Friday 30 Jan. CR

Caroline.

Would it be possible to find 30/45 minutes for David Williamson & David Hannay to brief the PM before she ~~she~~ sees Delors on 5 February. Some time earlier that week, or the preceding Friday would do (e.g. after Michael Alexander). Can you help?

CDP

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DSG

bc: PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 January 1987

VISIT OF M. DELORS

Rather as I expected, the Prime Minister wishes to see M. Delors at an early stage during his visit to London and before he sees other Ministers. Unfortunately, since it is a Cabinet and Questions day, the only time she can manage would be 1215 hours. Would this fit with the rest of his programme?

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

Charles Powell

Colin Budd, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

2 January 1987

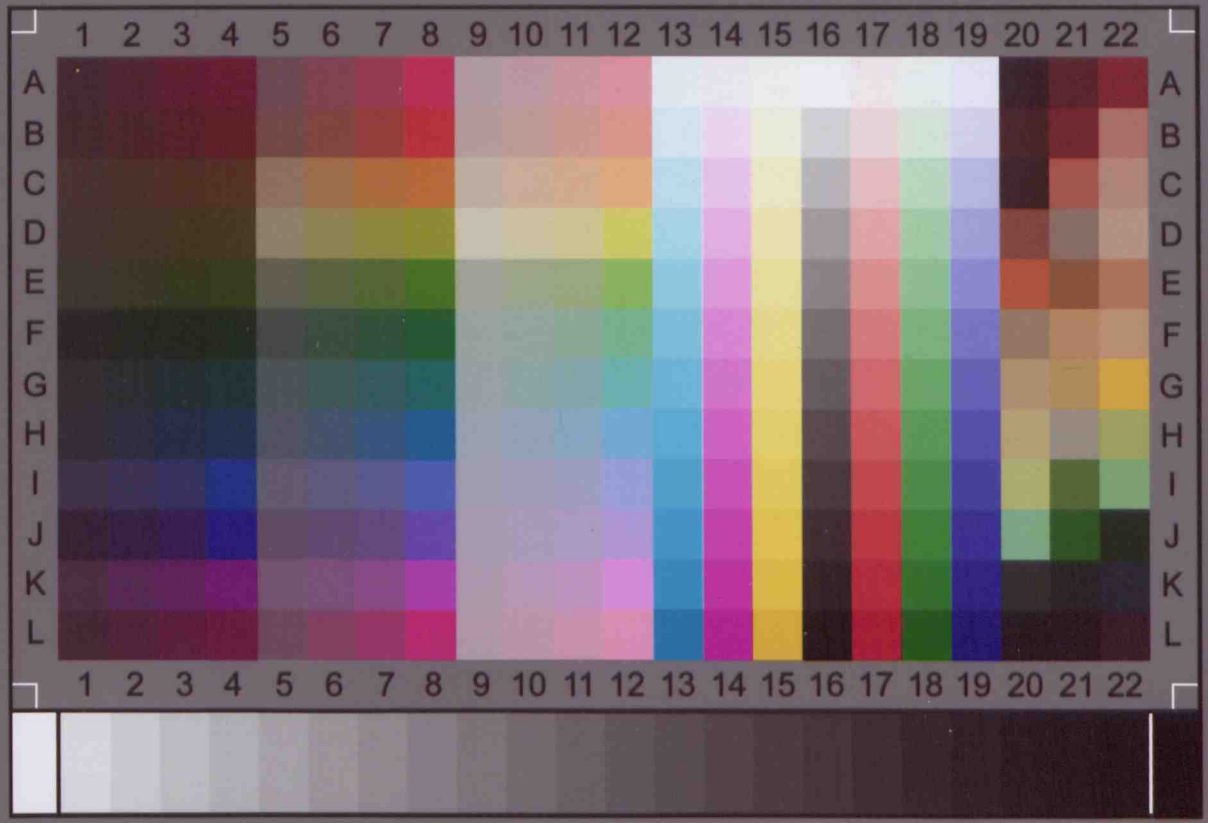
EUROPEAN COMMUNITY: M. DELORS' VISIT TO LONDON: 5 FEBRUARY

Thank you for your letter of 29 December about M. Delors' visit to London. I am sure that the Prime Minister will wish to see him and we have made provision in the diary for this. However, she may prefer to see M. Delors before he settles down to detailed meetings with other Ministers. I shall let you know about this.

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

(C. D. POWELL)

Colin Budd, Esq.,
Foreign and Commonwealth Office.



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