

24/5

PRIME MINISTER

MEETING WITH M. DELORS

You are seeing him for 45 minutes immediately after lunch tomorrow. He will be accompanied by his chef de cabinet M. Lamy. The Foreign Secretary and Mr. Williamson will also be present. After his meeting with you, M. Delors is going off to stay with the Foreign Secretary at Chevening.

You might begin by complimenting him on the firm line taken by the Commission on agricultural prices. It is essential that they keep up the pressure for a settlement on cereals prices which respects guarantee thresholds.

You could also thank him for the Commission's helpful attitude on your initiative towards deregulation. You hope that the Milan European Council will keep up the impetus.

You could also welcome the Commission's general approach to completion of the internal market. We look forward to seeing the Commission's white paper and have already given them our own ideas on a timetable. But you hope very much that the Commission will not make harmonization or approximation of taxation a precondition for completion of the market: it would cause difficulties to all member states. Simply not realistic to speak of removing fiscal frontiers by 1992.

While on this general subject, you could mention our intention to seek agreement in ECOFIN to raising the VAT Threshold.

You might go on to describe our approach to the development of the Community, which will be the main subject at Milan. One aspect and the most immediate is completion of the

internal market. Another is the strengthening of political cooperation - though you will not want to be as specific with Delors as with Kohl about our ideas, since it is not primarily the Commission's responsibility. You will want to touch on our ideas for improved decision-taking: no point in going down the road of Treaty amendment: make greater use of existing majority voting provisions and abstention, while maintaining the Luxembourg compromise (he's against the veto). You see no scope for increasing the powers of the European Assembly (he's sound on this). You will not agree at Milan to an Inter-Governmental Conference, and did not find Mitterrand or even Kohl enthusiastic about it.

He will certainly want to raise technological cooperation. You will want to explain our position: no new agency or massive new injection of public funds: need is for cooperation between firms and opening up of markets above all public procurement.

There is a final point which you might raise with him alone at the end: the succession to Noel as Secretary-General of the Commission (our candidate is David Williamson). You have mentioned this to him before, but it is very important to remind him of your personal interest in this. The key points are: we have a strong claim to this post and a commitment from President Mitterrand of French support: we also have an excellent candidate with experience of working in the Commission: we look to Delors for help over this.

I attach a card and the brief.

C.D.P.

(C.D. Powell)

23 May 1985



Foreign and Commonwealth Office

London SW1A 2AH

22 May 1985

CJ 245

Dear Charles,

Visit of the President of the Commission: 24 May

/ I enclose a brief for the Prime Minister's meeting with
/ M. Jacques Delors at 14.15 on Friday 24 May, together with a
/ copy of his programme.

The Foreign Secretary suggests that the Prime Minister might describe our ideas on the future development of the Community and how the Milan European Council should take the necessary decisions on this; urge Delors to keep up the momentum of deregulation; and encourage him to keep up the pressure for a price reduction for cereals in this year's CAP price fixing.

Delors' approach since he took over at the Commission has been to lead from the front. He dominates the Commission, which has otherwise produced no star performer, and has made clear that he would prefer to withdraw proposals altogether rather than have them diluted by the Council. His main tests so far have been over IMPs, on which we were able to work closely with him at the March European Council, and the 1985 price fixing. In the price fixing Delors, supported by Lord Cockfield and Christophersen (the Budget Commissioner) held firm in insisting on a restrictive price package at a time when other Commissioners were ready to give more away.

Delors told the Foreign Affairs Council this week that the Commission were now working on three priority areas:

- (i) the internal market (on which their proposals are expected to be ready by mid-June);
- (ii) technological cooperation (on which proposals would be submitted by 14 June);
- (iii) EMS, in particular the future role of the ecu and possible extension of membership of the ERM, though Delors made clear that the latter was a matter for Finance Ministers and central bankers and not a subject to be brought to the European Council.

/ Separately, ...



Separately, Delors has sent the Foreign Secretary privately, as a basis for discussion, a note about completion of the common market (summary enclosed). We understand Delors does not intend, at least at this stage, to send it to other EC Foreign Ministers. Taken with his remarks at the Foreign Affairs Council, it indicates that Delors has little enthusiasm for increasing the powers of the European Parliament (nowhere mentioned in the paper), or for Treaty amendment to increase majority voting (the paper points out that qualified majority voting under the existing provisions 'does not work, owing to the right of veto'). Delors also shows (paras 1.2 and 1.3) realisation that practical considerations such as the need to control terrorism, drug trafficking and immigration, will stand in the way of some aspects of the free movement of people for the foreseeable future.

We shall need to explore further Delors' view that the Commission should be given greater responsibility for implementing Council decisions, as well as his implication that this might be done by amendments to Articles 100 and 101. However, as Delors himself points out, Article 155 of the Treaty already enables the Council to confer implementing powers on the Commission. We shall want to emphasise that the right course is not to go for juridical amendments but to proceed on the basis of our ideas on decision-taking (draft European Council conclusions attached), namely:

- (i) there should be more majority voting where the Treaties provide;
- (ii) any Member State asking for discussion to continue until unanimous agreement is reached should be required to explain fully and formally, through a special procedure of the Council, why his government considers such interests to be at stake;
- (iii) where it is agreed that a specific objective should be achieved, it may also be agreed that Member States will not obstruct progress by invoking the unanimity rule, eg the Prime Minister's proposal for standards in the new technologies under Article 100.

Delors' ideas on tax harmonisation are in line with the Commission's thinking as outlined to the Prime Minister by Lord Cockfield recently. We shall continue to argue against action by the Commission in this area which could impede progress towards completing the common market and would pose considerable difficulties for all Member States, eg France, where harmonisation

/ of tax ...

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of tax rates for cigarettes would require an 80% increase (36% reduction for the UK). On wine, France would have to impose a 300% tax increase. Harmonisation would also imply major changes in the French tax structure. 43% of her total tax revenue comes from social security contributions, compared with a Community average of 29% (UK 17%). Indeed, if all excise and VAT rates were harmonised, France could lose up to 2% of GNP in revenue.

The Foreign Secretary will go into the issues raised in his aide memoire in more detail with Delors. He also intends to raise with Delors the question of the succession to M. Noel on the lines set out in the attached note.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer and Sir Robert Armstrong.

Yours ever,
Len Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

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VISIT OF M. DELORS (24/25 MAY) :
MEETING WITH THE PRIME MINISTER

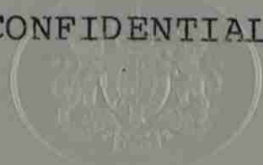
FUTURE OF THE COMMUNITY

Our Objectives

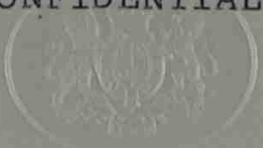
1. To persuade M. Delors of the merits of our approach to the future development of the Community.
2. To encourage the Commission's work on the internal market and deregulation.

Arguments to Use

- Approach of new Commission has helped to inject new life into Community.
- Welcome Commission recent emphasis on determined and practical approach, eg good deal of common ground on completing Common Market; on Agriculture, Commission must continue pressure for cereals settlement which respects guarantee thresholds.



- Community has shown capacity for decision-taking over the last year (Fontainebleau, enlargement).
- Central issue now in Community must be creation of wealth and jobs.
- Best way of achieving this is by creation of a single large market and improvement of Community's competitiveness vis-à-vis third countries.
- Look forward to Commission White Paper on completion of Common Market and welcome timetable approach.
- UK has given Commission our own ideas on timetable covering:
 - i) action on obstacles to free movement of goods within the Community;
 - ii) free market in financial services;
 - iii) full freedom of establishment;
 - iv) liberalised, freely competitive transport market;
 - v) making European business more competitive.

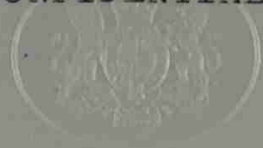


- Hope focus of Commission White Paper will be on those areas I have identified where early progress is possible. Do not want to have progress retarded by preconditions, eg on tax harmonisation which would cause difficulties for all Member States, eg harmonisation of taxation on tobacco would require French to increase tax by 87%; wine by 300%. It is possible to make real progress in completion of Common Market. But mistake to try to do so by hardest route. Should concentrate on areas where real progress possible. Proposal that fiscal frontiers be removed by 1992 unrealistic.

- Initiative taken at the European Council on deregulation has important role to play.

- Glad that this has been taken up positively by Commission with a view to progress at Milan.

- Main task must be to identify regulations which already impose a heavy burden and to examine new proposals so as to avoid creating new ones.



Future Development of the Community

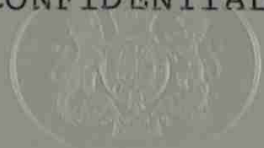
- Strongly agree with point you made to European Parliament in January, namely, that we must not engage in a theological debate about the institutions, which will simply be divisive and not lead to real reform.

- We are in favour of strengthening European unity in practical ways - internally through completion of a genuine common market and improved decision taking; externally through the strengthening of political cooperation.

- This means action to implement those Treaty articles which remain to be fulfilled, in particular:
Article 3 (Right of any company to operate or establish subsidiaries anywhere in Community);
Article 59 (Freedom of Services);
Article 67 (Capital Movements);
Articles 75 and 84 (Transport)

Decision Taking

- Despite the position taken up in the Dooge Committee, the political reality is that no government is prepared to be voted down when very important interests really at stake.

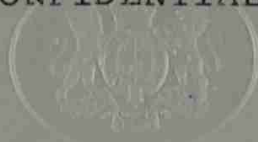


- Also political reality that Treaty amendment is not a road to real progress. No member state has yet been able to indicate which Treaty article it would be prepared to amend. (Article 100 has been mentioned but this covers vast area of standardisation, ranging from the relatively unimportant to very important issues.)

- How could it make sense to switch to majority voting on the seat of the institutions (Article 216); new accessions (Article 237); Own Resources (Article 201); capital movements (Article 70(1)); harmonisation of indirect taxation (Article 99); common economic policy (Article 102-3); etc.

- Any conference on Treaty amendment would end up having to go through the Treaty article by article and concluding that virtually all of them were too difficult to change.

- Right approach is to:
- (a) make greater use of existing majority voting provisions. This should be handled by Presidency in a way that builds confidence in majority voting;
 - (b) greater use of existing abstention



provision (Article 148(3));

- (c) steps to discourage abuse of Luxembourg compromise;
- (d) possibility that, where the Council agrees that specific objectives should be achieved, it could also be agreed that member states would endeavour not to impede progress by invoking the unanimity rule in relation to the measures necessary for its implementation.

- Decisions of substance should be taken at Milan European Council. No need for long-drawn-out and inconclusive conference.



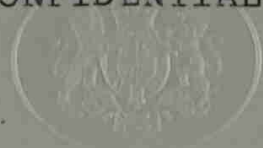
Powers of the European Parliament

[For use as necessary]

- Treaty provided for direct elections but did not envisage this would lead to change in balance of power.

- Parliament's powers have already been increased, eg 1975 Budget Treaty. This has not led to improved decision-taking or less conflict with the Council, rather the reverse.

- Will not agree to Treaty amendment to increase Parliament's powers. But willing to look at ways of improving Council/Parliament relations:
 - (a) Parliament should make greater use of its right to put forward proposals for Community action on which the Council can decide (as Delors himself suggested in his speech to the European Parliament in January);
 - (b) there should be proper use of the conciliation procedure so that there is more genuine consultation.



European Technological Cooperation [If necessary]

- Need to find ways of bridging technological gap between Europe, US and Japan.

- Believe what is needed is better exploration of research through opening up European market for high technology goods and services.

- This means pressing on with breaking down barriers to trade within Europe, progress on standards, opening up public procurement.

- Need flexible framework. Should not institutionalise. Must recognise that bulk of expertise and resources lies with companies.

A I D E - M E M O I R E

The Great Market

To have a single large internal market in being by 1992 is one of the prime aims of the European Economic Community. This aim, stated by the Commission in its 1985 Programme, was approved by the European Council session in Brussels in March of this year. In the coming weeks the Commission will be submitting to the Council a detailed programme and timetable for implementing it.

1. Establishing a single internal market comparable to the American or the Japanese one involves doing away with all impediments to free movement of persons, goods, services and capital: it must be possible for all these to move within the Community just as they do between London and Liverpool, or between Paris and Bordeaux.

1.1. In a great many cases doing away with these impediments is undoubtedly a Community responsibility.

E.g. elimination of technical obstacles;

elimination of fiscal obstacles, in particular by harmonization of rates of VAT;

elimination of obstacles to freedom of establishment and free movement of services and capital.

.../...

1.2. In a certain number of cases, on the other hand, the Community's responsibility is, and will continue to be, disputed. These concern for the most part frontier checks and some aspects of free movement of persons quâ citizens and not quâ production factors.

E.g. immigration, visas, passports, status of aliens; terrorism, drugs.

1.3. Given the queries or disputes as to the Community's responsibility in these areas, could the Court of Justice be called upon to settle the matter?

Quite apart from the fact that the Court cannot fairly be expected to rule on all issues which the Institutions or the Member States cannot or will not deal with themselves, the Treaties make no provision for this: the Court can only in this connection be asked to deliver an opinion, and neither proceedings against the Council for dereliction of duty nor against Member States for infringement can clarify issues of responsibility in the event of failure to act.

2. The single internal market will be achieved on the basis of three provisions of the EEC Treaty:

- (i) Article 99, on the harmonization of indirect taxes;
- (ii) Article 100, on the harmonization of such provisions as directly affect the establishment or functioning of the common market;
- (iii) Article 235, authorizing the taking of measures necessary to attain one of the objectives of the Community.

.../...

These require Council unanimity.

2.1. It is indisputable that in a Community of Twelve unanimity will be even more of a blocking factor than it is now.

As to this it need only be noted that there are currently something like 80 proposals awaiting Council agreement. In the internal-market field alone several important proposals are being held up by one or two Member States: were qualified-majority voting in force they could be adopted.

2.2. The proposal has been made repeatedly—the Paris Summit in 1974, the Stuttgart Declaration, the minority submissions in the Dooce Report—that the Member States should make more use of abstention in order not to prevent decisions' being taken.

Experience has shown that they have never fulfilled this pledge. How could they voluntarily forgo an entitlement under the Treaty, anyway, when proceeding by qualified majority, which is likewise in the Treaty, does not work, owing to the right of veto?

.../...

3. For the single internal market to be established quickly it is necessary that the Council concentrate on the basic decisions and that the implementing rules and management be left to the Commission.

3.1. By the terms of the Treaty (Article 155, fourth indent) the Council has wide discretionary power to decide whether and under what conditions it will assign functions of implementation and management to the Commission.

3.2. It has several times been proposed—the 1974 Paris Summit, the Tindemans Report, the Dooge Report—that the Council should delegate management and implementation to the Commission more.

3.3. The fact remains that in the last ten years it has been reluctant to do so. Consequently it now needs a Council decision to revise the technical annexes to some Directives: in practice this decision is forthcoming after four to six years.

To have the single internal market established and running by 1992 the Community must have the tools to do the job.

That means it must be accorded the necessary powers, equipped with an effective decision-making process and enabled to manage the measures thereby decided on.

The present Treaties do not provide it with these tools. That is the main reason for seeking, with the object of establishing the single market, changes in the existing provisions, particularly Articles 100 and 101.

Draft European Council Conclusions: Decision-Taking

The European Council agreed that, if real progress is to be made towards European unity, the Community must improve its capacity to take decisions.

The European Council concluded that the following measures, which could be implemented without delay, would make a radical improvement to the Community's ability to take decisions of practical benefit to its citizens. It called on all the institutions of the Community to co-operate in taking these steps.

Each year the European Council will adopt a brief statement of the Community's major priorities for action with, where appropriate, specific timings and targets as the basis for the Council's activities over the following twelve months.

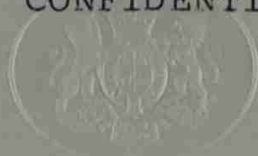
In the enlarged Community more use will need to be made of the majority voting provisions of the Treaties.

Where the Treaties require decisions to be taken by unanimity, Member States agree to make greater use of abstention as provided for in Article 148(3) of the EC Treaty. In particular, where the Council agrees that a specific objective should be achieved, it may also be agreed that Member States will endeavour not to impede progress by invoking the unanimity rule in relation to the measures necessary for its implementation.

If the Community machinery is to work effectively, decisions must be taken at the most appropriate level. The Council of Ministers must not abdicate its responsibilities by referring issues to the European Council, which must be left free to play its strategic role of giving direction and political impetus to the Community. Similarly, the Council must ensure that issues are resolved to the fullest extent possible in COREPER.

Member Governments can make a significant contribution to effective decision-taking by giving their Ministers and representatives a mandate to negotiate which not only reflects their national interest in the issue but takes account of the need to make the Community itself work more successfully.

To help the Community achieve its priority objectives the Council invites the Commission to weed out each year any proposals which are hopelessly blocked. At the same time, the Commission should draw the Council's attention to cases where progress has been unnecessarily delayed.



VISIT OF M. DELORS (24/25 MAY):

THE NOEL SUCCESSION

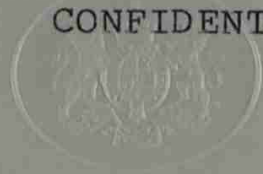
Objective

To remind M. Delors that we shall wish to propose a well qualified British candidate to succeed M. Noel as Secretary-General of the Commission; that President Mitterrand said that he would support a British candidate at the time of M. Delors' own appointment; and to ask M. Delors to keep in close touch with us about the matter.

Points to Make

- As discussed at our meeting in October, President Mitterrand assured us that he would look favourably on a well qualified British candidate when the time came to find a successor to M. Noel.
- Prime Minister and I attach importance to this.
- Reaffirm that we will put forward a very good candidate.

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- Hope M. Delors will let us know in good time when M. Noel seems likely to retire.

- [For use as necessary]: We would not propose a candidate who did not have long service in senior posts in the Commission. UK supported French outside candidate, Guy Legras, as Director-General for Agriculture.

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Background

1. In July 1984 when UK agreed to support M. Delors, President Mitterrand communicated to Secretary of State through Dumas "assurance of his personal commitment to support the British candidate when the time came to find a successor for Noel". M. Delors confirmed to Secretary of State on 15 October 1984 that he knew of this and said that he would be ready to discuss it when the time came, but pointed out that UK would have to come up with suitable candidate. The Prime Minister also mentioned it to him.

2. No firm intelligence as to M. Noel's intentions. Must retire by late 1987; could be earlier. Desirable to remind M. Delors. If he seems disposed to argue against external candidate, we should point to recent parachuting of Legras to succeed Villain in charge of DG VI (Agriculture).

European Community Department (External)

22 May 1985

MEETING WITH M. DELORS

1. Agricultural prices: keep up pressure on cereals.
2. Deregulation: welcome Commission's activity.
3. Internal Market: again welcome Commission's timetable approach, but no to tax harmonization.
4. VAT thresholds.
5. Development of the Community: internal market, political cooperation, improved decision-taking. No to more powers for European Parliament and to Inter-Governmental Conference.
6. Technological Cooperation: cooperation between firms and opening up of Community market including public procurement the key.
7. [With Delors alone] Secretary-General of the Commission post.