Subject

COMMISSION
OF THE
EUROPEAN COMMUNITIES

The President

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 162 A

200 RUE DE LA LOI
1049 BRUSSELS
TEL: (02) 735 80 40

PM has seen

24 November 1981
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Dear Prime Minister,

I. Now that I have finished my tour of capitals and after our meeting in London this morning, I think it might be useful for me to set out how the Commission and I view prospects for this week's European Council.

Whilst sharing some of your fears concerning the uncertainties that surround the outcome of our discussions and the diverging views held by our governments on a large number of issues, we are convinced that the London meeting really can produce meaningful results.

At this time of political tensions and deep-seated economic and social difficulties, it is absolutely essential that the European Council should have a significant and successful outcome. Failure would discredit the European idea and diminish the authority of Heads of State and Government. Success would prove that Europe is indeed capable of providing at least part of the answer that our countries and citizens are awaiting with growing impatience. This would then create the conditions for a new dynamic progress.

It is clear from the preparatory discussions within the Council and the Mandate Group that our ten governments, like the Commission, accept that the decisions to be taken must be comprehensive and that broadly equal progress must be made on three points : revitalizing the Community, reforming the common agricultural policy and solving the budget problem. This, aside from the political will to succeed which we take as read, is the first condition for success.

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H.E. Mrs Margaret THATCHER
Prime Minister

10, Downing Street
London

The second condition relates to the possibility, in the limited time available in London, of formulating a set of political guidelines which are clear enough to do more than simply camouflage disagreements by woolly drafting and which will stimulate continued discussion and an early conclusion. We feel that this second condition could be fulfilled as long as one respects the role of the European Council which is not to settle the detail but to adopt the line which will guide later work.

Discussions within the Council give the Commission reason to believe that a consensus could be found along the general lines indicated in the second part of this letter. To our way of thinking these provide the skeleton of a balanced politiçal agreement which would rule out ambiguity and help to keep subsequent discussions moving.

But this presupposes that the European Council will also adopt a binding timetable, with a short deadline, for winding up discussions and taking decisions (end of February) and a working procedure under which the General Affairs Council would meet as frequently as is necessary and at political level to ensure that we maintain a global approach. In doing so the European Council would only be opting for a procedure that has been used before to good effect. The next European Council could then consider how far its instructions had been complied with.

II. This is how we see the general balance of an overall agreement :

1. Let us begin with the common agricultural policy, the central issue in the Commission's view. It is here that opinions differ most and suspicions abound.

   Political agreement should be sought on the following lines :

   The European Council would stress that the common agricultural policy has been a success and confirm its willingness,twenty years on, to adapt it without interfering with its three basic principles.

   The European Council would adopt general guidelines to shape the future development of the common agricultural policy :

. Development would be based on a prudent pricing policy where justified by market conditions, and on a hierarchy of prices designed to improve the balance of production.

. Guarantees would be modulated, in a manner that might vary from product to product, in sectors where better control of production is the goal; allowances would be made for the position of poorer farmers and the less-prosperous regions.

. The Community would pursue a more active commercial policy in relation to exports and a more careful policy in relation to Community preference for imports of agricultural products, processed products, and Mediterranean products. This would be done while honouring our international commitments and within the context of our aim to narrow the gap between Community prices and prices applied by other leading exporters.

. An integrated policy for the less-favoured areas of the Mediterranean region would be introduced gradually to deal with their specific commercial and structural problems.

. Stricter discipline would be applied to state aids.

The application of these guidelines should help to hold the increase in agricultural spending below the increase in the Community's own resources, as has been the case in the last two years.

2. The prospects of an agreement on Community policies other than the common agricultural policy seem much brighter. It is clear from the draft conclusions of the British presidency that views converge on many important issues. This being so, it should be relatively easy to identify the main lines of a Community strategy to be pursued simultaneously in a number of areas in tandem with national policies. These areas are monetary affairs; industrial adjustment and renewal; energy; research and development and technological innovation; social and regional affairs; and the Community's borrowing and lending capacity, which should be increased so as to help promote economic convergence.

   It would then be possible to adopt a timetable for further progress in the form of decisions to be taken on the basis of Commission proposals.

3. Once the key role of a reformed common agricultural policy is confirmed and the need for a qualitative leap forward on other policies is recognized, we are convinced that a solution to specific budget problems could be formed.

   All the work accomplished since presentation of the Commission's report is in line with the Mandate of 30 May 1980, which set out to solve the budget problem by developing or adapting Community policies, and the common agricultural policy in particular, while leaving the underlying principles intact.

   The measures now being devised cannot be expected to produce results overnight. For this reason, the European Council could agree in principle to financial measures to compensate the United Kingdom. These would have to be taken for a number of years without affecting the Community's financial system.

   The level of compensation would be fixed each year on the basis of actual data, using a method which incorporated an objective indicator.

   The cost would be shared on the basis of an ad hoc scale to be adopted by the Council. This would reflect the Community's policy of solidarity with the less prosperous Member States and take account of the largely political arguments advanced by the Federal Republic of Germany.

   A solution along these lines could be abandoned in due course without any aftermath.

These, then, are the ideas I was anxious to share with you on the eve of the European Council which will be of exceptional importance. It is this factor which has led me to let you know exactly where the Commission stands.

~~Yours sincerely~~,

Yours sincerely,

Gaston E. THORN

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TO FLASH F C O
TELEGRAM NUMBER 4463 OF 24 NOVEMBER 1981

30 MAY MANDATE

1. FOLLOWING IS TEXT OF LETTER TO PRIME MINISTER FROM THORN, WRITTEN IN LIGHT OF HIS TOUR OF CAPITALS, ENDING WITH LONDON. ACCORDING TO THORN'S CHEF DE CABINET IT HAS NOT (NOT) BEEN COPIED TO OTHER HEADS OF GOVERNMENT.

BEGINS

1. NOW THAT I HAVE FINISHED MY TOUR OF CAPITALS AND AFTER OUR MEETING IN LONDON THIS MORNING, I THINK IT MIGHT BE USEFUL FOR ME TO SET OUT HOW THE COMMISSION AND I VIEW PROSPECTS FOR THIS WEEK'S EUROPEAN COUNCIL.

   WHILST SHARING SOME OF YOUR FEARS CONCERNING THE UNCERTAINTIES THAT SURROUND THE OUTCOME OF OUR DISCUSSIONS AND THE DIVERGING VIEWS HELD BY OUR GOVERNMENTS ON A LARGE NUMBER OF ISSUES, WE ARE CONVINCED THAT THE LONDON MEETING REALLY CAN PRODUCE MEANINGFUL RESULTS.

   AT THIS TIME OF POLITICAL TENSIONS AND DEEP-SEATED ECONOMIC AND SOCIAL DIFFICULTIES, IT IS ABSOLUTELY ESSENTIAL THAT THE EUROPEAN COUNCIL SHOULD HAVE A SIGNIFICANT AND SUCCESSFUL OUTCOME. FAILURE WOULD DISCREDIT THE EUROPEAN IDEA AND DIMINISH THE AUTHORITY OF HEADS OF STATE AND GOVERNMENT. SUCCESS WOULD PROVE THAT EUROPE IS INDEED CAPABLE OF PROVIDING AT LEAST PART OF THE ANSWER THAT OUR COUNTRIES AND CITIZENS ARE AWAITING WITH GROWING IMPATIENCE. THIS WOULD THEN CREATE THE CONDITIONS FOR A NEW DYNAMIC PROGRESS.

   IT IS CLEAR FROM THE PREPARATORY DISCUSSIONS WITHIN THE COUNCIL AND THE MANDATE GROUP THAT OUR TEN GOVERNMENTS, LIKE THE COMMISSION, ACCEPT THAT THE DECISIONS TO BE TAKEN MUST BE COMPREHENSIVE AND THAT BROADLY EQUAL PROGRESS MUST BE MADE ON THREE POINTS: REVITALIZING THE COMMUNITY, REFORMING THE COMMON AGRICULTURAL POLICY AND SOLVING THE BUDGET PROBLEM. THIS, ASIDE FROM THE POLITICAL WILL TO SUCCEED WHICH WE TAKE AS READ, IS THE FIRST CONDITION FOR SUCCESS.

   THE SECOND CONDITION RELATES TO THE POSSIBILITY, IN THE LIMITED TIME AVAILABLE IN LONDON, OF FORMULATING A SET OF POLITICAL GUIDELINES WHICH ARE CLEAR ENOUGH TO DO MORE THAN SIMPLY CAMOUFLAGE DISAGREEMENTS BY WOOLLY DRAFTING AND WHICH WILL STIMULATE CONTINUED DISCUSSION AND AN EARLY CONCLUSION. WE

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FEEL THAT THIS SECOND CONDITION COULD BE FULFILLED AS LONG AS ONE RESPECTS THE ROLE OF THE EUROPEAN COUNCIL WHICH IS NOT TO SETTLE THE DETAIL BUT TO ADOPT THE LINE WHICH WILL GUIDE LATER WORK.

DISCUSSIONS WITHIN THE COUNCIL GIVE THE COMMISSION REASON TO BELIEVE THAT A CONSENSUS COULD BE FOUND ALONG THE GENERAL LINES INDICATED IN THE SECOND PART OF THIS LETTER. TO OUR WAY OF THINKING THESE PROVIDE THE SKELETON OF A BALANCED POLITICAL AGREEMENT WHICH WOULD RULE OUT AMBIGUITY AND HELP TO KEEP SUBSEQUENT DISCUSSIONS MOVING.

BUT THIS PRESUPPOSES THAT THE EUROPEAN COUNCIL WILL ALSO ADOPT A BINDING TIMETABLE, WITH A SHORT DEADLINE, FOR WINDING UP DISCUSSIONS AND TAKING DECISIONS (END OF FEBRUARY) AND A WORKING PROCEDURE UNDER WHICH THE GENERAL AFFAIRS COUNCIL WOULD MEET AS FREQUENTLY AS IS NECESSARY AND AT POLITICAL LEVEL TO ENSURE THAT WE MAINTAIN A GLOBAL APPROACH. IN DOING SO THE EUROPEAN COUNCIL WOULD ONLY BE OPTING FOR A PROCEDURE THAT HAS BEEN USED BEFORE TO GOOD EFFECT. THE NEXT EUROPEAN COUNCIL COULD THEN CONSIDER HOW FAR ITS INSTRUCTIONS HAD BEEN COMPLIED WITH.

II. THIS IS HOW WE SEE THE GENERAL BALANCE OF AN OVERALL AGREEMENT :

1. LET US BEGIN WITH THE COMMON AGRICULTURAL POLICY, THE CENTRAL ISSUE IN THE COMMISSION'S VIEW. IT IS HERE THAT OPINIONS DIFFER MOST AND SUSPICIONS ABOUND.

POLITICAL AGREEMENT SHOULD BE SOUGHT ON THE FOLLOWING LINES :

THE EUROPEAN COUNCIL WOULD STRESS THAT THE COMMON AGRICULTURAL POLICY HAS BEEN A SUCCESS AND CONFIRM ITS WILLINGNESS, TWENTY YEARS ON, TO ADAPT IT WITHOUT INTERFERING WITH ITS THREE BASIC PRINCIPLES.

THE EUROPEAN COUNCIL WOULD ADOPT GENERAL GUIDELINES TO SHAPE THE FUTURE DEVELOPMENT OF THE COMMON AGRICULTURAL POLICY :

- DEVELOPMENT WOULD BE BASED ON A PRUDENT PRICING POLICY WHERE JUSTIFIED BY MARKET CONDITIONS, AND ON A HIERARCHY OF PRICES DESIGNED TO IMPROVE THE BALANCE OF PRODUCTION.

- GUARANTEES WOULD BE MODULATED, IN A MANNER THAT MIGHT VARY FROM PRODUCT TO PRODUCT, IN SECTORS WHERE BETTER CONTROL OF PRODUCTION IS THE GOAL: ALLOWANCES WOULD BE MADE FOR THE POSITION OF POORER FARMERS AND THE LESS-PROSPEROUS REGIONS.

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- THE COMMUNITY WOULD PURSUE A MORE ACTIVE COMMERCIAL POLICY IN RELATION TO EXPORTS AND A MORE CAREFUL POLICY IN RELATION TO COMMUNITY PREFERENCE FOR IMPORTS OF AGRICULTURAL PRODUCTS, PROCESSED PRODUCTS, AND MEDITERRANEAN PRODUCTS. THIS WOULD BE DONE WHILE HONOURING OUR INTERNATIONAL COMMITMENTS AND WITHIN THE CONTEXT OF OUR AIM TO NARROW THE GAP BETWEEN COMMUNITY PRICES AND PRICES APPLIED BY OTHER LEADING EXPORTERS.

- AN INTEGRATED POLICY FOR THE LESS-FAVOURED AREAS OF THE MEDITERRANEAN REGION WOULD BE INTRODUCED GRADUALLY TO DEAL WITH THEIR SPECIFIC COMMERCIAL AND STRUCTURAL PROBLEMS.

- STRICTER DISCIPLINE WOULD BE APPLIED TO STATE AIDS.

THE APPLICATION OF THESE GUIDELINES SHOULD HELP TO HOLD THE INCREASE IN AGRICULTURAL SPENDING BELOW THE INCREASE IN THE COMMUNITY'S OWN RESOURCES, AS HAS BEEN THE CASE IN THE LAST TWO YEARS.

2. THE PROSPECTS OF AN AGREEMENT ON COMMUNITY POLICIES OTHER THAN THE COMMON AGRICULTURAL POLICY SEEM MUCH BRIGHTER. IT IS CLEAR FROM THE DRAFT CONCLUSIONS OF THE BRITISH PRESIDENCY THAT VIEWS CONVERGE ON MANY IMPORTANT ISSUES. THIS BEING SO, IT SHOULD BE RELATIVELY EASY TO IDENTIFY THE MAIN LINES OF A COMMUNITY STRATEGY TO BE PURSUED SIMULTANEOUSLY IN A NUMBER OF AREAS IN TANDEM WITH NATIONAL POLICIES. THESE AREAS ARE MONETARY AFFAIRS; INDUSTRIAL ADJUSTMENT AND RENEWAL; ENERGY; RESEARCH AND DEVELOPMENT AND TECHNOLOGICAL INNOVATION; SOCIAL AND REGIONAL AFFAIRS; AND THE COMMUNITY'S BORROWING AND LENDING CAPACITY, WHICH SHOULD BE INCREASED SO AS TO HELP PROMOTE ECONOMIC CONVERGENCE.

IT WOULD THEN BE POSSIBLE TO ADOPT A TIMETABLE FOR FURTHER PROGRESS IN THE FORM OF DECISIONS TO BE TAKEN ON THE BASIS OF COMMISSION PROPOSALS.

3. ONCE THE KEY ROLE OF A REFORMED COMMON AGRICULTURAL POLICY IS CONFIRMED AND THE NEED FOR A QUALITATIVE LEAP FORWARD ON OTHER POLICIES IS RECOGNIZED, WE ARE CONVINCED THAT A SOLUTION TO SPECIFIC BUDGET PROBLEMS COULD BE FORMED.

ALL THE WORK ACCOMPLISHED SINCE PRESENTATION OF THE COMMISSION'S REPORT IS IN LINE WITH THE MANDATE OF 30 MAY 1980, WHICH SET OUT TO SOLVE THE BUDGET PROBLEM BY DEVELOPING OR ADAPTING COMMUNITY POLICIES, AND THE COMMON AGRICULTURAL POLICY IN PARTICULAR, WHILE LEAVING THE UNDERLYING PRINCIPLES INTACT.

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THE MEASURES NOW BEING DEVISED CANNOT BE EXPECTED TO PRODUCE RESULTS OVERNIGHT. FOR THIS REASON, THE EUROPEAN COUNCIL COULD AGREE IN PRINCIPLE TO FINANCIAL MEASURES TO COMPENSATE THE UNITED KINGDOM. THESE WOULD HAVE TO BE TAKEN FOR A NUMBER OF YEARS WITHOUT AFFECTING THE COMMUNITY'S FINANCIAL SYSTEM.

THE LEVEL OF COMPENSATION WOULD BE FIXED EACH YEAR ON THE BASIS OF ACTUAL DATA, USING A METHOD WHICH INCORPORATED AN OBJECTIVE INDICATOR.

THE COST WOULD BE SHARED ON THE BASIS OF AN AD HOC SCALE TO BE ADOPTED BY THE COUNCIL. THIS WOULD REFLECT THE THE COMMUNITY'S POLICY OF SOLIDARITY WITH THE LESS PROSPEROUS MEMBER STATES AND TAKE ACCOUNT OF THE LARGELY POLITICAL ARGUMENTS ADVANCED BY THE FEDERAL REPUBLIC OF GERMANY.

A SOLUTION ALONG THESE LINES COULD ABANDONED IN DUE COURSE WITHOUT ANY AFTERMATH.

THESE, THEN, ARE THE IDEAS I WAS ANXIOUS TO SHARE WITH YOU ON THE EVE OF THE EUROPEAN COUNCIL WHICH WILL BE OF EXCEPTIONAL IMPORTANCE. IT IS THIS FACTOR WHICH HAS LED ME TO LET YOU KNOW EXACTLY WHERE THE COMMISSION STANDS.

YOURS SINCERELY,

GASTON E. THORN

ENDS

FCO ADVANCE TO:-
FCO - PS, BRIDGES, HANNAY
CAB - FRANKLIN
NO. 10 - ALEXANDER

ADVANCED AS REQUESTED

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MR ALEXANDER
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