

①

PRIME MINISTER

BONN ECONOMIC SUMMIT: BILATERALS

This folder contains separate briefs and cards for your bilateral meetings in the margin of the Summit.

It also has a brief on CAP price-fixing, for use with Chancellor Kohl whenever an opportunity arises.

C.D.P.

C D POWELL

1 May 1985

BILATERAL WITH SIGNOR CRAXI

Economic Summit

1. Importance of a clear message from the Summit of commitment to non-inflationary growth and resistance to protectionism. Important to set a date for new GATT round.
2. No case for international monetary conference which would raise unrealisable expectations. Continue to work within IMF/World Bank framework.
3. Must not allow France to drag Summit into unnecessary confrontation with the US over SDI.

European Community

4. Congratulate Italian Presidency on achievements to date.

/5.

5. We should have substantive discussion of the future of the Community at the June European Council leading to decisions. No need for long drawn-out intergovernmental conference.

6. Our priorities will be: completion of the internal market: strengthening political cooperation: practical steps to improve decision-taking (more use of majority voting provisions of the Treaty, and of abstention procedure).

7. Vital to resist any attempt by European Parliament to transfer our abatement from revenue to expenditure side.



BILATERAL MEETING WITH PRIME MINISTER CRAXI AT THE BONN ECONOMIC
SUMMIT: EUROPEAN COMMUNITY

Our Objectives

(a) To point out the advantages of aiming for substantive agreement by Heads of Government on the future development of the Community at the European Councils in June as a preferable alternative to launching a protracted conference.

(b) To urge the Presidency to stand firm if there are any attempts by the European Parliament to transfer our 1000 mecu abatement to the expenditure side of the budget.

Arguments to Use

- Much achieved in recent months in Community. Italian Presidency to be congratulated. Their efforts, particularly over enlargement, show that decision-taking is primarily a matter of political will.

- Should build on recent success to aim for substantive discussions at June European Council on future development of the Community. No reason why substantive decisions should not be taken and implemented, rather than be delayed for a long drawn out inter-governmental conference.

- As you start your consultations, may be helpful for you to know what our priorities will be:

(a) completion of the common market. Commission now working on timetable for action. This will be the key to creating more wealth and employment. Many Treaty articles still not implemented;

(b) strengthening political co-operation. We could accept a formal agreement;

CONFIDENTIAL



(c) practical steps to improve decision taking. Accept need for more majority voting on non-essential issues in accordance with the Treaties. But no member state ready to be voted down when very important interests genuinely at stake.

Majority voting

- Attempt to undertake article by article analysis of the Treaty in search for some articles which might be amended, unnecessary and would take years. The key provisions of the Treaty requiring unanimity are there for good reason. How, for example could it make sense to switch to majority voting, on the seat of the European Parliament (Article 216); new accessions (Article 237); capital movements (Article 70(1)); harmonisation of taxation (Article 99); common economic policy (Article 103(2) etc. .

- Whatever their protestations, no Member State will allow itself to be out-voted where a vital issue is at stake, eg Germans over sugaring of wine, farm prices, etc.

- Believe that useful reforms we could make would be:

a) agreement that more use should be made of existing majority voting provisions of Treaty.

b) Where a Member State did ask for a vote to be postponed, it would be required to explain formally, in a special procedure of the Council, why it considers its very important interests are in fact at stake.

c) When objectives agreed in some areas, Member States might themselves decide to use the abstention procedure and not to insist on unanimity rule to impede implementation.

- These reforms could be introduced by the European Council itself. They would apply real pressure not to hold up Community decisions.

CONFIDENTIAL

CONFIDENTIAL



Budget Issues

- Grateful to Italian Presidency for the firm line they have taken to ensure implementation of Fontainebleau agreement.

- No need to tell you Fontainebleau was a package and that our ability to implement increase in own resources (and IGA for 1985) depends upon decisions of European Council being maintained.

- Hope, therefore, that Italian Presidency can use its influence with MEPs to prevent them from transferring our abatement from revenue to expenditure side of the budget. This would not be acceptable to us, nor, I believe, to other Member States.

His Objectives

- (a) To sound out our thinking on the future development of the Community, probably with a view to steering discussion towards agreement on an inter-governmental conference later in the year.

Our Response

- It would be regrettable if debate on the future of the Community petered out into an inconclusive argument about a few Treaty Articles and if opportunities for early and far-reaching decisions were lost.

- Package of the kind I have in mind could be implemented immediately following Fontainebleau. Heads of Government could then judge in the ensuing six months whether more was needed and could return to the matter in December if necessary.

CONFIDENTIAL

CONFIDENTIAL



Background

Future of the Community

1. The Italians are still keen on the idea of an inter-governmental conference. Signor Ferri, their representative on the Dooge Committee, is being despatched around capitals and will be in London for talks with Mr Rifkind on 13 May. Our aim is to try to steer the Italians away from a purely procedural outcome in June and in the direction of substantive decisions which would enable their Presidency to end on a note of real achievement.

Budget

2. The Plenary of the European Parliament will consider the 1985 draft budget at its meeting in the week beginning 6 May. The Budgets Committee has considered the issue this week and will meet again next week, following the Parliament's meeting with the Foreign Affairs Council on 29 April, to consider what recommendation to make about the UK's abatement. Opinion in the Budgets committee is divided; with some Members (including the Italian communist, Barbarello,) wanting to transfer the abatement to the expenditure side, and others, including the French chairman, M Cot, recommending that the abatement should be left on the revenue side this year.

3. We are lobbying in capitals asking EC member governments to urge on their MEPs the need to handle the Fontainebleau agreement and reminding them that the implemented in its entirety.

CONFIDENTIAL

ITALY: TORPEDOES FOR ARGENTINA

Line (If raised by Andreotti/Craxi)

- Most important Italy and other Allies deny sophisticated weapons to Argentina
- Grateful for Craxi assurance (No 10, 14 Feb) that he is in principle against selling torpedoes
- Understand Italian concern that others might replace Italian suppliers: have passed on German assurances they are not thinking of supplying advanced torpedoes.

Background

Italians' main concern has been that Germans will pick up the business. Germans have told us they are not contemplating selling Surface and Underwater Target (SUT) torpedoes. HM Embassy Rome have passed their assurance to Italians.

RESTRICTED

15676 - 1

OO UKREP BRUSSELS

GRS 85

RESTRICTED

FM F C O 011853Z MAY 85

TO IMMEDIATE UKREP BRUSSELS

TELEGRAM NUMBER 152 OF 1 MAY

INFO PRIORITY MADRID, LISBON

COREPER (AMBASSADORS) 2 MAY

ENLARGEMENT: SIGNATURE OF ACCESSION TREATY

LINE TO TAKE

1. THE PRIME MINISTER WOULD VERY MUCH HOPE TO BE PRESENT AND IS GRATEFUL TO PRESIDENCY UNDERSTANDING.
2. UNFORTUNATELY NEITHER 12 OR 13 JUNE POSSIBLE.
3. STRONG PREFERENCE FOR 10 JUNE. IF THAT NOT POSSIBLE, HOPE THAT 18 OR 19 JUNE MIGHT PROVE GENERALLY ACCEPTABLE.

HOWE

NNNN

DISTRIBUTION

LIMITED

ECD(E)

SED

PS

PS/MR RIFKIND

PS/PUS

MR DEREK THOMAS

MR RENWICK

COPIES TO

MR JAY, CABINET OFFICE

PS/NO 10 DOWNING ST

BILATERAL WITH PRESIDENT MITTERAND

FEES
SO. notes

ECONOMIC SUMMIT ISSUES

1. [Will depend on outcome of first day of the Summit. Likely difficulty over GATT/international monetary conference link and SDI.]

European Community

2. Welcome successful Anglo-French cooperation in recent months. Look forward to learning his ideas on future development of Community. Our priorities will be: completion of internal market; strengthening political cooperation; and practical steps to improve decision-taking. Must preserve Luxembourg compromise.

European Fighter Aircraft

3. Concerned at failure to agree on essential features in feasibility study and Dassault's insistence on design leadership. Only basis for progress is 'no winners no losers'.

Channel Fixed Link

4. Must keep up momentum and decide by end year which project should go ahead. Need to get on with contingency work on Treaty and on procedures for assessing proposals. Officials should be instructed to start work straight away.

Eureka

5. Agree on need for cooperation between European high technology companies. But must not duplicate existing institutions and structures. Company level is where we must look for progress: doubt need for new agency or more government money.

Argentina

6. We have proposed practical steps to improve relations, but Argentina continues to insist on discussion of sovereignty. Hope France will encourage them to a more constructive reply.

BONN ECONOMIC SUMMIT: 2-4 May 1985

PRIME MINISTER'S BILATERAL MEETING WITH PRESIDENT MITTERRAND

Our Objectives

- (a) To find out what President Mitterrand has in mind for his promised 'surprise' initiative on the Community. To point out the advantages of aiming for substantive agreement on future development by Heads of Government themselves later this year rather than launching a protracted conference.
- (b) To maintain French solidarity with major Allies on SDI/Space; to affirm common interest on INF (and START).
- (c) To persuade President Mitterrand that collaboration on the European Fighter Aircraft must be on the basis of a project which meets military requirement and provides fair share of benefits and encourage him to exert pressure on Dassault to this end.
- (d) To press for early agreement on an arrangement for assessment of promoters' proposals for a Channel Fixed Link and negotiation of a treaty; also to draw attention to problems that the main UK promoters are apparently experiencing in securing French partners.
- (e) To persuade the President that deadlock in our efforts to improve relations with Argentina is due to Argentine intransigence and to maintain France's abstention in voting on any Argentina resolution on the Falklands at the 1985 UN General Assembly.

Arguments

- (a) Much achieved in recent months in Community. Anglo-French cooperation good.
- Key to managing problems of enlarged Community will be continued cooperation with you and Chancellor Kohl.
 - Interested to learn your ideas for the future development of the Community. Our priorities will be:

(i) completion of the common market. Commission now working on timetable for action. This will be the key to creating more wealth and employment. Many Treaty articles still not implemented.

(ii) strengthening political cooperation. We could accept a new formal agreement.

(iii) practical steps to improve decision taking. Accept need for more majority voting on non-essential issues in accordance with the Treaties. But no member state ready to be voted down when very important interests genuinely at stake.

- Attempt to undertake article by article analysis of the Treaty in search for some articles which might be amended unnecessary and would take years. The key provisions of the Treaty requiring unanimity are there for good reason. How, for example, could it make sense to switch to majority voting on the seat of the European Parliament (Article 216); new accessions (Article 237); capital movements (Article 70(1)); harmonisation of taxation (Article 99); common economic policy (Article 103(2), etc.

- Whatever their protestations, no Member State will allow itself to be out-voted where a vital issue is at stake, eg Germans over sugaring of wine, farm prices, etc.

- Believe that useful reforms we could make would be:

(i) agreement that more use should be made of existing majority voting provisions of Treaty.

(ii) where a Member State did ask for a vote to be postponed, it would be required to explain formally, in a special procedure of the Council, why it considers its very important interests are in fact at stake.

(iii) when objectives agreed in some areas, Member States might themselves decide to use the abstention procedure and not to

insist on unanimity rule to impede implementation.

- These reforms would apply real pressure not to hold up Community decisions.

(b) Welcome convergence of European views on SDI. Should get differences with US in perspective without ducking key issues. Must seek to convince Russians that propaganda no alternative to serious negotiation and US that logic of offensive/defensive linkage calls for agreement on scope of permitted space/defence activities over next decade.

- Must maintain our firm rejection of Soviet demand for compensation on UK/French forces as precondition for INF agreement. US should test Russians with specific proposals in INF and START and not leave tactical initiative to Moscow.

(c) - EFA crucial test of European ability to collaborate effectively on defence equipment.

- Concerned at lack of unanimity in feasibility study and at French industry's insistence on design leadership.

- 'No winners and no losers' only sensible basis for progress.

(d) - Pleased with progress on CFL since our meeting on 29 November; publication of guidelines an important step; essential now to keep up momentum.

- Agree we should decide by end of the year which, if any, proposal should go ahead; UK Government not committed to any particular scheme or concept.

- Successful promoter will wish to make an early start on construction. Essential that contingency work on Treaty and other arrangements begins soon and that procedures for, eg, joint assessment of proposals are carried through. Officials have not yet agreed a structure and timetable for discussing these matters - hope this can be established quickly.

- Important that groups of promoters take shape quickly. Satisfactory progress among UK interests - hope same is true on French side.

(e) - Argentine insistence that there can be no progress in our bilateral relations unless we agree to discuss sovereignty is unrealistic.

- Have made persistent efforts to improve relations with Argentina; hope you can encourage Argentines to make constructive reply to our latest message which again put forward practical steps to improve relations.

Tactical Arguments

(a) None

(b) Want to keep in close touch with you over your ideas for space arms control, civil/military space cooperation, EUREKA. But premature to see whether can coordinate responses to SDI participation offer. Identify national opportunities first.

(c) Great political and industrial benefits of European collaboration in programme of EFA magnitude. Should enable European industry to compete better with US.

(d) When M. Quiles, French Minister of Transport, saw Mr Ridley on 20 March, he stated that it was essential for officials to begin contingency work as soon as possible.

(e) Despite Argentine statements of peaceful intent, Argentine Government's attitude to sovereignty is no different to that of its military predecessors.

His Objectives

- (a) To see whether there is a basis for working with us on the future development of the Community.
- (b) To secure our support for the French 'EUREKA' initiative.
- (c) To argue for more collective European approach to military uses of space, SDI participation, high-technology research; to urge preservation of deterrence strategy.
- (d) To argue that Defence Ministers have agreed to go for an EFA project based on an aircraft of 9.5 tonnes Basic Mass Empty, to stress export potential of lighter, cheaper aircraft and to avoid commitment weakening French industrial position.
- (e) To press for a positive response to the proposal for a Franco-British Research Association.
- (f) To draw attention to the need to support Argentine democracy.

Our Response

- (a) Future development of the Community (if President Mitterrand suggests greater powers for the European Parliament)

- How could it make sense to give the Parliament revenue powers? The last extension of the Parliament's powers (the 1975 Budget Treaty) has resulted in greater friction with the Council and more difficulty in decision taking. Joint decision taking between the Council and the Parliament as suggested in the Spinelli Draft Treaty (Article 38) - it would be impossible for the Community to take any decision at all.

- (b) EUREKA

- We agree on need for greater cooperation between European high technology companies in research and between research institutions.

- French proposal interesting. Look forward to further discussion and clarification. Coordination has to be genuine, ie main priority must be to facilitate action by the companies and

research institutes themselves, not to inject unnecessary government funding.

- Should avoid duplicating what is being done in Community in R&D and in European Space Agency.
- Need to make rest of Community R&D programme more cost-effective.

(c) SDI: Collective approach must take account of practical realities. Agree about deterrence but must avoid weakening US negotiating hand or helping Soviet wedge-driving.

(d) Ministers agreed in July to 9.5 tonnes as basis of industrial study for EFA. Study has shown aircraft of this size would not meet threat. EFA must make sense in cost and performance terms. Performance must be more important criterion than artificial constraint on size. Believe 9.75 tonnes aircraft with space for national equipment and suitably powerful engine is what is needed. Illusory to believe that third world countries will settle for less capable aircraft.

(e) Franco-British Research Association: Support the need for closer scientific/technological collaboration. Must ensure that outcome commands full support and involvement of industrialists. Franco-British Council is looking at this

(f) Argentina

(i) Improvement in EC/Argentine relations hindered by continuing commercial and economic restrictions against one Member. We fully implemented agreement in September 1982 to lift economic restrictions: Argentina did so only part. Have repeatedly made clear that we would welcome reciprocal lifting of commercial restrictions.

(ii) We welcomed restoration of democracy in Argentina. Democratic Argentina must recognise democratic rights of Islanders. No help to democracy to hold out false hopes of unrealistic goals. Lifting of trade restrictions would help Argentine economy and consolidate democracy.

Background

Future Development of the Community

1. The Foreign Secretary's minute of 15 April is attached.

EUREKA

2. In a letter of 17 April to the Foreign Secretary, also sent to other EC Foreign Ministers, M. Dumas proposed establishing a European research coordinating agency (EUREKA). The proposed agency would be given responsibility for organising R&D activity in a coherent manner in a number of high-technology sectors (eg optronics, new materials, powerful lasers, large computers, artificial intelligence, high speed and miniaturised electronics and space).

3. Each sector would be coordinated by a management committee composed of representatives of government, industry and research establishments. Funding would be provided jointly by Government and industry. The French cite ESPRIT as a model though it is not a good one in the sense that it provides for a high (50%) level of government finance.

4. Although the French proposal has been linked with SDI, the French do not appear to see it as a vehicle for coordinating a European response to the Weinberger invitation on SDI; they intend it as a means of preventing Europe from falling behind the US in the new technologies, including SDI related ones where the SDI research programme will give US industry a competitive advantage.

5. We shall need further clarification of the French ideas before we can decide whether to support them. The case for additional injections of government finance - over and above the funds already devoted to research on a national and Community basis - has not yet been made.

6. Initial contacts with the Germans, Italians, Belgians, Danes and Greeks show some concern that the French proposal might cut across the existing framework for coordinating R&D. We too would wish to avoid duplication of programmes carried out by the European Space Agency or within the Community's R&D effort and wish to steer the

initiative in the direction of stimulating increased coordination between enterprises working in similar high-technology fields. M. Davignon, in working out the ESPRIT programme, organised meetings of the Research Directors of the various European companies operating in the same field. We might encourage the French to think in similar terms.

European Fighter Aircraft

7. Defence Ministers of the UK, France, the FRG, Italy and Spain commissioned a feasibility study based on 9.5 tonnes Basic Mass Empty aircraft in July 1984. The European Staff Target (October 1984) set out aircraft capabilities required by air forces.

8. The industrial study generally showed that 9.5 tonnes would not meet requirement. Ministers agreed in November to allow margin of +/- 250 kgs.

9. Separate proposals were received from French and other four industries. Evaluation by UK officials of the proposals show that 9.75 tonnes aircraft, providing space for additional national equipment, would just meet the minimum RAF requirement. French industry and officials are sticking with 9.5 tonnes design.

10. There are other differences with France, eg the size of the engine (France wants at least 10% less than the other four) and workshares. Dassault seek to maximize the workshare, including design leadership, and want their ACX demonstrator as basis for project.

11. There are recent signs that French defence officials are moving away from full support of Dassault on this. M. Hernu has agreed with Mr Heseltine on the 'no winners, no losers' criterion but it is doubtful that he can impose these views.

Channel Fixed Link

12. UK and French Transport Ministers agreed in November 1984 to take whatever steps necessary to facilitate the construction of a fixed link between the UK and France. They also agreed this should

be financed from private sources, without Government guarantees against commercial or technical risks. Agreement was subsequently endorsed by the Prime Minister and President Mitterrand on 29 November.

13. 'Invitation to Promoters' published on 2 April. Closing date for proposals of 31 October 1985. Governments have agreed to aim for decision by end of year on which, if any, proposals should go ahead.

14. If successful promoter is to make an early start, essential that contingency work begins soon on inter-governmental arrangements, eg a Treaty. French seem to agree with this view at Ministerial level but to be dragging their feet at official level, perhaps because of inter-departmental problems.

15. The main UK promoters, Euroroute and CTG, are cohesive and well established but there appears to be much squabbling and confusion among the French interests which is hindering efforts by UK promoters to secure French partners and consolidate their groups.

Franco-British Research Association

16. President Mitterrand proposed this during his State Visit in October. British industrialists, fearing lack of reciprocity, have shown no enthusiasm. Officials of both sides agreed to remit the ideas to the Franco-British Council who are pursuing.

Argentina/Falklands

17. The Prime Minister last discussed the Falklands with President Mitterrand during his State Visit to Britain in October 1984. This was decisive in securing France's abstention in the UN vote on the Argentine resolution. (Full voting figures were 89 in favour, 9 against, 54 abstentions).

18. We briefed the French in March at official level on the latest exchange of messages with Argentina.