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From the Private Secretary

24 May, 1985

Dear Colin,

PRIME MINISTER'S MEETING WITH THE PRESIDENT OF THE COMMISSION OF THE EUROPEAN COMMUNITIES ON 24 MAY 1985

The Prime Minister had a talk this afternoon with the President of the Commission of the European Communities. M. Delors was accompanied by M. Lamy. The Foreign and Commonwealth Secretary and Mr. Williamson were also present.

PREPARATIONS FOR THE MILAN EUROPEAN COUNCIL

The Prime Minister enquired how preparations for the Milan European Council were progressing. M. Delors said that the Commission were in the fog. They did not know what the Italian Presidency had in mind. They were therefore working on the basis of the decisions of the last European Council and preparing papers on the completion of the Common Market and the scope for improved technological co-operation. The papers would pose both operational and institutional questions for the Heads of Government to answer. They would be 'open' papers not hard and fast recommendations.

INSTITUTIONAL QUESTIONS

The Prime Minister said that she had the impression that differences between the Member States on institutional questions were narrowing. When she had discussed them with Chancellor Kohl last weekend, the only substantial point of disagreement had been over the powers of the European Assembly. M. Delors agreed with the Prime Minister's analysis. Over the past few months, several Heads of Government had talked in grandiose terms of making major proposals on institutional questions. In the event, nothing had emerged. He thought there were two main problems to be dealt with: whether to enlarge the scope of the Community to bring in new areas of co-operation; and whether it was necessary to change the Treaty to improve decision-making. The Prime Minister said that there was no need to change the Treaty. Much of it had still not been implemented, and decision-making could be improved by applying its existing provisions more fully. If the Community consumed its energies in trying to amend the Treaty, no practical work would get done. M. Delors observed that 32 articles of the Treaty required unanimity. The Prime Minister said that

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there were good reasons for this. M. Delors suggested that it would be easier to complete the internal market if majority voting were introduced for two or three of the articles concerned. But he admitted that there would be a problem in getting the necessary Treaty amendments through national Parliaments.

EUROPEAN PARLIAMENT

M. Delors said that he had no enthusiasm for co-decision making with the European Parliament. There was a tendency on the part of some Member States to make concessions to the Parliament without taking account of the consequences. But he thought this would be a very difficult issue at the Milan Council. The Prime Minister made clear that she was not in favour of any additional powers for the Parliament.

INTER-GOVERNMENTAL CONFERENCE

The Prime Minister said that she had the clear impression that neither Chancellor Kohl nor President Mitterrand was enthusiastic about an inter-governmental conference. M. Delors said that he also did not think it would be useful. The Foreign Secretary observed that the Italians seemed wedded to the idea of such a conference. The Prime Minister said that some Member States seemed to take the view that they must always be pressing for something new, even when they did not know what it was they wanted. Their attitude seemed to be: have a meeting and something will come up. This was not an efficient way to conduct business and would be against the recent trend in the Community. She thought more practical work had been accomplished in the last 18 months than in the preceding four years.

SIZE OF THE COMMISSION

The Prime Minister asked how M. Delors now assessed the possibilities of reducing the size of the Commission at the time of enlargement. M. Delors said that he would be happy with one Commissioner per country and thought that a Commission of 17 would be too big. But Germany remained the main obstacle to a smaller Commission.

FREQUENCY OF EUROPEAN COUNCILS

The Prime Minister suggested that, once the current debate on institutional questions and the Dooge Committee was completed, it would be a good moment to renew her suggestion of reducing the number of European Councils to two each year. M. Delors agreed.

TECHNOLOGICAL CO-OPERATION

M. Delors said that the Commission did not see technological co-operation as an answer to the SDI. Their approach was to conduct an analysis of the strengths and weaknesses of European technology and pose a choice between

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a national and a European approach. If a national project could not achieve the critical mass necessary for success, there should be the opportunity to pursue it on a European scale. The Prime Minister saw scope for increased co-operation between companies but not for a new agency.

AGRICULTURAL PRICES

The Prime Minister congratulated M. Delors and the Commission for standing firm on their general price proposals and in particular on cereals prices. M. Delors said that it had been his duty to do so. He was not happy with the Italian Presidency's proposal to reduce cereals prices by only 1.8 per cent but saw no realistic prospect of getting back to the Commission's original proposal of a 3.6 per cent reduction. The Prime Minister said that the Italian Presidency had behaved badly on this in the hope of securing preferential treatment for Mediterranean products.

DEREGULATION

M. Delors said that he understood the importance which the Prime Minister attached to her initiative on deregulation. But it was a complex subject and the Commission would not be able to make sensible proposals in time for the Milan European Council. They needed nine months for this. The Prime Minister expressed understanding.

VAT THRESHOLD

The Prime Minister said the current VAT threshold was too low and imposed an unnecessary burden on small businesses. There should be flexibility to set the level in the light of the economic circumstances of each Member State. At the least, the exemption limit should be set much higher. M. Delors said that the Foreign Secretary had written to him about this.

VAT HARMONISATION

M. Delors said that the Commission intended to propose harmonisation of VAT as part of the measures necessary to complete the internal market. The Prime Minister said that this would cause not only the UK but many other Member States great difficulty. It should not be made a pre-condition for completion of the internal market. M. Delors said that harmonisation was a logical step. The Prime Minister replied that the world worked on commonsense, not logic.

POLITICAL CO-OPERATION

The Prime Minister said that the United Kingdom would propose at the European Council that the existing political co-operation arrangements should be formalised and extended to cover security policy. We envisaged a new agreement between governments. This would be a manifestation of external unity. M. Delors asked whether we envisaged a

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secretariat. The Prime Minister confirmed that we would propose the creation of a small secretariat. The Presidency of the Community would, as at present, ensure continuity.

MIDDLE EAST

The Prime Minister said that she thought there would probably need to be a statement on the Middle East at the Milan European Council. M. Delors agreed.

ECONOMIC AND SOCIAL SITUATION

The Prime Minister said that she had had an interesting discussion of the causes of unemployment with Chancellor Kohl. They had contrasted what happened in Europe with the United States experience. M. Delors said that it would be very difficult to achieve change in this area. But once the current round of discussions on institutional questions were complete, he intended to engage himself much more fully on economic matters and would be making proposals to the December European Council. These would be based in part on a study on what the Community could learn from the American and Japanese models. He thought that, following the significant increases in productivity of recent years in Europe, the best way to combat unemployment was to "open new windows for growth".

MONETARY CO-OPERATION

The Prime Minister commented that she kept the question of UK participation in the Exchange Rate Mechanism under review from time to time. M. Delors said that the Exchange Rate Mechanism was working well and was being studied with interest by many other countries. It would shortly be possible for non-member countries of the European Community to hold écu. He thought that the deutschmark was currently under-valued within the snake.

FAMINE RELIEF

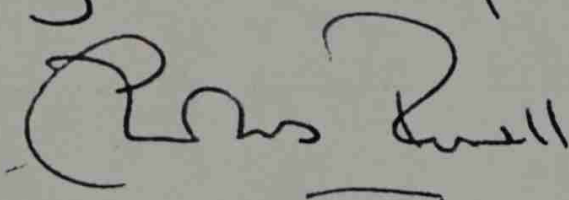
The Prime Minister commented that food aid from the European Community was reaching Ethiopia and other countries experiencing famine too slowly. M. Delors said that the Commission were already working on a report on the European Community's relief programme which would be useful for the study of this problem commissioned at the Bonn Economic Summit.

JAPAN

During a brief tête-à-tête the Prime Minister raised with M. Delors need for the Community to take a firmer line with Japan. M. Delors did not seem averse to this.

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I am copying this letter to Rachel Lomax (Treasury), John Mogg (Department of Trade and Industry), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and David Williamson (Cabinet Office).

Yours sincerely


C. D. POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office.

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