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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE
PRIME MINISTER OF LUXEMBOURG, M. GASTON THORN, AT 10 DOWNING
STREET ON MONDAY 27 OCTOBER 1980 AT 1215 HOURS

Present:

Prime Minister	M. Thorn
Mr. M. Alexander	M. Kasel

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Commission Portfolios

The Prime Minister asked about the prospects for the allocation of portfolios within the new Commission. M. Thorn said that he had been informed by the Foreign and Commonwealth Secretary about the Prime Minister's wishes. The difficulty for him was that the majority of Commissioners wanted to stay put and to keep their present portfolios. The position of the French Government was not untypical: President Giscard had told him that he would have preferred to change both his Commissioners but since he wished to hang on to the portfolios he would probably end up by keeping both M. Ortoli and M. Cheysson in post. This meant that M. Thorn had very little flexibility. Effectively the only portfolios which he seemed likely to have at his disposal would be Transport, Personnel, Social Affairs, Competition and Energy. It had been proposed that Agriculture and Fish might be separated, but M. Gundelach would not agree to this. M. Davignon would like to absorb the Energy portfolio. Although Industry and Energy would make a good pairing, M. Davignon perhaps had enough responsibilities already. (The Prime Minister made it clear that this was her view also). Generally, it would be sensible to cut down the number of Commissioners, particularly given the prospect of Greek, Spanish and Portuguese appointments. The Prime Minister agreed.

CAP

The Prime Minister said that it was essential to find a different way of financing the Community's agricultural surpluses.

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It was ridiculous to go on producing surpluses on the present scale, the more so since they had the effect of undermining the economies of agricultural producers elsewhere. The restructuring of the CAP would, of course, be extremely difficult. It was therefore essential to stick to the 1% VAT ceiling. M. Thorn said that he agreed and knew that President Giscard was also determined to stick to the 1% VAT ceiling. It was essential to secure reforms in the near future. There was an enormous potential, e.g. in France, for increased agricultural production. If these increases were to occur before reform had been secured, it would become impossible to secure changes. It was symptomatic of the present difficulties that the Commission appeared to be about to propose agricultural price increases of 17% for next year. The Prime Minister said that no such proposal would get past the British Government. She would not even be prepared to accept price increases at half this level. M. Thorn said that he had hoped the Prime Minister might accept something between 6% and 8%. Luxembourg could live with increases of that order.

Community Budget

M. Thorn said that he hoped the main work on restructuring the Community Budget could be done during the U.K. Presidency. The Prime Minister said that she thought it would take longer. M. Thorn said that he envisaged that the Commission would put forward its proposals in July next year. It would, however, be necessary to do a great deal of preparatory work during the Dutch Presidency. He hoped to arrange a number of bilateral talks between the Presidency and members of the Community in the period March to June. His objective would be to ensure that whatever proposals were put forward by the Commission would be on lines that were at least broadly acceptable to the Community as a whole. He recognised that some of these informal contacts would have to take place before the French Election, but he saw no difficulty in that. Most of the work would have to be done by the next Commission since the papers under preparation by the present Commission seemed to be almost exclusively analytical.

/ The Prime Minister

The Prime Minister commented that most members of the Community would probably refuse to show their hand before the Commission had tabled its proposals. M. Thorn said this was certainly true as far as the French were concerned.

European Council

M. Thorn asked how the Prime Minister envisaged the agenda for the European Council meeting at Luxembourg in December. President Giscard had made it clear that he thought it would be inappropriate to discuss most of the major Community problems, e.g. unemployment, energy, the CAP and restructuring. He wanted a primarily political agenda. In M. Thorn's view this would be inappropriate and would not be understood by public opinion. The Prime Minister said that she agreed. It would be essential to have a general debate on economic issues. The problems of the CAP and on Budget restructuring could not be ignored. Nor could the problems being experienced by industry and trade, e.g. petrochemicals, cars, steel and the Multi-Fibre Arrangement. Mr. Jenkins should be encouraged to give a wide-ranging report which dealt with future problems as well as with the achievements of his Commission. There was no need to look for decisions. But the problems had to be identified and general directions laid down. M. Thorn said he fully agreed. He hoped that the Prime Minister would be prepared to argue for an agenda along the lines she had described. The Prime Minister added that if there was to be a discussion of this kind, particularly if there was to be a review of problems in the industry/trade area, she would see considerable advantage in having M. Davignon present.

Commenting more generally on European Council meetings, the Prime Minister said that she continued to think that three Summits a year was excessive. If there were only two a year, fewer decisions would be appealed upwards and more substance given to the work of the other meetings of Councils of Ministers. M. Thorn said that it would be difficult to reverse the present trend.

/ Middle East

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Middle East

The Prime Minister asked M. Thorn for his assessment of the present situation in the Middle East. M. Thorn said that he did not think the United States could, on their own, find a solution to the Arab/Israel dispute. There was a role for Europe. However, Europe's policy should be neither anti-American nor "for the glory of Europe". Europe had in recent months played a necessary role in exerting pressure on Mr. Begin. We should continue to pursue a pragmatic approach analysing the problems and keeping in the closest touch with the United States as we went along. The Arabs were already aware of Europe's new willingness to assume a measure of responsibility for the problems of the area and welcomed this. The Prime Minister said she warmly agreed about the need to avoid drifting apart from the United States.

The Prime Minister asked M. Thorn for his impressions of Yasser Arafat. M. Thorn said he was not at all sure what to make of Arafat. He was certainly an able man and aware of all the aspects of the situation. He had been anxious in his meetings with M. Thorn to appear reasonable and flexible. Nevertheless he was also extremely ambitious and anxious to be a head of state. He had told M. Thorn that he would be content initially to have a 'handkerchief of territory' provided it was with full sovereignty. This had left M. Thorn with the impression that whatever he was given he would try to expand. He did not exclude confederation with Jordan as a final outcome but would insist on having sovereignty in the first instance. In response to a question from the Prime Minister, M. Thorn said that he did not think that Arafat was particularly close to Moscow. Certainly he claimed that he was not a Communist and never would be. He received the larger part of his financial backing from the Arabs. His link with the Communists stemmed from the fact that he had initially received the strongest and most unconditional support from Syria which was, of course, closely linked with Moscow.

The discussion ended at 1300.

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