

PRIME MINISTER

EUROPEAN COMMUNITY: UNITED KINGDOM PRESIDENCY

Your colleagues will soon be discussing in OD(E) what the objectives of the UK Presidency of the European Community in the second half of this year should be.

It is straightforward to list the routine items of business we shall have to conduct during our Presidency: the annual budget round, further steps towards completing the internal market etc. That's not the problem.

The crucial consideration is what you regard as the best posture to be in with the Community in political terms (bearing in mind the political calendar).

So far you have appeared very successful as a strong fighter for a fair British budgetary contribution, not afraid to take on the whole Community and win. That has served Britain very well and you very well.

But that particular issue is now solved (though we shall probably have to resist further attempts to raise the VAT ceiling). We need either to find a new issue for a major battle in the Community or change your tactics and present EC matters in a lower key altogether.

It's not clear yet what line the Opposition will take about the EC as the next election approaches. My guess is that they won't give it much prominence: will avoid a firm commitment to come out: but will make a good deal of fuss about its failure to help solve unemployment and about agricultural surpluses: and may talk about renegotiating the terms of our membership à la Callaghan.

There seem to me good reasons for continuing the tactic of 'Community-bashing' both because it is necessary in its own

right to get some sense into the institution and because you will be a much more convincing exponent of it than the Opposition and will therefore cut the ground from under their feet.

It needs a good issue. The obvious one is reform of the CAP to reduce surpluses. Realistically there is not much chance of achieving thorough-going reform before the date of an election. But what is important is to be seen to be working at it. (The process has of course started both with the introduction of milk quotas and some thoroughly inadequate proposals by the Commission for reform in other sectors.) We would need to escalate the problem rapidly to Head of Government level.

I can't think of any comparable issues. Abolishing the European Assembly would be desirable but sadly not realistic. Liberalisation of transport, air services and insurance are all desirable and we shall be pursuing them anyway. But they are not really the stuff of major political battles.

I suspect you will find that your colleagues preference will be to keep the Community in a lower key, giving the impression of working steadily for modest goals and avoiding 'I want my money back' drama.

You may like to give the Foreign Secretary a steer at your next bilateral, before matters become comfortably settled.

C.D.P.

Charles Powell

3 January 1986