

In Fairweather
eps *Wall* (14)

Mr Barber
Mr James
Mr Roberts
Mr Thomas
Mr Blairfield

RECORD OF A MEETING BETWEEN *Sir J. G. How*
 THE FOREIGN AND COMMONWEALTH SECRETARY AND M. JACQUES DELORS
 AT CHEVENING ON 24 MAY 1985

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APPROACH TO THE MILAN EUROPEAN COUNCIL

1. M. Delors said that he did not believe that Signor Craxi was really committed to the document Andreotti had just circulated. The Italians had done this in part in response to the German/British and Franco/German bilateral meetings, and to show that they had pressed for ambitious proposals. He did not intend himself to recommend going beyond the Treaty of Rome at Milan. But the Commission would give illustrative examples of what could be done if the member states themselves agreed on change. There might be some extravagant proposals at Milan. It was important to avoid dramatising the differences. The distance between Member States was not very great in reality. The Commission would make proposals on the internal market and technological cooperation.

2. Sir Geoffrey Howe said that the Treaty of Rome was the basic constitution of the Community. It was extremely difficult to change, since that required the assent of twelve governments and twelve parliaments. The Community could advance without taking on that difficult and unnecessary task. Political Cooperation had evolved: this could now be embodied in a new agreement. The Luxembourg compromise was not in the Treaty, but was a recognition of reality. Any increase in the powers of the European Parliament would raise great difficulty with some national Parliaments and needed unanimous agreement. We should look for changes to deal with the frustration of the Parliament, but these must not be of a kind that actually obstructed decision making. The need was to aim for real consultation between the Council and the Parliament; to encourage the Parliament itself to make constructive proposals; and for the Council to follow up their resolutions properly.

3. M. Delors agreed that "co-decision" would mean no decisions. But something was going to have to be done for the Parliament at Milan if it was not to make major trouble thereafter. The Germans also would insist on this. Sir Michael Butler said that the Parliament committees could examine some of the draft directives put to the Council.

4. M. Delors said that when the Commission presented a directive, it could be required to explain whether it had taken account of the suggestions of the Parliament. The Commission could agree with the Parliament on studies or proposals on matters of common interest. The Parliament must not be given a separate right of initiative or the Council would be deluged with proposals. There was a consensus on the need to improve decision making. If the articles concerning the internal market were not amended to provide for majority voting, there should be some greater delegation of powers to the Commission to enable it to get on with the task of completing the common market under the directions of the Council. He agreed that it was not possible to

launch a new Community, or extend its role to education, security etc, in the short period before Milan.

5. Sir Geoffrey Howe said that we were convinced that our approach, ie no Treaty amendment but decisions by the European Council itself, would be most effective. The Spinelli Treaty could not be stuck on top of the working constitution of the Treaty of Rome. There was a need to achieve something of both practical and political importance, which would arouse some enthusiasm. We thought that the moment had arrived to enter into a formal agreement on political cooperation.

6. M. Delors said that it would be wrong to create a Lord Carrington type of position in political cooperation. Sir Michael Butler agreed. There was already a Secretary General of the Council. The small PoCo Secretariat should operate alongside the Council Secretariat.

7. M. Delors said that he agreed that there should in future be one Commissioner per Member State or less and two European Councils a year. Sir Geoffrey Howe said that we had tried very hard to get the number of Commissioners reduced, but so far had got little support.

8. M. Delors said that if Treaty amendment was ruled out, he thought that our ideas on decision making could provide a way forward. He thought it would make sense for the European Council itself to lay down objectives in certain areas and to try to get it agreed that for the accomplishment of those objectives unanimity should not be insisted upon. The predominance of the General Affairs Council must be maintained. Ministers of Agriculture had transformed themselves into a separate lobby. In cases where the Luxembourg compromise was invoked, the Member State concerned should be required to explain itself in a special meeting of the General Affairs Council. There had been relatively few cases in which the compromise had actually been invoked. It was not so much its use as the threat of its use which held up decision making. The German attempt to claim that Kiechle had invoked only the first and not the second paragraph of the Luxembourg compromise was hypocritical.

9. Sir Geoffrey Howe said that if progress was to be made towards completion of the internal market, it was essential to get commitments to a timetable. In areas where specific agreement had been reached, there could be agreement also not to invoke the unanimity rule on the lines the Prime Minister and Lubbers had suggested at Dublin. M. Lamy thought that this could be presented in a positive way - the "Milan accord", as a development of the Luxembourg compromise.

10. Sir Geoffrey Howe said that we wanted Milan, like Stuttgart and Fontainebleau, to mark another step forward for the Community. The way not to have a success was to concentrate on doctrinal arguments.

11. M. Delors agreed that it would be hopeless to have a conference which had a wide or vague remit. It would never be able to complete its work within a five month deadline. The Italian paper was not realistic. He could see a way ahead on the other issues, but the problem of the Parliament remained.

12. Sir Michael Butler pointed out that the change to Article 203 had caused more, not less, friction with the Parliament. M. Delors agreed that there must be no change to the Parliament's budgetary powers. This would encourage irresponsibility. M. Lamy said that the European Parliament already had more financial powers than most national parliaments. M. Delors saw a need to reform the budgetary procedure. The French would not press for any real extension of the Parliament's powers, but the Germans and Italians would. If we or he had any further ideas on the point, we should exchange them before Milan.

13. Sir Geoffrey Howe said that the heads of government should be able to achieve something positive at Milan on political cooperation, the internal market, technology and decision-making.

14. M. Delors said that the European Council must arrive also at conclusions on the work of the "People's Europe" Committee. What should be done about cultural cooperation? Sir Michael Butler said that on culture and education we saw no need for a new Treaty or an extension of the Treaty of Rome. There were already mixed Councils in these areas. The same could be done for health. There was a need to maintain flexibility.

15. M. Delors said that culture now had a considerable economic fall out, eg satellite broadcasting systems. But he agreed that the Treaty conferred sufficient powers. Did the member states envisage anything more being done on defence cooperation? Mr Renwick said that any formal agreement would cover those security issues discussed in political cooperation. But defence issues were a matter for the Alliance and must remain so. Our ideas were intended to enable all Twelve countries to continue their cooperation in PoCo, and to enable all except the Irish to consult together on the political aspects of security. If the WEU route were taken instead, that would leave out Spain and Portugal. M. Delors agreed with this approach. He expressed concern about the state of opinion in Germany.

Technical Cooperation

16. Sir Geoffrey Howe said that we were agreed on the danger of Europe falling further behind the US and Japan in high technology. SDI was a manifestation of this. But we did not believe that the right response was to go for publicly financed programmes. Subsidised national programmes of this type had not been successful in Britain. The Esprit approach was a good one. We thought that European exploitation of research rather than basic research was the problem. The chairman of Phillips had said that he would forego all aid if he could get a unified European market. It has not been possible to sell the EMI scanner in France and Germany though it had been sold all over the United States. We should get our experts together with the

industrialists to promote cooperation across frontiers. There should be a group of senior technically competent experts from the member states, with the Commission involved, drawing on the advice of industry and looking for ways of opening up public procurement. Europe spent more on basic research than Japan.

17. M. Delors said that this was true for basic research, but more had to be done about its application. It was important at Milan to establish the right framework. Europe was falling behind in pre-competitive research and in opening up public purchasing. We were losing ground and people. He agreed that joint efforts must be subject to cost benefit analysis. They should not be undertaken when this was not necessary, but there were cases when they might be the only way forward. The JET and CREST models could both be appropriate. Whatever financing was required should be by national contributions from those countries which were interested in a given project. There could not be large-scale public funding. Participation must be open to other European countries, as with JET. There was no need for a new Treaty. High technology products must have access to an integrated market. Cooperation should be à la carte. But US research was subsidised through the defence budget. He agreed that some Community programmes had not been well conducted. Subsidisation took different forms: 40% of the UK contribution to research came through tax exemptions. There was a need to be flexible. Sir Geoffrey Howe said that public funding for INMOS had not been a success. It had been a major task when he was Chancellor to get ICL geared to market forces. In Japan the emphasis was on cooperation between the companies.

18. M. Delors said that we provided funds for basic research. Not all finance could be generated privately. But whatever was done must be geared to demand. He agreed on the need for consultation with the industrial interests. Sir Geoffrey Howe read out the passages on this subject from "Europe - The Future". M. Delors said that he agreed entirely with the analysis in that paper. The Commission would be producing a paper before Milan. Mr Williamson said there was a need to know precisely how market access for high technology would be guaranteed. We should be putting forward our own ideas on this.

Internal Market

19. Sir Geoffrey Howe said that we must establish at Milan a timetable for completion of the common market; and follow up the Prime Minister's initiative on deregulation. M. Delors said that if progress was to be made, there must be unanimity for the major decisions but some delegated authority for the means of putting them into effect. Mr Williamson gave examples of areas where powers had been delegated to the Commission. Sir Michael Butler said that in relation to the "grey area" between the Council's authority and that of the Commission, we had supported M. Delors on IMPs. Delegated authority was possible for some measures of implementation, but not before the main decisions had been taken and embodied in Community law. Mr Renwick referred to the agreement to delegate a limited amount of authority to the Commission reached at the Internal Market Council in May on the

mutual recognition of standards.

Tax Approximation

20. Sir Geoffrey Howe hoped that the Commission in its proposals on the internal market would not place too much emphasis on tax approximation. In the US there was tax diversity, including widely different corporate taxes, differences over unitary taxation, etc. There were also differences in sales tax; yet there was a genuine common market. National governments would not agree to alter their tax arrangements adversely to their citizens' interests, this would create great difficulties. In the UK any change from the zero rating of food, children's clothing, etc would be deeply unpopular. This had been a major issue in the last election. VAT extensions, however, were being made. Other member states would have similar problems. In France tax approximation could entail a threefold increase on the tax on wine and an 87% increase on the tax on cigarettes.

21. M. Delors said that he would reflect on this. But Europe had fiscal frontiers, unlike the US. The sensible course would be to aim eventually for a broad VAT fourchette. But he acknowledged that indirect taxes were an integral part of fiscal and economic policy. Sir Michael Bulter said that he hoped that the Commission might produce for Milan the equivalent of a White Paper on completion of the common market, but a "Green Paper" only on tax approximation. Neither we nor others could agree to anything precise for this by 1992. M. Lamy said that it might be possible to pose the question more in terms of intellectual analysis. The question of tax approximation arose from the measures necessary to try to do away with frontier procedures.

VAT Limit for Small Businesses and Deregulation

22. Sir Geoffrey Howe raised the VAT limit for small traders. We believed that we were entitled to operate on a basis of the equivalent of the 1973 and not the 1977 rate. Otherwise we would be bringing into the VAT registration net over 170,000 small businesses. In France there were special tax exemptions for small traders. The Irish VAT limit was over £21,000. The whole question of the VAT limit should be addressed in the context of deregulation. We did not see how this could affect across border trade.

23. M. Delors said that we were in a quarrel with the Commission legal services as a result of the raising of our threshold. But there was an unusual separation of direct and indirect taxes for small businesses, which was specific to Britain. In the longer term he was prepared to look at the possibility of trying to raise the VAT rate. But there were very difficult problems with complete exemption. He would look at simplification or exoneration in the deregulation context and would be making proposals on deregulation to the December European Council. He could not interfere with the infraction process in relation to the current rules (but M. Lamy indicated privately afterwards that it probably could be slowed down).

24. M. Delors said that the Community had to consider how to pursue environmental objectives without adding unreasonably to the burden on industry. On deregulation, he had been studying the memorandum we had already given him. He had been astonished to find that there was no unit in the Commission to study the problem of small and medium enterprises and was himself creating one.

Agricultural Price Fixing

25. Sir Geoffrey Howe emphasised the need to maintain the pressure on cereals prices: otherwise there would be further troubles with the United States. The German position was extraordinary, as Genscher had been firm on the need for guarantee thresholds in earlier discussions. M. Delors said that the Commission had taken a firm position. The outcome was not a bad one except on cereals. He intended to look closely at the way the management committees operated. Mr Renwick said that we hoped that the Commission would maintain its price proposal at the next Agriculture Council. M. Delors said that there were disagreements in the German Cabinet at present about everything.

Reference Framework

26. Sir Geoffrey Howe asked if the Commission would be able to calculate the reference framework for spending in time for the ECOFIN Council on 12 June. M. Lamy said that Christopherson would be away at the European Parliament. But all the calculations on which the reference framework would be based had already been made available to the member states. The framework had been taken into account in the Commission's preparations for the 1986 budget.

Regional Fund

27. M. Delors said that he was seriously concerned about the 8 billion ecu gap which the previous Commission had permitted to open up between commitments and payments. During the Commission's "weekend of reflection" on budgetary matters he intended to insist that this would have to be corrected. This would require painful decisions. There would have to be cuts in the amounts promised from the structural funds.

28. Sir Michael Butler questioned whether it was wise to permit Spain and Portugal to reach their full take up from the Regional Fund in the first year of transition. They should do so gradually, as the counterpart of the degressive reimbursement of their VAT contribution. This would avoid a difficult renegotiation next year of the quotas. M. Delors said that he would reflect on this. M. Lamy said that the Commission would have to cut the funds to put some order into the Community's finances. A full Spanish and Portuguese take up had been included in the Commission calculations on which their VAT rebates were based. Mr Williamson drew attention to the need to watch the impact on other member states. Sir Geoffrey Howe said that it was not in the Community's interests to have a Regional Fund almost exclusively for the Mediterranean, from which no northern member state apart from Ireland stood to benefit.

Ecu

29. M. Delors noted the rapid increase in the private use of the ecu. There were those who thought that the market would make this a greater success. But he was worried about the effect on use of the ecu of inclusion of the escudo and peseta. If the deutschmark element were less than 20%, the ecu would lose its attraction. This had led him to wonder whether there was any case for a different internal accounting and external rate. It was rather like the SDR problem. Sir Geoffrey Howe said that different values for the ecu as between its internal and external use surely must be avoided. Sir Michael Butler wondered whether the escudo/peseta weighting could not be relatively low.

Social Fund

30. Sir Geoffrey Howe raised his letter to M. Delors about the Social Fund. M. Delors showed a draft reply. Sir Geoffrey Howe pointed out that this would mean a sharp reduction in UK receipts: the Commission were still calculating on the basis of 13 and not 16 weeks off the job training. M. Lamy said that in 1984 nearly one-third of the disbursements from the Social Fund had gone to the UK. The youth training scheme had been very well adapted to maximise our take. We could not expect to continue to benefit at that rate. The Commission thought that this year we could expect to get about 26% of the Fund - closer to the norm for 1981 to 1983. (In a separate conversation M. Lamy was given arguments showing that the calculation of our entitlement should be based on 16 weeks on the job training and that 72% of the trainees go on to jobs or further courses of education).

Budgetary Control

31. M. Delors said that he was insisting that the 1986 budget must be presented with the best possible margin within the 1.4% VAT ceiling. But even with tough measures on the structural funds, this would take the Community close to the ceiling. Sir Michael Butler said that we believed that it was possible to have a 1986 budget at about 1.3% of the VAT rate. The Community's ability to remain within the ceiling would be extremely important to parliamentary ratification of the increase in own resources. M. Delors said that he took the point but there was not much margin. He had told the Commission services that they must plan for a 1986 budget with as much headroom as possible within the 1.4% ceiling. But to achieve any headroom there would have to be cuts in disbursements from the structural funds.