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Foreign and Commonwealth Office

London SW1A 2AH

1 December 1983

John Thorn

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Call by the President of the European Commission on the
Prime Minister: 2 December

I enclose a brief for M. Thorn's call on the Prime Minister at 11.15 am on 2 December. He will be accompanied by:

M. Emile Noel - Secretary-General to the Commission
~~M. Jean Durlieux - Chef de Cabinet~~
~~M. Lacroix - M. Thorn's Cabinet~~
Mr Graham Meadows - M. Thorn's Cabinet

If the Prime Minister agrees, the Secretary of State would like to attend; he will however have to leave shortly before noon to host talks with the South African Foreign Minister

The Prime Minister will recall that she had wished to offer M. Thorn a meal during his visit to London but this was impossible to fit into the programme.

Yours

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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BRIEF

CALL BY THE PRESIDENT OF THE COMMISSION ON THE PRIME MINISTER :
2 DECEMBER 1983.

Objective

1. To ensure that Thorn and the Commission understand the UK's requirements for the European Council at Athens and are under no illusions that we shall be prepared to agree to an increase in own resources without the conditions set out by the Prime Minister at Stuttgart in June.

Points to Make

2. Welcome M. Thorn to London. Delighted that Commission has now agreed draft regulation for our 1983 refunds. Value the opportunity to see him immediately before the vital European Council in Athens. Appreciate the hard work which the Commission have put into the Special Council negotiations. We have not agreed with all their ideas - and indeed frankly dislike the proposed redefinition of Community expenditure which would have had the effect of reducing the apparent budgetary burden on the UK - but convinced that without the Commission's endeavours we should not have got so far as we have. Also convinced that the Commission's role will be of great importance if we are to achieve a result at Athens.

3. We are dedicated to achieving a solution in Athens. Convinced that this is in the interests of the United Kingdom and the Community as a whole. Surprised to see that some continental press has suggested that we are not interested in an agreement. Fear that unless real progress is made next week the Community could be in for a period of turbulence. Must avoid if at all possible. Can assure Thorn that we for our part will do all we can to ensure a satisfactory outcome.

4. Reasonably satisfied at the way the Special Council negotiations have gone on other policies and structural funds. As we said in our paper on 'Other Policies' for UK

the completion of the internal market is among our priorities. Europe's industry and consumers are penalised by continuing barriers to trade within the Community. Unjustified that 25 years after Treaty of Rome British insurers, for example, cannot take advantage of a Common Market in services. We attach great importance to the ideas which are around for the encouragement of industrial co-operation in the Community. Accent for the future must be wealth creation. Not least of the reasons for hoping for a solution on future financing and the control of Community expenditure at Athens is that this will clear the way for proper consideration of the future development of the Community and the challenges we face in the years to come. We must put the budget issue behind us.

5. But the two most immediate issues for Athens are the control of agricultural and other spending and the budget. Made it clear at Stuttgart that we should not be able to agree to an increase in own resources unless we are satisfied on these two points. This remains our firm position. M. Thorn may have noticed that there is a current of opinion in Parliament, including among Conservative back benchers against an increase in own resources. Government could not present a proposal to the House with any chance of success if we did not achieve satisfaction on these points.

Control of Community and Particularly Agricultural Expenditure

6. The debate on this issue has come a long way. But the agricultural dossier is in a mess. This only reinforces the case for a strict financial guideline to require the essential decisions to be taken. We are therefore glad that the Commission has firmed up its ideas on the guideline. Unfortunately they still do not go far enough. We must have the assurance that a guideline for the CAP would be built in a legally binding way into the Community's budgetary procedures. And there must be a few loopholes as possible in the arrangements for applying the guideline, or it will fail in its object.

7. Pleased that the French have now tabled a paper on a guideline for overall Community expenditure. Seems to us that this proposal strengthens the case for a CAP guideline and for courageous decisions on the various commodity régimes. If CAP spending is not controlled, then under the French ideas other spending would inevitably be squeezed out. This would be contrary to the general desire of Member States, the European Parliament etc.

8. See no reason why agreement cannot be reached on this issue.

Budget

9. As Geoffrey Howe said at the Special Council early this week there is now a considerable measure of agreement on the budget problem. It is now accepted that a problem exists; that a lasting solution is needed; that new arrangements should reflect the ability to pay; and that arrangements should operate on the revenue side of the Community budget. What we need to do now is to reach agreement on the measurement of the budgetary burden on the UK and on the extent of the relief to apply to the measured burden. Also that any agreement should operate in respect of 1984 and subsequent years.

10. Must make it clear that we cannot agree to the redefinition of the budgetary burden proposed by the Commission. The extent of the problem cannot be wished away. For four years the Community has used the net contribution yardstick. It should continue to do so. Concept well understood and measures something tangible - the flow of resources across the exchanges from UK to net beneficiary Member States.

11. We remain convinced that our safety net proposal represents the best method for tackling the problem. It would involve minimal changes in the existing resources system, and would provide a durable solution and one applicable to all Member States in an enlarged Community.

12. Unreasonable that it should be described as smacking of the juste retour. Frankly do not understand this charge. We should remain net contributors to the budget under the safety net although UK is one of less prosperous Member States. Our proposal is in fact highly Community minded since it would permit Member States to consider spending programmes on the basis of their merits rather than in terms of the budgetary impact on them.

13. Not saying that we are wedded to every word of the safety net proposal. Would be ready to consider other ways of dealing with problem as long as whole of it is covered.

14. But let me be plain. We should not be satisfied with an outcome which gave us less than the safety net or which was liable to move in unpredictable ways as would, for example, the Danish Convergence Fund proposal.

Own Resources

15. Glad to see that Thorn accepted that this will be the last issue to be decided at Athens. Repeat that we will be prepared to consider an increase in own resources provided there is agreement on an effective control of agricultural and other expenditure and provided it is accompanied by an arrangement to ensure a fair sharing of the financial burden so that no country has to pay a share disproportionate to its relative national wealth.

Institutions and Enlargement

16. We have been thinking about ways to improve efficiency of Community institutions after enlargement. Particularly concerned by prospect of Commission of 17 members, as it would be on present basis of large Member States having two Commissioners. Answer is surely a smaller Commission of 12

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Members. UK would be prepared to make the sacrifice of one of its Commissioners to achieve this. What are Thorn's views on our idea, has he any suggestions as to how best to proceed to attain our objective.

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BACKGROUND

1. The Prime Minister will have seen all the papers in preparation for her meeting on 1 December to prepare for the Athens European Council.
2. No additional background is required on the post-Stuttgart negotiations.
3. On institutions and enlargement, the Prime Minister will recall that she has already spoken to Chancellor Kohl about our ideas for a leaner more efficient Commission. To raise the matter with Thorn in the manner proposed would do something to convince him that we have the better interests of the Community at heart.

EUROPEAN COMMUNITY DEPARTMENT (INTERNAL)
FOREIGN AND COMMONWEALTH OFFICE

30 November 1983