



Foreign and Commonwealth Office

London SW1A 2AH

23 November 1984

Dear Charles,

Prime Minister
You may like to
look at this over the
week-end.

Farewell call on the Prime Minister by Viscount Davignon:
27 November

Viscount Davignon will as you know be paying a
farewell call on the Prime Minister at 0930 on Tuesday
27 November. I enclose a brief.

I am copying this letter and enclosures to the
Private Secretary to Sir Robert Armstrong.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

You may prefer
to devote much
of the time to a
more general and
philosophical talk
about the
Community. But
it would be
helpful if you
could mention
at least Spanish
Bar tanks and
Steel.

C D Powell Esq
10 Downing Street

CDP
23/xi



VISCOUNT DAVIGNON'S CALL ON THE PRIME MINISTER: TUESDAY 27
NOVEMBER

INTRODUCTION

1. This is a farewell call by Viscount Davignon, who leaves the Commission in December after eight years. A list of decisions with which he has been associated is included in the background.
2. There are three issues of importance to the UK over which M Davignon could still exercise useful influence before he departs - Spanish car tariffs, steel and Community R&D. It would be helpful if the Prime Minister could raise them briefly. M Davignon may also wish to discuss telecommunications and vehicle emissions.

POINTS TO MAKE

General

3. Much admired energetic and imaginative role played in Commission. You resolved problems in vital sectors (industry, energy, research) at a time when some other areas of Community work have drifted. Grateful for understanding shown of UK problems and for help in solving them.

Spanish Car Tariffs

4. Grateful for your personal interest in general problem of high Spanish tariffs.

5. Satisfactory solution on cars very important for UK. Inevitably affects our room for manoeuvre on other dossiers. Very much hope it can be tied up before Dublin European Council.

6. As you know, must have twice present level of access for

/UK



UK in first year of reduced duty quota, with progressive increases thereafter, at duty perceptibly lower than 19%.

Steel

7. Understand that, without special ad hoc arrangements, BSC would have faced substantial fines under the ECSC quota system this year simply for maintaining their traditional market share. Every sign that problem will continue next year; further ad hoc arrangements will be increasingly difficult to negotiate. Believe you indicated to Norman Tebbit earlier this year that you were prepared to institute a permanent system to deal with this type of problem. Urge you to set one up before your departure.

R&D

8. ESPRIT is a particularly good example of an EC Research programme, in that the project maximises involvement of industry. We hope other research programmes can develop along similar lines. Understand package has been put together for discussion at 19 December Research Council? Hope this will form the basis for progress. UK keen to reach agreement. We support gradual increase in R&D spending, but this will have to be in line with provisions on budget discipline.

Telecommunications [If necessary]

9. Important area for Community work. Pleased to see agreement reached on the two recommendations on harmonisation of standards and more open public procurement. Understand there is a large number of new proposals tabled. These will have to be carefully considered and evaluated. Very important to recognise that British Telecom's position after privatisation very different from counterparts in other Member States which are government controlled.

/Vehicle Emissions



Vehicle Emissions [If necessary]

10. Recognise German concerns. Important to achieve a Community-wide solution to protect unity of internal market. Equally important to use the most appropriate technology. We support lean burn which has many significant and long term advantage over catalytic converters. UK and other Member States have show flexibility to meet German concerns. We fully support your efforts to persuade Germans to agree to a compromise which does not split the market nor lumber us with outmoded and inefficient technology.

/BACKGROUND



BACKGROUND

General

1. Viscount Davignon joined the European Commission in 1977 from the Belgian Foreign Service, where for years he had played an active part in EC affairs, notably as political director. During his first term as Commissioner he held the industrial affairs portfolio. In his second term he added research, science and energy. His future is uncertain: Prime Minister Martens recently ruled out the possibility that he might be offered a Ministerial post in the Belgian government, at least until after the next Belgian election, scheduled for mid-1985. A personality note on Davignon is attached.

Viscount Davignon's Major Achievements

2. (i) Architect of EC steel policy (the "Davignon Plan") which has steered European steel industry through period of crisis;
- (ii) Safeguarded EC access to US steel market by negotiating EC/US Carbon Steel Arrangement in 1982;
- (iii) Secured agreement to the ESPRIT programme along lines which ensured maximum involvement of industry;
- (iv) Initiated Community-wide work on telecommunications. Recommendation on harmonisation of standards and public procurement agreed. More work in hand.
- (v) Successfully negotiated voluntary Japanese export restraint arrangements in sensitive sectors (VTRs. colour televisions, etc.)
- (vi) In general, managed a very large portfolio with great dynamism, and sought the views and active involvement of European industry before reaching new proposals.

Spanish Car Tariffs

3. M Davignon was helpful in securing in July Community and Spanish agreement to address problem of high Spanish tariffs.



4. Community agreed at 22-23 October Foreign Affairs Council that high Spanish tariffs on cars should be dealt with by a reduced duty tariff quota with:

- a) a reduced duty compared with existing arrangements;
- b) gradual increases in value compared with existing arrangements;
- c) access for all categories of passenger vehicle produced in Community;
- d) non discriminatory operation, supervised by Commission.

It was not at the time possible to agree detailed figures; these have been subject of subsequent bilateral discussions with Commission.

5. Existing one year quota gives us 2,500 cars out of an EC quota of 15,000: Davignon knows we want twice that in year one of new quota, with progressive increases at a duty perceptibly lower than 19% (the lower of the two rates applied to different categories of car in the present quota); leading to quota-free access after 3 or 4 years when the high tariff reductions catch up with and become part of general tariff dismantlement (over 6 or 7 years). Davignon will report on his contacts with the Spaniards to the Foreign Affairs Council on 26 November. Further briefing will be supplied if necessary by telegram.

Steel

6. In each quarter of 1984 BSC have had to exceed their basic quotas simply to maintain their traditional share of the UK/EC market. Problem caused by fact that, with UK demand relatively buoyant, BSC quota based on EC average demand is inadequate; and exacerbated by fact that BSC's share of overall EC quota has been eroded since regime first established. Following intervention by Mr Tebbit, M Davignon promoted ad hoc solutions throughout 1984 which permitted BSC to purchase quota from other producers. Every sign that this

/problem



problem will continue in 1985, and that further ad hoc arrangements will be increasingly difficult to negotiate. On 19 November Mr Tebbit wrote to M Davignon reminding him of an assurance given earlier in the year that he would seek a permanent solution if the problem persisted. Mr Lamont then raised the point with M Davignon in the margins of the 22 November Steel coppouncil but M Davignon did not accept there was any urgency and indicated the matter would be left for his successor to deal with.

R&D

7. Expectations on the growth rate of EC R&D spending have been scaled down. The last Research Council (6 November) agreed that any increase should be gradual and recognised that new programme proposals would have to be trimmed, implemented in phases or deferred for a while. The next Research Council (19 December) will have to agree on what programmes can go ahead now and at what level of funding. M Davignon is eager to reach agreement then in order to tidy up loose ends before he departs. The package for discussion at the Research council includes UK priorities: Stimulation, fusion and radioactive waste. We are satisfied that the balance of priorities of the package overall is right, but totals are still too high and commitments are too open ended.

8. Research spending in 1985, including ESPRIT, will be about 600 mecu. Once new resources are available, there will be great pressure from other Member States for a large increase. We are committed to some increase and our domestic arrangements permit us to agree a significant increase in 1986 to up to 700 mecu but with much smaller increases thereafter.

Telecommunications

9. The Commission is seeking to build on its work on telecommunications and has made a number of ambitious and

/costly



costly proposals covering research into Europe's future telecommunications requirements and development of new systems, such as a broad band fibre optic network for Europe, and an inter-Governmental video conferencing system. We and other Member States are urging careful evaluation of these proposals and Davignon is frustrated at the slow progress. He may seek a verbal commitment for favourable consideration of the new proposals. We are not in a position to give that commitment.

Vehicle Emissions

10. M Davignon is a solid supporter of lean burn technology and is opposed to the outmoded and inefficient system of catalytic converters. He is not happy at the way negotiations are going. We should encourage him to continue to work for an agreed solution, on the basis of lean-burn technology, which will preserve the unity of the internal market. There have been recent signs that some other major car manufacturing Member States (France for cars over 2 litres and Italy more generally) may be prepared to accept catalytic converters. It would be useful to have M Davignon's assessment. Given the prime political importance of this issue in Germany, and the stake which France and Italy have in the German car markets, it may be difficult to dissuade the Germans from their present course. But we could not accept a solution in which catalytic converters were imposed on the rest of the Community.

M Davignon's Programme in London

12. M Davignon had originally planned to call on Mr Channon as well as the Prime Minister, and to visit Mr Tebbit in hospital. He is now obliged to return to Brussels straight after his meeting with the Prime Minister but he hopes to call on Mr Tebbit before the end of the year.

FOREIGN AND COMMONWEALTH OFFICE

23 November 1984

CONFIDENTIAL

DAVIGNON, VICOMTE (ETIENNE) CMG (BELGIAN)

Vice-President of the European Commission since 1981 responsible for Industrial Affairs since 1977 and Energy, Euratom Supply Agency and Research and Science since 1981.

Born Budapest, 1932. Doctorate in Law. Entered Belgian Foreign Service March 1959 but has never served abroad. Assistant and later Chef de Cabinet to successive Foreign Ministers. Appointed Political Directeur General 1979. Appointed Chairman of Governing Board of IEA, November 1974. Responsible for Internal Market in the Commission 1977-80.

At the Belgian Foreign Ministry Davignon was the key official on many matters, particularly European ones. Has been the trusted aide of two such different masters as Spaak and Harmel. Inevitably, his success has aroused some jealousy. Some consider him too clever ("le Complicateur de l'Europe") but is undoubtedly one of the ablest of the Commissioners. Gifted, sure in his grasp of problems, lucid in exposition, self-confident, hard working and ambitious, Davignon has made the expected mark in the Commission. When he sees problems to be solved eg steel or textiles, he does not let organisational boundaries stand in his way. He has effectively taken charge of some external trade issues but has been less successful in making inroads into the competition policy portfolio. He is the driving force behind the Community's present steel, energy and research policies. He consumes quantities of detail and wears down opposition by argument and persuasion.

He attempted to get adopted for a Parliamentary seat in 1972 but failed. He maintains his political connections and was mentioned as a possible Minister, semi-political, in the Belgian crises of early 1979 and late 1981. As Belgian politics become more unattractive, he seems to be having second thoughts about a Belgian political career. He is not rich.

Speaks excellent English and good Dutch. Married with three children.

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CSAC



Foreign and Commonwealth Office

London SW1A 2AH

9 November, 1984

SA
note for
diary.
CB

Dear Charles,

Farewell Call by Viscount Davignon

BF
Viscount Davignon has accepted with pleasure your suggestion of a meeting with the Prime Minister at 0945 hours on Tuesday, 27 November, subject only to the remote possibility that he might be required to stay in Brussels for the Foreign Affairs Council on 26-27 November.

The Secretary of State will be in Brussels on 26-27 November, as may Mr Rifkind. But if Mr Rifkind is in London, he could attend the meeting, if the Prime Minister so wished.

Viscount Davignon has asked to call also on Mr Channon. We are in touch with Mr Channon's office about this.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

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