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FM UKREP BRUSSELS

TO DEKBY 281330Z FCO

TELNO 3550

OF 281225Z OCTOBER 85

INFO PRIORITY EUROPEAN COMMUNITY POSTS, LISBON, MADRID

FRAME GENERAL

CALL ON PRESIDENT OF THE COMMISSION: 28 OCTOBER 1985

SUMMARY

1. DELORS WANTS THE IGC TO CONCENTRATE ON GETTING CLEAR GUIDELINES FROM THE EUROPEAN COUNCIL AS THE BASIS FOR FINAL DECISIONS IN MARCH

11. 1986 ON:

- INTERNAL MARKET: THIS REMAINS HIS MAIN PRIORITY. HE IS SHOWING INCREASING FLEXIBILITY ABOUT THE HANDLING OF TAXATION AND THE FREE MOVEMENT OF PEOPLE.

- ECONOMIC CONVERGENCE: HE REMAINS AMBIGUOUS ABOUT THE NEED FOR EXTRA RESOURCE TRANSFERS, BUT IS PUTTING MORE EMPHASIS ON NATIONAL EFFORTS AND THE COORDINATION OF EXISTING FUNDS.

- EUROPEAN PARLIAMENT: HE STILL FAVOURS A GENUINE INCREASE IN ITS POWERS, BUT CONFINED TO A LIMITED NUMBER OF AREAS, NOTABLY THE INTERNAL MARKET.

- MONETARY COOPERATION: COMMISSION PROPOSALS, TO BE OUTLINED TO ECOFIN TODAY, INVOLVE NO INSTITUTIONAL CHANGE BUT WOULD PROVIDE A JURIDICAL FRAMEWORK TO DEVELOP THE EUROPEAN MONETARY COOPERATION FUND IN THE FUTURE.

HE IS VERY CONSCIOUS OF THE NEED TO AVOID ISOLATING A MINORITY AT THE EUROPEAN COUNCIL: OF THE CONSTRAINTS WHICH UNDERLIE HMG'S CONTINUING SCEPTICISM, AND OF THE NEED FOR FRANCO-GERMAN-BRITISH COOPERATION.

2. HE CONFIRMED HIS COMMITMENT TO FOLLOWING-UP THE PRIME MINISTER'S PROPOSAL ON DEREGULATION.

DETAIL

3. I PAID AN INTRODUCTORY CALL OF ABOUT 45 MINUTES ON DELORS THIS MORNING. HE WENT STRAIGHT INTO AN ACCOUNT OF HIS ATTITUDE TO THE IGC. HE HAD ALWAYS BEEN SCEPTICAL ABOUT THE NEED FOR IT AND HAD WELL UNDERSTOOD THE ALTERNATIVE BRITISH APPROACH. BUT NOW THAT THE IGC WAS IN BEING, IT WAS IMPERATIVE THAT IT SHOULD PRODUCE A CLEAR RESULT. HE DEPLORED THE TENDENCY TO THROW IN THE KITCHEN SINK, WHEN WHAT WAS NEEDED WAS TO FOCUS ON A HANDFUL OF PRIORITIES.

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4. BY FAR THE MOST IMPORTANT WAS THE INTERNAL MARKET, IN WHICH HE SET OUT HIS THINKING IN FAMILIAR TERMS. HE CLARIFIED THAT THE PROBLEMS CONNECTED WITH THE FREE MOVEMENT OF PERSONS WOULD NEED TO BE HANDLED SEPARATELY FROM THE REST OF THE WHITE PAPER PROGRAMME. HE NOTED THAT THE FRENCH AND GERMANS WOULD INSIST ON RETAINING SAFEGUARDS FOR PUBLIC HEALTH AND SECURITY. (I ASSURED HIM THAT WE WOULD TOO). HE COMMENTED THAT THE TAX HARMONISATION ASPECTS WERE BASICALLY A MATTER OF TIMING: IF FINANCE MINISTERS WERE READY TO DEAL WITH THESE ISSUES, THE PROGRAMME COULD BE COMPLETED BY 1992.

5. I REMINDED HIM THAT HMG'S ATTITUDE TO TREATY AMENDMENT WAS STILL BASICALLY RESERVED AND WOULD REMAIN SO UNTIL IT WAS CLEAR WHEN PROPOSALS WERE ON THE TABLE. THE PRIME MINISTER'S PROPOSAL FOR A SOLEMN UNDERTAKING AS AN ALTERNATIVE TO TREATY AMENDMENT MIGHT WELL HAVE WORKED IF OTHERS SHARED THE BRITISH PHILOSOPHY. BUT OTHER MEMBER STATES SEEMED TO FEEL THAT IN ORDER TO CHANGE THE PSYCHOLOGY OF DECISION-MAKING IT WAS NECESSARY TO CHANGE THE TREATY.

6. I SAID THAT WE WERE CONCERNED ABOUT THE WAY IN WHICH COHESION HAD BECOME ATTACHED TO THE INTERNAL MARKET DOSSIER. WE FELT THAT IT WAS A MISTAKE TO ENCOURAGE THE EXPECTATION AMONG THE SOUTHERNERS THAT THE ALREADY LARGE NET TRANSFERS TO GREECE AND ITALY WOULD BE INCREASED AND EXTENDED TO SPAIN AND PORTUGAL. WE FEARED THAT IT WOULD BE VERY DIFFICULT TO CREATE THE INTERNAL MARKET IF THE HABIT DEVELOPED OF BUYING-OFF THE SOUTHERN GROUP FOR EACH ADVANCE THAT WAS MADE. DELORS REPLIED THAT THE COMMISSION'S APPROACH WAS BASED ON ECONOMIC COOPERATION AND THE EFFORTS OF INDIVIDUAL MEMBER STATES TO HELP THEMSELVES MUCH MORE THAN ON RESOURCE TRANSFERS. THE THREE EXISTING FUNDS WERE INCOHERENT AND INEFFECTIVE. THEY ADDED INSIGNIFICANTLY TO NATIONAL EXPENDITURE (2 PERCENT IN THE CASE OF THE SOCIAL FUND) AND THEIR MAIN IMPACT WAS TO PUT A COMMUNITY LABEL ON PROJECTS WHICH WOULD PROBABLY HAPPEN ANYWAY. BETTER COORDINATION OF THE FUNDS WITH EACH OTHER AND WITH NATIONAL ECONOMIC PROGRAMMES WERE ESSENTIAL. BUT HE MAINTAINED THAT SOMETHING MORE WAS NECESSARY. HE REPEATED TWICE THAT THE COMMUNITY OF TWELVE WOULD BREEK UP WITHOUT STRONGER POLICIES FOR ECONOMIC CONVERGENCE.

7. I REMINDED HIM THAT THE EUROPEAN PARLIAMENT WAS FOR US A PARTICULARLY SENSITIVE PART OF THE IGC AGENDA. WE DISLIKED ANY TINKERING WITH THE INSTITUTIONS WHICH THREATENED TO SLOW DOWN DECISION-MAKING OR (AS WITH THE DUTCH PROPOSAL FOR AN INVESTITURE VOTE) CREATE FURTHER STRAINS. HE AGREED WARMLY. THE INVESTITURE OR NOMINATION OF THE COMMISSION BY THE EP WOULD BE A RECIPE FOR ENDLESS TENSION AND UNCERTAINTY. HE WAS VERY CONSCIOUS FROM HIS CONVERSATIONS WITH YOU OF THE SPECIAL ROLE THAT WESTMINSTER HAD IN BRITISH DEMOCRACY. OTHER MEMBER GOVERNMENTS BY COMPARISON SEEMED TO PLAY HIDE AND SEEK WITH THEIR PARLIAMENTS. HE RECOGNISED THE NEED NOT TO DISTURB THE SUBTLE BALANCE AT WESTMINSTER. HE DEPLORED THE WAY IN WHICH SOME GOVERNMENTS, NOTABLY THE GERMANS, HAD GONE OUT OF THEIR WAY TO TRY TO PLEASE THE EP BUT WITHOUT OFFERING ANYTHING OF SUBSTANCE: MEPS SAW THIS FOR THE DEMOGOGERY THAT IT WAS. INSTEAD OF

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WINDOW DRESSING WHICH HE COMMENTED WOULD CAUSE HMG DIFFICULTIES AT WESTMINSTER FOR NO PURPOSE - THE IGC SHOULD FOCUS ON A FEW AREAS WHERE THE EP COULD EXERCISE A CLEAR RESPONSIBILITY IN THE FACE OF PUBLIC OPINION. THE MOST OBVIOUS AREA WAS THE INTERNAL MARKET. IN AN IDEAL WORLD, HE WOULD ALSO LIKE TO CHANGE THE BUDGET RELATIONSHIP BETWEEN COUNCIL AND PARLIAMENT, WHICH HE DESCRIBED AS IRRESPONSIBLE AND DETESTABLE. BUT THAT WOULD REQUIRE SEVERAL YEARS OF WORK. I REMINDED HIM THAT HMG WERE FIRMLY OPPOSED TO GIVING THE EP ANY ROLE IN DECISIONS TO INCREASE OWN RESOURCES.

8. TOWARDS THE END OF OUR TALK, DELORS CAME BACK TO THE IGC. HE THOUGHT THAT FINAL DECISIONS IN DECEMBER WOULD NOT BE POSSIBLE WITHOUT A MUCH GREATER INPUT FROM FOREIGN MINISTERS THAN WAS ENVISAGED. THE BEST THAT COULD BE HOPED FOR IN LUXEMBOURG WAS THAT THE EUROPEAN COUNCIL WOULD BE GIVEN CLEAR ALTERNATIVES ON 5 OR 6 CENTRAL QUESTIONS SO THAT THEY COULD LAY DOWN GUIDELINES AS THE BASIS FOR FINAL TEXTS TO BE DECIDED ON IN MARCH. THESE QUESTIONS WERE:

- INTERNAL MARKET (INCLUDING THE QUESTION OF DEROGATIONS AND DIFFERENTIATION AS WELL AS THE HANDLING OF FISCAL AND SECURITY ASPECTS)
- COHESION
- THE EUROPEAN PARLIAMENT
- THE POWERS OF THE COMMISSION (A VERY BRIEF ITEM)
- TECHNOLOGY (HE STRESSED THAT THE COMMISSION'S APPROACH WAS NOT AN EXCLUSIVE ONE BUT MERELY SOUGHT TO ENABLE THE COMMUNITY TO PLAY A HELPFUL ROLE IN THE WIDER PICTURE)
- MONETARY COOPERATION (SEE BELOW)

HE STRESSED THAT THIS APPROACH WOULD NOT SUCCEED WITHOUT THE CLOSER COOPERATION OF THE COMMISSION WITH THE BRITISH, GERMANS AND FRENCH (WHO, HE ADDED, WERE BEGINNING TO STIR).

9. HE GAVE A SHORT PREVIEW OF HIS PRESENTATION TO ECOFIN LATER TODAY ON MONETARY COOPERATION. THE COMMISSION'S PROPOSALS INVOLVED NO INSTITUTIONAL CHANGE. THEY AIMED TO TAKE ACCOUNT OF SIX YEAR'S OF POSITIVE ACHIEVEMENT IN EMS AND SET A JURIDICAL FRAMEWORK FOR A FUTURE DECISION TO EXTEND THE ROLE OF THE EUROPEAN MONETARY COOPERATION FUND WHEN THAT WAS JUDGED APPROPRIATE BY MEMBER STATES. IT WOULD MARK OUT THE FUTURE COURSE WITHOUT ANY COMMITMENT AT THIS STAGE TO ECONOMIC AND MONETARY UNION. HE RECOGNISED THAT HMG'S POSITION WAS VERY RESERVED ON THIS.

10. I MENTIONED THAT, IN ADDITION TO THE IGC, YOU MIGHT WISH TO TOUCH ON DEREGULATION WHEN YOU SAW DELORS TOMORROW. HE COMMENTED THAT IT WAS A DIFFICULT TOPIC BUT THAT THE COMMISSION WERE WORKING ON IT WITH GOODWILL AND VERY MUCH IN LINE WITH THE PRIME MINISTER'S PROPOSALS IN MARCH. HE HAD INSISTED TO SANTER THAT THERE SHOULD BE SPACE FOR A PROPER DISCUSSION OF THIS AND THE BROADER PROBLEM OF COMPETITIVITY AT THE EUROPEAN COUNCIL, INSTEAD OF THE CLASSIC EXCHANGE ON ECONOMIC POLICY. HE FEARED THAT THE COMMISSION'S ANALYSIS OF WHY EUROPE WAS FALLING BEHIND JAPAN AND THE US WOULD NOT GET FULL MARKS. BUT HE WAS CONVINCED THAT THE COMMISSION SHOULD IN FUTURE ATTACH TO ALL PROPOSALS A CHAPTER ON THE BUREAUCRATIC AS WELL AS THE BUDGETARY IMPACT. THIS WOULD BEGIN THE LONG PROCESS OF ESTABLISHING BETTER WORKING HABITS.

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11. I ALSO MENTIONED THAT YOU MIGHT WISH TO EXPLORE HIS THINKING ABOUT HOW THE COMMISSION WOULD ADAPT TO TAKE ACCOUNT OF ENLARGEMENT. HIS REACTION WAS, AS USUAL, VERY RESERVED.

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FCO ADVANCE TO:-

FCO - PS, PS/MR RIFKIND, BRAITHWAITE, RENWICK, WALL

CAB - WILLIAMSON, JAY

DTI - WILLIAMS

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