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From the Private Secretary

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

The Prime Minister saw the President of the Commission of the European Communities this morning to discuss the forthcoming European Council. M. Delors was accompanied by M. Lamy. Sir David Hannay was also present.

European Council

Economic and Social Situation

The Prime Minister said that she hoped to avoid a discussion of the economic situation in each member state. She would be grateful if M. Delors would make a brief introductory statement, focussing in particular on employment, and the need to stimulate more small business and enterprise. She would steer the Council towards positive conclusions on the employment initiative. She was disappointed by the lack of progress on the internal market and, depending on what happened at the Internal Market Council on 1 December, might need to extract a commitment from the European Council to agree the outstanding measures by the end of the year. There might have to be a special Council to deal with this. She was also disappointed at the lack of progress on access to cheaper air fares and intended to raise this issue. It would be helpful if the Commission could speak in support.

M. Delors said that he would certainly be prepared to introduce the discussion. He would have circulated his papers in advance and would need to comment only briefly. He agreed with the aim of avoiding a general palaver on the world economy and focussing discussion as tightly as possible on employment. He had a number of ideas which he might mention for radical changes in the use of the Social Fund to deal with unemployment. M. Delors noted that the German economy had room for expansion, which if used would benefit the Community as a whole. But it was difficult to raise this with Chancellor Kohl before the elections in Germany.

The Prime Minister said that she always found Commission papers on the economic situation in the Community very instructive. She was also grateful to the Commission for some of the positive steps which they had taken to help small businesses, for instance by increasing the VAT threshold for them. The Prime Minister commented that she remained very concerned about Japan's failure to take effective action to correct its massive trade surplus. It might be helpful if the European Council's conclusions contained a clear hint of likely further Community action against Japan, unless there was a satisfactory response to the GATT complaint on alcoholic drinks. M. Delors thought that this would be useful, although there might be difficulties in securing German acquiescence.

Sir David Hannay referred to the likelihood that the Southern-tier Member States might try to link progress on the internal market with cohesion. The Prime Minister observed that they viewed the European Community as a mechanism for redistributing income. Life was not like that and she would say so.

Terrorism, immigration, drugs

The Prime Minister said that she would also aim to discuss the issues of terrorism, immigration and drugs on the first afternoon. It seemed that there was still scope for closer co-operation against terrorism, although there were constraints about sharing intelligence with some Member States. She had been very satisfied with the united front shown by the Twelve over Syria. Her aim would be to achieve very firm conclusions from the Council on terrorism. On the question of internal barriers, a balance had to be found between freer movement within the Community and the need to protect our societies against terrorism and drugs. Chancellor Kohl wished to raise his problem over asylum seekers. She also intended to deal, in this session, with co-operation over AIDS; and would propose agreement to a European Cancer Information Year.

M. Delors spoke with appreciation of the two meetings organised by the Home Secretary to deal with terrorism. On cancer and AIDS, the problem was to break the wall of silence.

The Prime Minister handed over to M. Delors a copy of the message which she will be sending to heads of government, together with copies of the Presidency's discussion papers.

Discussion over Dinner

The Prime Minister said that she intended that the main theme for Heads of Government over dinner should be East/West relations and arms control. It was important to keep the Community together on these issues. She would report on her visit to Washington. Other political co-operation subjects would be dealt with by Foreign Ministers. She understood that one or two Heads of Governments might want to raise South Africa. This would put Chancellor Kohl in an embarrassing

position and she would not co-operate with that. She did not envisage any conclusions on South Africa.

The Prime Minister continued that she would be grateful if M. Delors would give Heads of Government a short account of the Commission's intentions in relation to the ex novo review of Community finances over drinks before dinner. This would ensure that any discussion was time limited. M. Delors agreed to do so. He would describe the main lines of the papers which the Commission would table on financial perspectives, the structural funds and agricultural policy. The Prime Minister stressed the need to tackle these problems radically. The Community had taken a considerable step forward on financial discipline and equity at Fontainebleau and subsequently towards completing the internal market. But there had been some slippage, particularly over financial discipline and in the failure to tackle agricultural surpluses. Unless steps were taken to bring agricultural spending under effective control, there would be no money to spend on more desirable objectives like research and development. M. Delors confirmed that the Commission's proposals would deal with these issues. It was important, in particular, that the European Parliament should be fully involved in budgetary discipline. They could not be left outside the procedure, with discretion to propose increases in spending.

The Prime Minister said that she might mention informally over dinner the problems posed for European Governments by ever heavier social security spending. This was an issue which affected all Member States. It might be less difficult to tackle the problems collectively. But she did not envisage a discussion on this occasion.

CAP

The Prime Minister said that the European Council should urge Agriculture Ministers to reach conclusions rapidly on the Commission's proposals for reform of the milk and beef régimes. She did not envisage a detailed discussion. But the Community was going to have to look very seriously at the CAP over the next two years, even though there would be difficulties in agreeing radical reforms until elections in the main Community countries were out of the way. The present system simply could not carry on unchanged. There was no question of providing additional funds. Indeed, strict cash limits might be the only way to achieve reform. There had to be radical changes to the intervention system, and steps to dispose of existing surplus stocks, possibly putting the onus for financing disposal on the individual member States holding the stocks. Other sectors of Europe's economy, such as steel and coal had been forced into radical restructuring. Agriculture could not be exempt.

M. Delors said that the Commission had made tough proposals for reducing dairy and beef surpluses. The problem lay with Agriculture Ministers who were unwilling to face up to difficult decisions. He agreed that it would be helpful

for the European Council to give a strong steer. If the immediate problems were not solved, there would be an explosion in costs next year. The Commission would be proposing a radical re-orientation of the CAP, in the papers which they would present at the end of the year, including a weakening of the intervention system.

Structural Funds

The Prime Minister referred to problems which the United Kingdom had experienced over the ERDF. We wanted our full allocation but must be able to have a say in which projects should be financed. She was very concerned generally about the amount which we had to pay to Europe across the exchanges, both for the Community and for our forces in Germany. M. Delors said that the Commission would be proposing reforms in the Structural Funds.

Sex Discrimination

The Prime Minister mentioned the difficulties for women's colleges at Oxford which would arise if the Commission pursued infraction proceedings against the United Kingdom over the Equal Treatment Directive. Although the Commission's objective might be laudable, their action would have the perverse effect of making it harder to find posts for women. Our purpose was to protect the interests of women. She would fight the Commission hard on this.

It was agreed that Sir David Hannay would let M. Delors have a note, which he undertook to study.

I am copying this letter 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.

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