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Charles Powell Esq  
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*NBM*

*Dear Charles,*

**DEVELOPMENT OF THE EUROPEAN COMMUNITY**

*(not COP but from FCO!)*

Thank you for your letter of 18 April, enclosing the Foreign Secretary's paper on this subject, which we have shown to the Chancellor.

In general, the Chancellor agrees with the strategy and tactics the Foreign Secretary proposes for the consultations with other governments before the Milan European Council. There are, however, a few points of substance on which he has asked me to send you his comments.

As regards the "internal market" (paragraph 12) the Chancellor entirely agrees that we must do whatever we can to steer the Commission away from unacceptable proposals such as tax "approximation" to which they are giving far too much prominence. The Prime Minister will be discussing this at her meeting on 1 May with Lord Cockfield. If, however, as seems possible, the Commission stick to their proposal that all tax (and other) frontiers should be removed by 1992, we will have to make it clear, if necessary at the June European Council, that this is not acceptable. In the meantime it is desirable that we should seek other Member States' support on this matter and we will now start to do so through the Finance Ministry network. This is clearly a subject on which the Treasury will need to remain in the lead both in the run-up to and, if necessary after, the Milan European Council and any developments relevant to it should be reported to us as soon as possible. We should also seek to ensure that any proposals the Commission make are remitted to the ECOFIN Council.

The Chancellor has a number of comments on the decision-taking section of the paper. He is in general content with the line to take set out in paragraph 15(a), (b) and (c). As regards paragraph 15(b), he has asked me to point out that, though ECOFIN Councils are theoretically prepared by COREPER, in practice the Council generally relies for its advice on all major economic and monetary issues on the Co-ordinating Group, the Monetary Committee, the EPC, the Committee of Central Bank Governors etc. There can be no question of COREPER usurping the functions of these Committees and the Chancellor considers it unlikely that many occasions will arise when ECOFIN business can be decided at COREPER level. As regards paragraph 15(c), the Chancellor doubts whether there will in fact be many "non-sensitive" issues on which Member States will be willing to depart from the present practice of seeking a consensus, but, subject to the restatement of the Luxembourg Compromise in the terms proposed, he can go along with the line proposed.





The Chancellor also broadly agrees with the proposal described in paragraph 14 under which Heads of Government might from time to time stipulate that Member States should not make use of the unanimity rule to frustrate the achievement of an agreed objective. He suggests, however, that it would be better to say that Member States should endeavour not to make use of the unanimity rule, since the European Council quite frequently sets objectives only in fairly general terms, while the difficulties on which we or other Member States might want to invoke the unanimity rule will arise in the subsequent discussion of detail at Council level.

The Chancellor assumes that in practice both we and other Member States would be able to find suitable pretexts to invoke the unanimity rule, notwithstanding any European Council request to the contrary, if we needed to do so. He suggests that we would in any case need to exercise some caution in selecting issues on which the European Council might invite Member States to waive the unanimity rule; it is not obvious, for example, that we would get a better outcome on the non-life insurance directive by accepting a decision by qualified majority than by waiting for the European Court to give judgement in the cases currently before it.

Finally the Chancellor agrees entirely with what is said on the European Parliament and has asked me to emphasise the importance of avoiding any concession to the Parliament on their budgetary powers.

Copies of this letter go to Private Secretaries to Members of OD(E) and Richard Hatfield.

*Yours ever*  
*Recebel*

MRS R LOMAX  
Principal Private Secretary