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PM/85/60

PRIME MINISTER

Milan European Council: Development of the Community

1. You may find it helpful if I let you have my impressions of the way things are shaping up for Milan.

2. Over the past weeks, we have had a good deal of success in steering the discussion in more realistic directions we could accept, and have indeed been able to gain the initiative by putting forward practical proposals of our own. I attach a copy of the notes on which I drew at Stresa. In my recent contacts with all my European colleagues, and on the part of Lubbers when I saw him in The Hague last week, I have found keen interest in our ideas and a recognition that we are making an important and positive contribution which has made a real impact on others.

3. On the face of it, the Italians are still adopting a maximalist position. But if they want a success at

CONFIDENTIAL



Milan they are going to have to take their Presidency responsibilities seriously and work towards conclusions that will find general acceptance. When I saw Craxi in Lisbon, he was clearly very interested in our ideas. I got the impression that we can influence him towards a constructive outcome on these lines.

4. We shall have to start from the position that most of the others will say at Milan that they could agree to a conference and to consider amending the Treaty. But it looks as though we have persuaded both Delors and the Presidency to present matters at Milan in terms of options: either Treaty amendment or our approach. We have won pretty general support for our view that on the key issues the Heads of Government must take decisions themselves and give clear instructions. Where they have done so - for instance to work out the final version of an agreement on political cooperation - this should be followed up, in this case by the Political Directors, leading on to final agreements being reached at the European Council (which might itself be described as a "conference" for this purpose) on 3 to 4 December in Luxembourg.



5. The discussions in Milan will turn on the following main issues.

#### Political Cooperation

6. Discussion will focus on the proposal you have put forward. Kohl indeed appears to be indicating that he is prepared to settle for this rather than pursuing his idea of a separate Treaty on European Union. But as he said in his message to you, Kohl - and the same is true of others - will want the agreement to be entitled a Treaty. Given that the text we have proposed, as I explained in my original minute, would in any event have Treaty force, this is a question we should consider further before we get to Milan.

#### Decision Taking

7. The original Six can be expected to argue that progress will not be made in completion of the common market without amendment of some of the Treaty articles in that area. Here too, however, there is considerable interest in our proposals (attached). These firmly maintain the language of the Luxembourg compromise and in fact require the others to endorse it. This the Benelux and Italy, as well - until recently - as the Germans, have never so far been prepared to do. But



the advantage of this approach is that it would enable the Community to improve its decision-making procedures without having to go through the immensely difficult and laborious process of Treaty amendment which, of course, would require the agreement of all twelve governments and all the national parliaments. There may be suggestions that some of the Treaty articles bearing on completion of the common market should be looked into. If necessary we could agree to that without any commitment. But it would be a laborious and time consuming process unlikely to yield any better results than the course we have proposed.

#### Completion of the Common Market

8. We have now got it accepted that completion of a genuine common market must be the highest of all the Community's priorities. Delors needs no convincing of this and those who have been resisting realise that they will have to give some ground. The Commission, prompted by Arthur Cockfield, have come forward with proposals which are excellent in many respects, but unduly ambitious and unrealistic in others. It is clear from the discussions I have had with my colleagues that these ideas will pose substantial difficulties for all Member States, particularly in



relation to tax approximation and the ultimate goal of abolishing intra-Community frontiers.

9. We must use the European Council and the Commission's White Paper to keep up the momentum in the areas of interest to us. We should insist that each subsequent European Council should both assess progress since the previous one and establish priorities for the immediate future.

10. As Kohl indicated in his message to you, the Germans and French will say that they can accept tax approximation - as a far off goal. My discussions suggest, however, that the more others look at this problem, the more they recognise the difficulties. We must not permit our own reservations on parts of the Commission's paper to be used as an alibi by others (including the Germans) to frustrate progress towards completion of the internal market in other areas. The Chancellor agrees that discussion of tax approximation should be referred to ECOFIN, where the difficulties for all the others will quickly become apparent.

The European Parliament

11. Another issue which will feature prominently in Milan is the role and powers of the Parliament. Our position is clear. We will not agree to Treaty amendment or any extension of the Parliament's powers. It is, however, in our interests that the Parliament should be induced to make a more constructive contribution and we need, for tactical purposes, to have available ideas of our own. Other heads of government, including Kohl and led by Craxi, will be under their own political pressures to demonstrate that the Parliament is being taken seriously and will contend that a directly elected body cannot be confined to a largely consultative role. Most of them, however, want to change the appearance rather than the reality, since others share our concern that ideas of joint decision-taking would result in no decisions being taken at all. Having started off with vague and more ambitious ideas, they are now looking for a way out of this dilemma. The French would be glad to portray us as the main opponents of doing anything for the Parliament, though they do not want to do much for it themselves. We are most likely to achieve the result we want if we can avoid allowing ourselves to be cast in that role.



12. Some proposals of our own, which keep the Parliament firmly within its existing Treaty powers, are set out in the purely procedural suggestions in the attached note. They leave the last word unequivocally with the Council and would not in any way affect the Council's powers. Some presentation of this kind will be needed to complete the series of proposals we have made to steer the others away from Treaty amendment; and, if implemented, would help to get the Parliament's influence channelled in a more positive direction. When I saw the EDG MEPs recently, I found them very supportive of our general approach, but concerned that we should not adopt a purely defensive position on the Parliament.

#### Research and the "Technological Community"

13. Ideas on Eureka also have been developing in a more pragmatic way. The French are not now advocating a new agency. They agree that the emphasis must be on company to company collaboration, with anyone participating who wishes to do so. They are working on and will be trying to announce one or two projects eg fast computers in which French and German companies might collaborate. But much of the problem lies in the fragmentation of the European market and the failure



to open up public purchasing resulting in European companies concentrating mainly on relatively small national markets. We should work with the French to avoid a Commission takeover of Eureka. We should emphasise that the crucial role for the Community in all this is to open up the internal market in high technology goods and services. You should get support for this from Lubbers and others, particularly as we shall have ideas to put forward for giving the companies a practical incentive to collaborate by working on ways of guaranteeing access throughout the Community market for the products of such collaboration (the "Euro-type" idea).

#### Craxi

14. Your meeting with Craxi will be important in persuading the Italian Presidency to abandon their earlier maximalist ideas about a conference on European union, treaty amendment, etc, and concentrate on the proposals we have made as offering the best prospect for a "Milan accord" which would lead on to final conclusions being reached in Luxembourg. Craxi will attach great importance to doing something vis à vis the Parliament. You will want to steer him towards our ideas. If he raises the Luxembourg compromise, you





- 9 -

might point out that the political reality is that no government will be prepared to be voted down in Brussels on issues which could cause it to lose a vote in its own Parliament. The German example is only the most recent evidence of this. Our proposals offer the best prospect of a positive agreement in Milan and we want to work with the Presidency to achieve a positive outcome.

15. Others of course will claim that they could go further. There will be calls for further steps towards "European Union " etc and strong pressures for the extension of majority voting. But Kohl has been attracted by our ideas on political cooperation and will give a high priority to a formal agreement in that area. Mitterrand will want to get some positive signal about Eureka. By making a series of proposals ourselves, we have been able to take a good deal of the wind out of the sails of others and to point towards the chances of achieving broad agreement. This has come as something of a shock to those who had expected us to place the emphasis on what we can not accept - rather than on what we think can and should be done.

CONFIDENTIAL



- 10 -

16. I am sending a copy of this minute, with the enclosures, to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

25 June 1985

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EUROPEAN PARLIAMENT

- The relationship between Council, Commission and the Parliament is not operating satisfactorily.

- Implementation of a genuine and effective conciliation procedure would be a major improvement. This must be the first priority.

- The Council should also substantially improve the way it follows up European Parliament resolutions.

- The European Parliament needs to be enabled to make its own contribution to decision-taking.

- There must be an active partnership between Council, Commission and Parliament, including real consultation between the Council and the Parliament on new proposals of major importance, along the following lines:

- the Commission should send its outline proposals, as a discussion document, to the Parliament;

- the Parliament should consider the proposals in committee and give initial reactions. EP Committees could hold hearings on Commission proposals of the kind held in national parliaments;

- the Commission would take account of the Parliament's views in drawing up its definitive proposals, which would be referred to the Council;

- the Parliament would thus be enabled to make a positive contribution. Proposals going to Council would take account of the Parliament's view;

26/1

- once the proposals had gone formally to the Council there should be an early meeting of EP representatives, the Commission and the Council, providing for real Parliament/Council consultation.
  
- In addition, as the President of the Commission has suggested, the enlarged Bureau might choose from time to time subjects which it might study; conduct the necessary hearings; and prepare a resolution in cooperation with the Commission.
  
- These steps would not affect the power of initiative of the Commission and its prerogative to make proposals. They would enable the European Parliament to influence proposals at the formative stage and would encourage the Commission, Council, and Parliament to work towards agreement in partnership.
  
- In addition to these collective steps, Parliament itself can do much to enhance its association in decision-taking by targetting its opinions more precisely and ensuring that they contain clear recommendations, on which action by the Council or proposals by the Commission could be based.
  
- These changes could be implemented quickly. There should be an early meeting between the Presidency, representatives of the Parliament and the Commission to discuss ways of putting them into effect.

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24681 - 2

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MIPT: DEVELOPMENT OF THE COMMUNITY: UK IDEAS

1. FOLLOWING IS SUMMARY RECORD OF MY MAIN INTERVENTION AT INFORMAL MEETING OF FOREIGN MINISTERS AT STRESA. BEGINS. SIR GEOFFREY HOWE SAID IT WAS ESSENTIAL TO FOCUS ON SUBSTANTIVE ISSUES IF REAL PROGRESS WAS TO BE MADE. WE SHOULD NOT AIM FOR A NEW TREATY. THE NEED WAS TO BUILD ON AND DEVELOP WHAT WAS ALREADY THERE. THE STUTTGART, FONTAINEBLEAU AND BRUSSELS EUROPEAN COUNCILS ALL HAD TAKEN POSITIVE STEPS. EXTERNAL UNITY SHOULD NOW BE RE-INFORCED THROUGH THE STRENGTHENING AND DEVELOPMENT OF POLITICAL COOPERATION. INTERNAL UNITY SHOULD BE CONSOLIDATED THROUGH AGREEMENT ON A PRECISE TIMETABLE FOR THE COMPLETION OF THE INTERNAL MARKET. THERE MUST BE A REAL ADVANCE: GOING BEYOND MERE AGREEMENT ON A QUOTE MENU IN CHRONOLOGICAL FORM UNQUOTE.

7. HE AGREED THAT PROGRESS IN OTHER AREAS DEPENDED ON PROGRESS IN DECISION TAKING. ON A CONFERENCE, WE SHOULD NOT CONCENTRATE PRIMARILY ON QUESTIONS OF PROCEDURE. THE MOST EFFECTIVE INTER. GOVERNMENTAL CONFERENCE WAS THE EUROPEAN COUNCIL. ONLY THE HEADS OF GOVERNMENT THEMSELVES COULD TAKE DECISIONS ON THE MAJOR ISSUES. THEY SHOULD BE TAKEN AT MILAN. IF THEY WERE SIMPLY REMITTED FOR DISCUSSION AT OTHER LEVELS, WITHOUT FIRM DECISIONS BEING REACHED, ALL IMPETUS WOULD BE LOST. WHERE THEY HAD GIVEN CLEAR DIRECTIONS, FURTHER WORK SHOULD BE CARRIED FORWARD IN HIGH LEVEL GROUPS TO PUT WHAT THEY HAD AGREED ON INTO ITS FINAL STATE.

CONFIDENTIAL

CONFIDENTIAL

24681 - 2

HEADS OF GOVERNMENT SHOULD THEN GIVE THEIR APPROVAL IN LUXEMBOURG. THE LUXEMBOURG EUROPEAN COUNCIL SHOULD ACT AS A CONFERENCE TO TAKE THE FINAL DECISIONS. OTHERWISE WE RISKED LAUNCHING SOMETHING WITH A GRAND TITLE LEADING ONLY TO SLOW AND UNCERTAIN RESULTS. OUR PROPOSAL ALLOWED FOR COMPLETION OF THIS PROCESS AT A QUOTE CONFERENCE UNQUOTE OF THE HEADS OF GOVERNMENT ON 2-3 DECEMBER IN LUXEMBOURG BEFORE MEMBER STATES BECAME PREOCCUPIED WITH THEIR ELECTIONS IN 1986 AND BEFORE ENLARGEMENT TOOK PLACE.

8. ON THE QUESTION OF TREATY AMENDMENT, WE SHOULD BUILD ON AND MAKE MORE EFFECTIVE USE OF WHAT ALREADY EXISTED. THE TREATY OF ROME WAS THE CONSTITUTION OF THE COMMUNITY. AMENDMENT WAS VERY DIFFICULT, ESPECIALLY AT SPEED. THE COMMUNITY WAS ENHANCING ITS AREA OF ACTIVITY IN PRACTICE. AS THIS WAS DONE, THERE WERE AREAS IN WHICH IT WOULD BE APPROPRIATE TO MOVE ON TO ENTER INTO FORMAL AGREEMENTS. WE WERE WILLING TO EXAMINE THE TREATY TO LOOK AT WAYS IN WHICH IT COULD BE OPERATED MORE EFFECTIVELY.

9. ON THE COMMON MARKET, IT SHOULD BE POSSIBLE FOR THE EUROPEAN COUNCIL TO AGREE ON A SPECIFIC TIMETABLE. BUT FISCAL APPROXIMATION WAS VERY DIFFICULT. THERE WERE HUGE DIFFERENCES IN THE FISCAL STRUCTURE IN DIFFERENT MEMBER STATES. FOR HARMONISATION OR EVEN APPROXIMATION, THE CHANGES NEEDED IN SOME CASES WOULD BE OF THE ORDER OF 300 PER CENT IN EXISTING LEVELS OF TAXATION AND IN ONE CASE 886 PER CENT. THERE WAS A NEED TO STUDY THE PROBLEM, BUT IT SHOULD NOT BE PUT FORWARD AS THE FIRST PRIORITY. PROGRESS SHOULD BE MADE WHERE IT COULD BE MADE QUICKLY.

10. AT MILAN THE HEADS OF GOVERNMENT SHOULD AGREE THAT MEMBER STATES SHOULD ENTER INTO A FORMAL, BINDING COMMITMENT ON POLITICAL COOPERATION. THIS WOULD BE A POLITICALLY STRIKING STEP, WHICH WOULD ATTRACT PUBLIC ATTENTION. THE PRIME MINISTER HAD ASKED HIM TO CIRCULATE A TEXT WHICH WAS A PERSONAL INITIATIVE BY HER AND WHICH SHE WISHED TO DISCUSS WITH THE OTHER HEADS OF GOVERNMENT AT MILAN. IT WAS NOT FOR DISCUSSION BY OFFICIALS MEANWHILE. IF THE HEADS OF GOVERNMENT AGREED IN PRINCIPLE AT MILAN. THE TEXT SHOULD BE REFERRED FOR FURTHER WORK, LEADING TO

CONFIDENTIAL

CONFIDENTIAL

24681 - 2

SIGNATURE BY THE HEADS OF GOVERNMENT IN LUXEMBOURG.

11. ON DECISION TAKING, HE AGREED WITH GENSCHER ON THE NEED TO RETURN TO THE TREATY. THERE SHOULD BE AGREEMENT ON THE GREATER USE OF THE MAJORITY VOTING PROVISIONS OF THE TREATY. ANY COUNTRY INSISTING THAT DISCUSSION MUST BE CONTINUED UNTIL UNANIMOUS AGREEMENT WAS REACHED, IE INVOKING THE LUXEMBOURG COMPROMISE. SHOULD BE REQUIRED TO JUSTIFY IN A SPECIAL PROCEDURE OF THE GENERAL AFFAIRS COUNCIL WHY IT CONSIDERED VERY IMPORTANT INTERESTS IN FACT TO BE AT STAKE. IN THE LAST RESORT, THIS JUDGEMENT MUST REMAIN WITH THE MEMBER STATES. IDEAS THAT THE PARLIAMENT OR THE EUROPEAN COURT OF JUSTICE MIGHT JUDGE WERE NOT PRACTICABLE. IN RELATION TO THE UNANIMITY ARTICLES OF THE TREATY, THERE SHOULD BE GREATER USE OF THE ABSTENTION PROCEDURE (ARTICLE 148). WE HAD LOOKED AT WAYS IN WHICH ARTICLE 100 MIGHT BE IMPROVED. BUT IT WAS EXTREMELY DIFFICULT TO RE-WRITE THAT ARTICLE IN A WAY THAT WOULD HELP OR THAT WOULD HAVE ANY CHANCE OF BEING AGREED ON ANY REASONABLE TIMESCALE. HENCE OUR ADAPTATION OF LUBBERS' IDEA THAT WHEN THE HEADS OF GOVERNMENT THEMSELVES DECIDED THAT SPECIFIC OBJECTIVES WERE TO BE ACHIEVED, THEY MIGHT DECIDE ALSO THAT MEMBER STATES SHOULD NOT INVOKE THE UNANIMITY RULES FOR THE MEASURES NECESSARY FOR IMPLEMENTATION. THIS WOULD APPLY NOT ONLY TO ARTICLE 100. ALL THIS WOULD FORM THE ELEMENT FOR THE QUOTE MILAN ACCORD UNQUOTE. HE ALSO THOUGHT THAT MORE USE COULD BE MADE OF OTHER TREATY ARTICLES IN RELATION TO THE COMMON MARKET, IN PARTICULAR ARTICLE 101 AND ARTICLE 90, WITH A VIEW TO QUOTE ENERGISING UNQUOTE THE EXISTING TREATY PROVISIONS.

12. ON THE EUROPEAN PARLIAMENT, THE DOOGE COMMITTEE HAD IDENTIFIED THE PROBLEMS, BUT HAD LEFT THEM UNRESOLVED. AS DELORS HAD SAID CO-DECISION WAS LIABLE TO EQUAL NO DECISIONS. HE AGREED ON THE NEED TO ASSOCIATE THE PARLIAMENT MORE CLOSELY WITH THE WORK OF THE COUNCIL. THEY SHOULD BE GIVEN MORE INFLUENCE, RATHER THAN MORE TREATY POWERS. ENDS

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DECISION TAKING

- (a) In the enlarged Community more use will need to be made of majority voting provisions of the Treaties.
- (b) Member States agree to make greater use of abstention as provided for in Article 148(3) of the EC Treaty so as not to prevent the adoption by the Council of Acts which require unanimity.
- (c) Where it is agreed (by heads of government in the European Council) that a specific objective should be achieved it may also be agreed that Member States will aim not to impede progress by invoking the unanimity rule in relation to the measures necessary for its implementation.
- (d) When a Member State asks that discussion should continue until unanimous agreement is reached, the Member State concerned should be required to explain fully and formally, through a special procedure of the General Affairs Council, why its government considers very important interests in fact to be at stake.