



cc.p.c.

10 DOWNING STREET

From the Private Secretary

4 June 1984

Paper on the Future of the European Community

Thank you for your letter of 1 June enclosing the draft of a paper on the above subject for the Prime Minister to present to Chancellor Kohl.

I note that, apart from the Foreign and Commonwealth Secretary, this paper has not yet been approved by the Chancellor of the Exchequer, the Minister for Agriculture or the Secretary of State for Trade and Industry. Provided their comments can be obtained and the paper redrafted in time to take account of these and the Prime Minister's comments in the rest of this letter, Mrs. Thatcher will be prepared to pass it to Chancellor Kohl during the Economic Summit. I should be grateful if the Foreign and Commonwealth Office could take upon themselves the task of submitting the redrafted paper as soon as possible this week.

BF

With regard to the draft letter to Chancellor Kohl, the Prime Minister would prefer to refer, in paragraph 3, to "a closer union" rather than "an ever closer union".

The Prime Minister's comments on the paper are as follows:-

In paragraph 2, the second sentence should begin with words "Some progress". The third sentence should begin with the words "Some steps have been taken".

In paragraph 4, the Prime Minister finds the reference to Europe being in command of its own destiny unfortunate. This phrase, in her view, has undesirable implications for NATO and for trans-Atlantic co-operation.

/Paragraph 5

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NR

Paragraph 5 should read as follows: "If the European Community is to be effective in the world, it must also be effective in the national life of each of its Member States".

In paragraph 9, the Prime Minister would like the word "highest" in the penultimate sentence to be replaced by "high". She would like the last sentence to begin with the words "Member Governments must act to limit".

The second sentence of paragraph 10 should read "The peoples of Europe must feel that the Community improves the quality of their lives".

The first sentence of paragraph 14 should read "It must be our objective to aim beyond the common commercial policy through political co-operation towards a common approach to external affairs".

In the last sentence of paragraph 15 the word "can" should be replaced by "could".

The Prime Minister has commented, with regard to the third sentence of paragraph 16, that it is difficult, in view of the Irish Republic's policy of neutrality, to refer to Europe speaking increasingly with one voice in world affairs.

In paragraph 17 the words "in steepening decline" should be deleted and the word "disloyalty" replaced by "problems".

In the first sentence of paragraph 21 the word "fairer" should be replaced by "greater".

Paragraph 23 should begin as follows: "Procedure and new organisations are no substitute for content and action to solve existing problems".

In paragraph 24(e) the Prime Minister would prefer to delete the words "where they judge it indispensable". In paragraph 24(f) she would like to delete the last two sentences. In paragraph 24(g) the word "other" in the last sentence should be replaced by "main".

I am copying this letter to David Peretz (HM Treasury), Callum McCarthy (Department of Trade and Industry), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

A. J. COLES

Roger Bone Esq
Foreign and Commonwealth Office

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Foreign and Commonwealth Office

London SW1A 2AH

5 June 1984

*John David,**HR 7/6**L.A.*Paper on the Future of the European Community

I attach a fair copy of this paper, revised in accordance with the Prime Minister's wishes (John Coles' letter of 4 June to me). The Prime Minister wishes to pass the paper to Chancellor Kohl during the Economic Summit.

I should be grateful for confirmation by 6 pm on Wednesday, 6 June that the Chancellor, Mr Tebbit and Mr Jopling are content for the paper to go forward to Chancellor Kohl, and, thereafter to other EC Heads of Government. The paper has already been cleared on a restricted basis by senior officials in the Treasury, DTI, MAFF and Cabinet Office.

I am copying this letter to Callum McCarthy (DTI), Ivor Llewellyn (MAFF), Richard Hatfield (Cabinet Office), and John Coles.

(R B Bone)
Private Secretary

David Peretz Esq
HM Treasury

EUROPE - THE FUTURE

INTRODUCTION

1. At the European Council in Stuttgart an ambitious programme was decided, involving a review of almost every aspect of the Community's activities. The negotiation has not been easy; and that is not surprising. There will continue to be arguments over priorities and the allocation of resources. That would be true even in a full-fledged federation. The Community progresses by the process of argument and discussion necessary to resolve its differences.

2. The Community is now close to agreement on the issues determining the course of its future development. Some progress has been made towards financing Community activity in the longer term and establishing a fairer balance of contributions. Some steps have been taken towards limiting the future costs of the agricultural regime. The Ten have agreed to work on a series of new policies to promote the economic, social and political growth on which their future well being depends. The negotiations remain to be completed. Their completion will enable the Community to concentrate on longer term objectives, and on responding to the needs and aspirations of its 270 million inhabitants.

3. This means giving greater depth to the Community in both its internal and external activities. The European Community, which has the largest share of international trade in the world and the immense benefit of the ingenuity of its peoples, and of the diversity of its economies, has only just begun to take advantage of its great potential. The Common Market is a means to an end, described in the Treaty itself as, "a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living".

4. The Community's energies must also be turned outwards so that we can:

- (i) create the sense of common purpose and momentum needed to hold together a Community of 12;
- (ii) defend our collective interests in an increasingly troubled world;
- (iii) fulfil our international responsibility to the causes of freedom, democracy, prosperity and peace;

5. If the European Community is to be effective in the world, it must also be effective in the national life of each of its Member States.

/Strengthening

Strengthening the Community

6. If the problems of growth, outdated industrial structures and unemployment which affect us all are to be tackled effectively, we must create the genuine common market in goods and services which is envisaged in the Treaty of Rome and will be crucial to our ability to meet the US and Japanese technological challenge. Only by a sustained effort to remove remaining obstacles to intra-Community trade can we enable the citizens of Europe to benefit from the dynamic effects of a fully integrated common market with immense purchasing power. The success of the United States in job creation shows what can be achieved when internal barriers to business and trade come down. We must create the conditions in which European businessmen too can build on their strengths and create prosperity and jobs. This means action to harmonise standards and prevent their deliberate use as barriers to intra-Community trade; more rapid and better coordinated customs procedures; a major effort to improve mutual recognition of professional qualifications; and liberalising trade in services, including banking, insurance and transportation of goods and people. If we do not give our service and manufacturing industries the full benefit of what is potentially the largest single market in the industrialised world, they will never be fully competitive at international level, and will be unable to create much needed jobs within the Community.

7. At the same time we must do more, and work harder, to make actions undertaken within the Community relevant to the lives of our people. A sustained effort will be required further to simplify and speed up customs and other formalities affecting the ease with which our citizens can travel across intra-Community borders. We should aim, for example, to allow European citizens to travel as freely and cheaply as the inhabitants of the United States. Important steps could be taken in that direction by increased competition and the de-regulation of air services.

8. The Common Agricultural Policy has succeeded in the objective of providing Europe with a strong agricultural base. Remarkable increases in productivity have been achieved. The preservation of the best elements of that policy requires a continuing effort to correct the distortions which manifest themselves in the form of massive and costly surpluses of certain products, imposing high storage costs and the need to dispose of them in ways which complicate trading relations with our OECD partners and are impossible to defend to our own citizens and tax payers. An important and courageous effort has been made to control surpluses in the dairy sector. A sustained, multi-year effort will be required to achieve a better balance between production and demand, thereby releasing resources for other purposes.

9. For in the next decade equal priority must be given to creating the right conditions for the development of a vigorous, efficient and cost effective industrial sector able to compete with the United States, Japan and the newly industrialised countries. To this end, we need to examine urgently whether more can be achieved, or can be achieved more economically, by action on a Community basis rather than nationally. Better cooperation on research and development will help avoid duplication and waste. In some cases Governments can cooperate directly to encourage industrial activity at European levels - as in the case of Airbus, ESPRIT and JET. The Commission has suggested that the Community now look at possible programmes in telecommunications and biotechnology. We should examine these and similar proposals carefully to see whether they will be more effective at the Community level. In doing so, we should give high priority to facilitating collaboration at the industrial level. Member Governments must act to limit the administrative and legal impediments to risk-sharing and investment, in order to allow European firms to compete and cooperate in a way which will enhance their ability to match the performance of their competitors.

10. Creating the right conditions for economic growth without due regard for the wider interests of our environment and of our consumers is not acceptable. The peoples of Europe must feel

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that the Community improves the quality of their lives. Many environmental problems require action going beyond the capabilities of individual Member States. They have to be tackled on the basis of serious analysis of the scientific evidence and with due regard to industrial costs and efficiency. This is an area in which the Community has an important role to play. The United Kingdom has already suggested that decisions should be taken urgently to bring about the elimination of lead in petrol. It is also time for a programme of research aimed at finding solutions to the problems caused by acid rain, and for controls on trans-frontier shipments of hazardous waste to continue to be developed.

11. At the cultural level, we should examine whether Governments cannot do more to encourage the learning of other Community languages. The European Foundation could play a useful role in this and in developing professional exchanges. Full access to each others' satellite broadcasting systems would help the process of cultural interchange in an eminently practical way of direct concern to mass audiences.

12. This process will require political direction. We should agree in the European Council that each Member Government should examine its political priorities and its current national policies in all sectors covered by the Treaties in order to see

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in each case whether greater progress could be made by a cooperative approach at the Community level. The results of this examination should be studied by the General Affairs Council and reported back to the European Council.

A flexible Europe

13. The European Communities, with their corpus of institutional and legal structures, and their own resources, are and must remain the framework within which Community law applies. Action undertaken in the Community framework must continue to be on a basis of equal rights and equal obligations. But a certain flexibility of approach may be necessary in the coming decade, when the Community will have become larger, its membership more diverse, and in some areas of technological development, the industrial structures and interests of Member States more varied. For such practical reasons, it may sometimes make sense for participation in new ventures to be optional. This should not lead to rigid distinctions between different groups of participants. That would be particularly disillusioning for our new members who expect to be joining a democratic and homogeneous Community. Where ventures are launched with limited participation, it should be open to other Member States to join in as and when they are able to do so. The possibility for action financed by the Community or with Community law as its legal base should be examined before it is decided to proceed on

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a more limited basis. The progress of all work relevant to European integration should be monitored and open for discussion in a suitable high-level forum.

Europe in the World

14. It must be our objective to aim beyond the Common Commercial Policy through Political Cooperation towards a common approach to external affairs. Such a policy can only be achieved progressively: it must nevertheless be the aim before us.

15. The Community and its Member States already have at their disposal many of the elements for a common external policy. It is linked to other Western European countries through the EEC/EFTA agreements. The Lomé Convention binds the Community in a contractual relationship covering aid and trade with 64 developing countries. The Common Commercial Policy governs its trade relations with the rest of the world. The Community takes common action in international economic organisations. There is the network of Association and Cooperation agreements both with individual countries and with groups such as ASEAN and the Andean Pact. The growth of Political Cooperation enables the members of the Community increasingly to adopt common positions on world problems and to vote together in non-economic international bodies. Our aim for the future should be to bring about a greater coherence between these different elements. In that way

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a common external policy could be progressively achieved.

16. The US will remain central to European security and the management of East-West relations, and no less so in the management of the problems of the world economy and trade. Our task must be to ensure that Europe plays no less central a role in all those respects. By common action of the Community and the Ten, Europe must impress on the US that unilateral American action, eg on technology transfers, extra-territoriality, unitary taxation and, above all, protection for US industries will put the success of Alliance consultation and coordination at risk. Equally we must be ready in Europe to make progress towards the liberalisation of our trading practices, and to play a full part in strengthening the GATT trading system. Mechanisms for consultation and coordination between the Allies are already in place. What we need is the will on both sides to use them to get results: bilaterally, within the Alliance, and on behalf of the Community and its Member States.

17. Europe is more than Western Europe alone. By the end of this century we could see the Soviet Union with increasingly serious economic difficulties and growing problems in Eastern Europe. At that stage more than ever, a coherent and persuasive

/West

West European voice will need to be heard on the management of East-West relations. Europeans have their own interest in economic relations with the Soviet Union and East European countries, illustrated by the level and intensity of their political contacts with them. They should reflect on the special status this gives them, and on the scope it offers for a more coordinated approach on wider questions, eg the encouragement of a more differentiated economic and social development in Eastern Europe. Steps of this kind will strengthen the European political entity and enable it to act more effectively in relation to the major international issues which legitimately concern it.

18. The Community must also use its weight to influence the other major industrialised economies to shoulder their share of responsibility for the world economy: the United States by paying more attention to the international consequences of its domestic economic policies, and Japan by integrating its financial markets into the world economy and raising the level of its manufactured imports to one comparable with other industrial democracies. The Community must act jointly with these major trading partners to promote the further liberalization of international trade and to extend the open trading system, including a well-prepared new GATT trade round. This would bring the many varieties of developing countries more effectively into the world trading

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system, and persuade the more advanced among them to take more responsibility for its good management. Our performance so far in encouraging development in the Lomé countries, in South-East Asia, in Latin America, and in many other countries through our food aid and non-associates programmes is commendable. But there is room for better coordination between Member States, the Community and other donors to secure maximum political as well as developmental effectiveness from our aid.

19. In Political Cooperation, the Ten need to act with more vigour and greater purpose. Cooperation should not just be a matter of making declarations in the face of increasingly complex challenges. The Ten have the weight and must show more political will to act together: concentrate their efforts where their leverage is greatest and their interests most directly touched e.g. in the Middle East and Africa; and recognise that influence does not last if not backed by the necessary resources. Member States must take more seriously their solemn commitments to consult and take account of partners' views and work for common positions. The objective should be the progressive attainment of a common external policy.

Defence and Security

20. Our objective must be to strengthen the European pillar of the Alliance and improve European defence cooperation.

21. Europe already carries a heavy defence burden within the Alliance - although some of its members take a greater share of that burden than others. It contributes to security both on this Continent and in the wider world by a variety of political and economic as well as military instruments. This contribution is far greater than is understood in the United States. If such views are not corrected, the temptation will grow for America, under pressure from the Congress, to look more toward interests outside Europe. Yet the US strategic commitment to Europe will remain an irreplaceable guarantee of Western security. If we wish to preserve it and ensure that our views continue to be given due weight by future US Administrations, the European Allies must find answers to some difficult questions: Are we able to take on a larger share of the responsibility for their defence? How should we respond to renewed public questioning of defence policy? Or the need to develop new technologies at a time of rising costs and resource constraints? The answers make it evident that such problems have to be tackled jointly.

22. Most work to coordinate European positions on this so far has been done in the NATO framework, particularly in the Eurogroup and the IEPG (which has the merit of including France), and there is still more that could be done to exploit the potential of these groupings. We must continue to work for the implementation of the Genscher/Colombo Solemn Declaration of

/19 June 1983

19 June 1983 which provides a helpful reaffirmation of the Community's political and economic objectives. But if we want early progress - and an early chance to demonstrate our seriousness - we must be willing to look at new openings including those offered by the WEU.

23. Procedure and new organisations are no substitute for content and action to solve existing problems. We have to be prepared to make efforts before we can pool them. Progress demands in particular that we focus on the resource allocation and defence industrial aspects of the problem. We should be able to achieve better value for money by common procurement and collaborative manufacturing projects, recognising (as past experience has always shown) that this process will give rise to very real political problems and difficulties for which there are no facile solutions. Individual projects are probably best organised on a case-by-case between those member countries with the capacity and wish to undertake them, making use of the framework of the IEPG. But the general prospects for them could be greatly improved by progress towards a more integrated European industrial and technological base, and by strengthening the Community's internal market. These are areas of proper Community concern which need our urgent attention.

/Organisation

Organisation and Institutions

24. There are several areas in which specific improvements can be made. With regard to the Community:

(a) The Commission's role is central to the functioning of the Community. It is crucial that it should attract, and that Member States should appoint, individuals of the highest calibre with a clear recognition of the tasks to be done. After enlargement the Commission still needs to be able to provide real jobs for people of the best quality. A Commission of 17 is liable to be too large for efficiency or to provide all members with serious portfolios.

(b) The Presidency also plays a key role in the management of the Community's business. Its effectiveness would be enhanced by greater cooperation between the Presidency in office and the preceding and succeeding Presidencies.

(c) An early European Council should consider adopting a new procedure under which each year the European Council would adopt a brief and succinct statement of priorities, with specific timings and targets, which would form the basis of the Community's activities for the following 12 months.

/(d)

(d) When the Commission reviews its legislative proposals each year, there should be a thorough weeding out of hopelessly blocked items and unnecessary cases of obstruction brought to the notice of the Council.

(e) The voting provisions of the Treaty must be fully honoured. Unanimity must be respected in all cases where the Treaty so provides. The same applies for majority voting. At the same time, Member States must be able to continue to insist where a very important national interest is at stake on discussion continuing until agreement is reached. But they should be required in each case to set out their reasons fully.

(f) The European Council should eschew the role of Court of Appeal from the Council. Its true and irreplaceable task is to provide strategic direction and political impetus for all areas of Community work and Member States' cooperation. For this, it might be enough for it to meet no more than twice a year, perhaps for two full days. Alternatively, one of the three annual meetings might be conducted on a more informal "Gymnich-type" framework without advisers. The responsibility for preparing European Councils should rest, as it does now, with Foreign Ministers.

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(g) In a grouping of democratic European states the directly elected European Parliament must reflect with increasing responsibility the preoccupations and priorities of our peoples. Through the various procedures set out in the Solemn Declaration of June 1983, the Council and Member State need to work out ways of keeping the Parliament better informed, responding to its suggestions and bringing it to work in greater harmony with the main decision making institutions of the Community.

(h) Once the post-Stuttgart negotiation has been completed it should be possible for Member Governments to take common action to present the Community to their peoples in a more favourable light. It is important that people should receive an objective picture of the present state of European integration. It would be desirable for Foreign Ministers, at an early informal meeting, to discuss this question and, if possible, to agree on some common themes for Governments to put forward in their presentation of the Community and of the issues under discussion in it.

/Conclusions

Conclusions

26. The European Community and the Alliance jointly have brought an unprecedented period of peace and prosperity to the peoples of Europe. We cannot rest on the achievements of the post-war generation. Over the next decade Europe will face new economic and social challenges, and a continuing threat to her security.

27. Periodic expressions of pessimism about the future of the Community have never turned out to be justified. Europe needs to advance its internal development. The progress that has been made towards "an ever-closer union of the peoples of Europe" of which the Treaty of Rome speaks in its first paragraph is unlikely to be reversed.

28. The objectives now must be to:

- strengthen democracy and reinforce political stability in Europe. This means bringing to a successful conclusion the accession negotiations with Portugal and Spain;
- develop a dynamic society in which industry thrives and activities which create wealth are encouraged. To do so, we must complete the internal market, particularly in the services sector;
- strengthen the European pillar of the Alliance and the contribution Europe makes to its own security;
- promote policies which will improve the quality as well

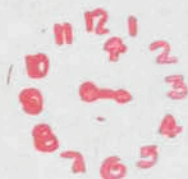
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as the standard of life in the Community with due regard for the needs of economic and industrial efficiency;
environmental considerations must count for more than they do today;

- agree urgently on certain organisational changes;
- adopt policies which will guarantee the relevance of the Community to the problems, particularly unemployment, which affect our societies;
- take the necessary steps to strengthen the voice of the Community and make its influence felt in the world;
- heighten the consciousness among our citizens of what unites us.

Evko for Budget Pt 25

05 JUN 1984





Treasury Chambers, Parliament Street, SW1P 3AG
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6 June 1984

Ans
6/6

Roger Bone Esq
Foreign and Commonwealth Office
Downing Street

Dear Roger

PAPER ON THE FUTURE OF THE EUROPEAN COMMUNITY

The Chancellor has seen the paper for the Prime Minister to hand to Chancellor Kohl with your letter of 1 June to John Coles, together with the Prime Minister's comments in John Coles' reply to you of 4 June.

The Chancellor has asked me to say that he is content that the paper, with the Prime Minister's amendments, should be passed to Chancellor Kohl as proposed, subject to the two following further points.

First, he suggests that in passing the paper to Chancellor Kohl, the Prime Minister will wish to make it clear that a satisfactory settlement of the Budget imbalances problem is an essential pre-condition of progress in the other fields discussed in the paper. Second, on a point of detail, in the fourth indent in paragraph 28 the words "with due regard for the needs of economic and industrial efficiency" should come after the semi-colon so that they directly govern the statement about environmental considerations.

I am copying this letter to John Coles at No.10 and to Callum McCarthy (DTI), Ivor Llewellyn (MAFF) and Richard Hatfield (Cabinet Office)

Yours ever
David

D L C PERETZ
Principal Private Secretary

Euro budget Pt 25

06 JUN 1984



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Secretary of State for Trade and Industry

6 June 1984

R B Bone Esq
Private Secretary to the
Foreign Secretary
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SW1A 2AH

MR Z.

Dear Roger,

FUTURE OF THE EUROPEAN COMMUNITY

My Secretary of State has seen the draft paper on this, enclosed with your letter of 4 June to John Coles. He understands that the Prime Minister has already expressed her general approval.

2 Recognizing that it is designed to strike a positive note but without entering into specific commitments, he notes that paragraph 12 as drafted does in fact offer a very substantial commitment to an extensive and possible controversial programme of work. He is doubtful whether, without a more selective approach, it will be acceptable or altogether convincing in other Community capitals. Mr Tebbit suggests it might be looked at again or omitted.

3 Second, he agrees that it is desirable to combine a flexible approach to a flexible Europe together with procedures keeping co-operation on the widest possible basis. Otherwise we could easily drift not only into a two-speed Community but one of fragmentation and privilege. But obviously ventures on a limited basis among enterprises, which may contribute to European integration, should not be saddled with any new procedural burdens. To make this clear, my Secretary of State suggests two textual amendments to para. 13.

- (i) Eight lines from the bottom - "Where ventures are launched by Member States ..."

/(ii) ...



(ii) Last sentence "The progress of all such work ..."

4 I am sending copies of this letter to the recipients of yours.

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

05 JUN 1984

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