



CONFIDENTIAL

QZ 03582

MR COLES

CALL BY MONSIEUR DAVIGNON ON THE PRIME MINISTER

I attach speaking notes for Monsieur Davignon's call on the Prime Minister on 23 February at 10.30am. Monsieur Davignon is spending the whole morning in London, and will be seeing the Energy Secretary and the Foreign and Commonwealth Secretary before his call on the Prime Minister. Afterwards he will go on for an hour's talk with the Trade and Industry Secretary.

2. In his talks with the Prime Minister Monsieur Davignon is likely to dwell mainly on the longer term prospective of the Community, and in particular on ways in which it can make better use of its industrial strength and skills and take further advantage of its huge common market; on the possibilities for development which may be opened up after the post-Stuttgart negotiation; and on the need for a greater Community effort in the fields of research and technology. Some background on the Community's discussion of new policies in the post-Stuttgart negotiation is given in paragraph 3 below. He will stress the urgency of a decision on the proposed Community programme for research in the information technologies (ESPRIT). The Prime Minister may wish to express her appreciation of the personal role Davignon played in finding a solution to the problem of Sheerness Steel's breaches of the Article 58 quotas, thus avoiding the failure of the company's rationalisation plans through liability for quota fines. Monsieur Davignon also played a role in helping agreement on the recent Regional Fund non-quota measures, of which the UK will be a major beneficiary. Finally, the Prime Minister might like to emphasise to Monsieur Davignon the importance we attach to Commission help in getting our 1983 refunds by 31 March.

New Policies and re-launch of the Community

3. The Stuttgart European Council expressed its determination to take "broad action to ensure the re-launch of the Community" and to "develop and make more effective Community action in research, innovation and the new technologies, with a view to facilitating cooperation between enterprises".

CONFIDENTIAL





CONFIDENTIAL

Following the Stuttgart Council, a number of member states including the UK tabled papers setting out their ideas on the future development of the Community. Our own paper, while stressing the need for cost-effectiveness and for action to be taken within the framework of the finances available, sought to demonstrate that much can be done of benefit to the Community in ways which cost little, eg the removal of barriers to internal Community trade in goods and services. Other UK priorities included a firm deadline for the introduction of unleaded petrol and a solid fuels policy to promote the economic production and use of coal. The French paper advocated a number of measures designed to enhance the Community's research effort and to create a better environment for cooperation between enterprises. The Commission for its part has produced various ideas for collaborative progress in the telecommunications and biotechnology sectors.

Other subjects

4. Defensive notes are also provided on various other subjects which Monsieur Davignon might raise with the Prime Minister:

(i) Alphasteel: Monsieur Davignon believes that this Greek-owned South Wales steel company poses a threat to UK market stability, and that the problems will be heightened, if, as he fears, Alpha win their current case in the European Court for additional quota under the Article 58 regime. He sees this issue as being linked to the question of UK/BSC strip-mill capacity, and has given notice of his intention to raise it during his visit (probably, however, with the Trade and Industry Secretary).

(ii) Next President of the Commission: a decision on the next President, to succeed Monsieur Thorn in January 1985, should if tradition is followed be taken at the latest at the June European Council. Monsieur Davignon wants the job. The Germans are also likely to put up a candidate, as will possibly the Italians.

(iii) Energy: the Commission and other member states are pressing for agreement on a package of energy measures: a multiannual regulation on energy demonstration projects; coal social measures (which would benefit the UK); and the continuation of coking coal measures benefitting Germany (and which should cost the UK nothing). When Monsieur Davignon sees Mr Walker, the latter is likely to tell him that we cannot agree to these measures yet, and to emphasise the importance we continue to attach to a Community coal investment (solid fuels) policy, which we shall be pursuing as part of the post-Stuttgart package.

D F WILLIAMSON

10 February 1984

CONFIDENTIAL





CONFIDENTIAL

Copies to:

R Bone, FCO  
J Kerr, Treasury  
C McCarthy, DTI  
M Reidy, D/Energy  
Sir R Armstrong, Cabinet Office

CONFIDENTIAL





CONFIDENTIAL

PRIME MINISTER'S MEETING WITH MONSIEUR DAVIGNON, 10.30am ON

13 FEBRUARY: SPEAKING NOTE

The Post-Stuttgart Negotiation

1. The UK very much welcomed the decision of the Stuttgart European Council to set an ambitious programme for settling the current problems of the Community and establishing a better basis for the next stage of its development. At the last General Election the British public reaffirmed their support for the Community: we are as fully committed as anybody else to the development of the Community's democratic ideals and economic strength. We will play our part in the development of the Community, and have already circulated a paper (in September 1983) with ideas for new policies.

2. But if new policies are to be successfully developed, our first objective must be to establish the conditions in which they can thrive, including a sound and durable financial regime for the Community. We took an important step at Stuttgart in stating that we were prepared to consider an increase in own resources, provided that the present budget inequity is corrected and that there is effective control of agricultural and other spending. Any solution to the present budget inequity must be lasting. We could not accept another compromise short-term or patched-up solution.

3. The major financial issues (budget inequity, control of agricultural and other spending, and own resources) will be the central element of the discussion by Foreign Ministers at their informal meeting next weekend. We





CONFIDENTIAL

want the Commission's support in seeking an understanding that certain points on the budget inequity might now be accepted as common ground - the revision of the budget system must be lasting and included in the revised Own Resources Decision - it should be implemented on the revenue side of the budget - there must be a limit on the net amount each member state transfers to the Community, taking account of ability to pay - the revised system should come into effect in time (ie in 1985) to apply to 1984.

#### New Policies

4. We believe that a major objective of the Community should be to create an environment in which our industry can flourish and become truly competitive. Europe must match up to the technological challenge posed by the USA and Japan. We are therefore particularly interested in the Commission ideas to develop Community industry in high technology areas. We were also interested in the French ideas on greater industrial cooperation and will continue to examine those suggestions with interest. But it is important that the Community should remain open to the outside world. Increased Community collaboration should not mean barriers to useful collaboration with other technologically advanced powers; nor should it involve protectionist trade policies.

5. We believe that it is equally important for the health of Community industry to complete the common market for goods and services. We are keen to see a genuinely liberal regime for non-life insurance, a liberalisation of road and air transport, a reduction of frontier formalities, and the introduction of Community-wide standards.





CONFIDENTIAL

ESPRIT

6. Given the importance we attach to technological development, we see ESPRIT as very much the sort of new policy which the Community ought to be pursuing, and I have said as much in the House of Commons. But the programme does involve major financial outlay (700 mecu over five years). We believe therefore that at the time when we take a decision on the whole programme we must be quite sure of the financial implications and that it can be financed within available resources, especially given the absence of agreement yet on the post-Stuttgart package on future financing generally.

7. I am of course aware that for financing the first year (1984) of ESPRIT, the sums involved are already provided in the Community budget for 1984, and I was glad to see recently that the Commission have now said that ESPRIT as a whole is a priority for which they will find funds within the own resources ceiling. But the Commission should clarify what this will mean for other research projects, which priorities we should set and which lower priority programmes may need to be cut. We were in this context interested in the German proposal for a specific financial ceiling for research and development (the Germans suggested about 600 mecu per annum) within which ESPRIT, the joint research centre and research on fusion (on the last two of which funds have already been committed) would be priorities.

8. I do believe that concentrating on priorities within such a ceiling is the right course. The commitments which we have already undertaken on the joint research centre and fusion which will need to be financed within the





CONFIDENTIAL

ceiling - unless the Community decides to cut some lower priority joint research centre projects to accommodate other programmes; and ESPRIT is clearly an area of potential industrial importance. The Commission must therefore now be ready to make absolutely clear how the priority programmes in the German proposal could be financed and what the implications will be for other programmes. That is a necessary basis for any decision at the 28 February Research Council.

#### 1983 Refunds

9. We are grateful for what the Commission have done so far in helping to process the 1983 refunds regulations quickly. We shall be looking to the Commission to do what they can to resist any changes to the regulations which might frustrate their purpose and prevent us from receiving the bulk of our refunds by 31 March. We also hope that in their dealings with the Parliament and in any conciliation procedure the Commission will support the United Kingdom position so that the regulations can be speedily adopted by the February Foreign Affairs Council. Then the important thing will be for the Commission to make a proposal to transfer the funds to the main budget immediately thereafter. [We have heard informally that the Commission is prepared to make a proposal to transfer provision for the United Kingdom 1983 budget refunds from the reserve chapter of the 1984 budget to specific budget lines: this is welcome and the sooner, the better].

#### Steel

10. We were grateful for your personal assistance in smoothing the path for the Sheerness rationalisation scheme. We are pleased that steel quota





CONFIDENTIAL

arrangements have been extended for two years: this should provide stability to allow further restructuring.

(If raised) I take note of your concerns regarding Alphasteel, which I understand you are pursuing with Mr Tebbit.

Regional Policy

11. We appreciate your part in achieving agreement in January on the package of new regulations for the non-quota section of the Regional Fund. These will provide welcome aid to the establishment of new industries and economic activity in areas of industrial decline in the UK (shipbuilding, steel, textiles).

The Next President of the Commission (Defensive - Monsieur Davignon wants to to be the next President)

12. The next President will take office at a critical time for Community's future. He will have to set Commission on course for next phase of Community's development, after current problems have been resolved. We have no firm views, as yet, about possible candidates. The United Kingdom has held Presidency relatively recently and will not be putting forward a candidate.

Energy (Defensive - Monsieur Davignon will already have seen Mr Walker)

13. We continue to attach great importance to a Community solid fuels policy and I should like to hear how you intend to carry it forward. As for the other items under discussion (eg energy demonstration projects), we





CONFIDENTIAL

believe that more work needs to be done before final decisions are taken. There is for instance still no agreement from member states on the level of financing for energy demonstration projects.