



Office of the United Kingdom Permanent Representative to the European Communities

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cc. C Budd Esq (FCO)
D Williamson Esq
(Cabinet Office)
(with Annexes)

Stephen Wall Esq
ECD (I)
FCO

Your reference

Our reference

Date 5 July 1985

Handwritten initials and date:
J.G.
12.7.85

MWG 011/10	
RECEIVED	
15 JUL 1985	
Dear Stephen	
✓	RW

Handwritten: a 011/10

- Handwritten:* ✓
- Mr Brantwaite
- Mr Renwick
- Mr Wall
- Mr Richardson
- Mr Parker

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noted action please

EUROPEAN COUNCIL: MILAN: 28/29 JUNE

1. Further to my letter of yesterday's date please find enclosed the usual informal record. It is longer than usual, but so was the Council. I should add that the Presidency provided virtually no briefing during the Council. Most of our record - and about 1/2 of that of other Governments - will be based on the Secretary of State's comments. But this does mean that there is, as usual, a strong likelihood that our records will differ on important points.

Handwritten: Wall

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Handwritten signature: Yours ever
[Signature]

R.P. P J Goulden



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to the European Communities

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Mr Renuick 80

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- 1/ cc Mr Brathwaite
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with thanks for
revised transcript

Wall

1/2

Yours ever M Thomas

[Handwritten signature]

AP, P J Goulden

CONFIDENTIAL

Thank you for copy. Please fax relevant pages to John (able) say these as deletions which will be needed for the circulated record or asking for a clean typed version by page.

Mr Wall

I propose that all highlighted bits be dropped on grounds of atmospherics/conjecture.
Do you agree?

11.7.

EUROPEAN COUNCIL: MILAN: 28/9 JUNE 1985

A. FIRST SESSION 28 JUNE

- 11.15 1. Craxi (Italy) did not discuss the agenda of the Council, on
 1 2 which the Presidency had already circulated a letter. Instead, after briefly welcoming the new Spanish and Portuguese observers, he immediately introduced a discussion on the institutions.

Institutions

2. Craxi said that, from the Presidency's many contacts, it was clear that there were differences of opinion but a constructive spirit which raised the hope that an agreement could be reached. Everyone agreed on the need for more efficient decision making.

(i) Luxembourg Compromise

Without questioning the principle of recourse to national interests, he thought that everyone wanted to shelter the Community from the excessive use of the veto. The enlargement of the Community required a different system, and it should not be too difficult to reach a consensus on this.

(ii) European Parliament

The Parliament wanted to see a redefinition of its powers and functions. Its members were profoundly frustrated. On 27 June the President of the Parliament had spoken again of their "demands". Various proposals had been made which needed to be examined.

(iii) Commission

There was also the problem of the Commission's competences and the possible reinforcement of its role. There had been discussion of extending the scope of the Community to areas which were not strictly economic. The progressive development of the European ideal required a broader view of European collaboration.

(iv) Political Co-operation

The structure of political co-operation needed to be reinforced. Drafts had been circulated which offered "important insights" into how to do this.

3. Craxi commented that the degree of disagreement in the Community had been exaggerated. Negotiation at the political level could produce agreement. He did not exclude Treaty amendment. The option also existed of organising a conference, which could take the form of the European Council itself. He concluded "we need balanced reasonable conclusions based on compromise".
4. Kohl (Germany) said that the Council had decided in Brussels to try to get Europe out of its rut. The Dooge Report provided the basis for this. Earlier meetings had focussed on whether to hold a conference or not. That should be considered at the end when it would be clear whether there was a mandate for such a conference. He could agree to a conference provided that it had a clear mandate.

(i) Decision Taking

He favoured majority voting as provided for in the Treaty. He would also be prepared to amend the Treaty in specific ways for specific objectives. The main need was to find common ground. He acknowledged that Germany had invoked the Luxembourg compromise. It had done so because others had done so. If the instrument had not existed, Germany's behaviour would have been different. But he would prefer to go further and was ready for detailed discussion of Treaty amendment.

(ii) European Parliament

Europe could not afford to enter the next elections without doing something about the Parliament's powers. In 9 cases out of 10, the Council took no notice of the Parliament's views. Kohl then spoke to a German note circulated on the Parliament's powers. This drew a distinction between:

- (a) Areas where the Parliament should be consulted as at present. This should cover all themes which were not included in (b) and (c).
- (b) Areas where the Council would decide on the basis of a text approved by the Parliament. A new conciliation procedure would be established but the Council would have the final say. This category would include decisions on the internal market and harmonisation of law as well as the key decisions on common

policies, including new policies..

(c) Here the Council and Parliament would act by co-decision. This would apply to decisions on new accessions and associations and on modification of Treaties.

(iii) Commission

He favoured an examination of the Commission's powers and greater delegation of power to the Commission.

5. Kohl concluded that he was ready for major changes but ready also to compromise. Above all we needed a timetable and check list for an IGC. (The Secretary of State commented in his notes that Kohl had done no more than roam around the agenda).

6. Speaking to a paper circulated after the Benelux co-ordination meeting that morning, Martens (Belgium) said:

(i) Decision Taking

Better decision taking was necessary to achieve a genuine internal market which in turn was necessary for a technological Community. This required two things: to do away with the paralysis which arose from the Luxembourg compromise; and to reduce the areas where unanimity was required.

(ii) European Parliament

The present position was a standing reproach to the Community. The Parliament should be given investigative powers over the Commission; should be allowed to ratify treaties; its powers over non-obligatory expenditure should be extended to obligatory expenditure; and eventually it should have revenue-raising powers.

(iii) Commission

Belgium agreed with the Dooge proposals.

(iv) Political Co-operation

3 He had not had time to examine the Franco-German text but was in favour of the UK draft Treaty, subject to minor technical amendments.

(v) IGC

He was convinced that the targets of an internal market and a technological Community made it necessary to amend the Treaty. He thought the Presidency's paper on this was excellent. He proposed that the Council should agree the heads of agreement for an IGC.

7. Schluter (Denmark) said that one should not under-estimate what the Community had achieved: budget discipline, the own resources decision, enlargement and IMPs. Denmark was happy with a Commission that took initiatives; he supported Delors' active approach. The Milan Council was well placed to take important decisions, including those on technology and the internal market.

(i) Political Co-operation

He could accept the UK draft. Foreign Ministers should be asked to take it forward between now and the December Council.

(ii) Decision Taking

This would be improved if Member States applied the existing Treaty. There was no need for amendment. The Luxembourg compromise had to be accepted as a political reality; he favoured the UK proposal for an explanation whenever it was invoked.

(iii) IGC

The Council should reach decisions now: there was no need to wait for an IGC.

(iv) European Parliament

It was not realistic to extend the EP's powers at the expense of national Parliaments, the Council or the Commission. Co-decision would mean no decision. The British proposals were very attractive.

8. FitzGerald (Ireland).

(i) Decision Taking

The way in which the Luxembourg compromise had worked was very damaging. Proposals were left hanging for 20 years. The arrangement must be

modified. He did feel however that there should be some room for invoking genuine national interests. He favoured a special procedure involving the FAC.

(ii) Commission

He agreed with Kohl that the Commission's powers should be restored and, in the right areas, increased. He approved the arrangement on IMPs. The appointment of the President should be approved by Parliament and the President should have a say in selecting his colleagues.

(iii) European Parliament

The Community would not achieve its aims without extending the role of Parliament. He favoured co-decision on constitutional matters. Proposals of the Commission should go through Parliament to the Council, subject to strict time limits and a process of conciliation. The last word must rest with the Council.

(iv) Political Co-operation

He had only glanced at the Franco-German text, but paragraphs 8.1 and 8.2 were broadly acceptable. The Council needed to consider how to link POCO with existing procedures.

(v) IGC

If agreement could not be reached at Milan, he was ready to agree to a conference, provided that it had clear terms of reference.

9. In a parenthesis, FitzGerald criticised the Commission's proposals for tax harmonisation. Tax policy had a major impact on social policy. Harmonisation would involve the loss of one third of Ireland's tax revenue. It would also lead to a huge increase in consumption of alcohol and tobacco. Ireland could not face the 14% increase in food prices which would result.
10. Papandreou (Greece) spoke mainly about economic and social problems facing the Community and the need for convergence. The Community needed a re-distributive mechanism in parallel with the creation of the internal market. Federal States devoted 3 to 4% of their GDP to removing regional imbalance. But the Community's structural funds involved only .1%. They needed to be substantially increased. And any moves to a technological Community should ensure that all Member

States participated and benefitted. (While he was speaking, Kohl and Genscher ostentatiously took out their wallets and put them on the table).

(i) Decision Taking

The problem was not one of structures but of lack of will. He favoured greater majority voting under the Treaty; more use of abstention under Article 148; and the Luxembourg Compromise as it was, without qualifications.

(ii) European Parliament

Its influence, but not its powers, should be increased by means of better conciliation.

(iii) Political Co-operation

Greece thought that this had been very effective. There was no need for further Secretarial support which would reduce the role of the Presidency. He could agree to the extension of POCO to security provided that the Ten took account of the needs of countries such as Greece, which were in a special position.

(iv) IGC

He saw no need for Treaty amendment or, by implication, for a conference.

11. The Prime Minister said that the Community had shown its capacity to take decisions over the last year. The Milan Council was the occasion to strengthen its unity internally through completion of the Common Market and improved decision taking and externally through the strengthening of political co-operation. The internal market was now a priority objective. The Commission's White Paper was a major contribution to this. The Council should establish the priorities, which should then be worked on by ECOFIN, and the Internal Market and other Councils. There should be a progress report to each European Council which would set the priorities. These were the removal of obstacles to free movement of goods; the creation of a free market in financial and other services; full freedom of establishment; and a liberalised transport market. These were feasible near-term priorities compared with tax approximation, which would pose enormous difficulties for all Member States, and the abolition of frontier controls, where action had to be reconciled with the need for protection against terrorism, drugs and illegal immigration.

(i) Political Co-operation

The Franco-German draft was based pretty well verbatim on the UK proposals. Article 5 omitted the provision committing Member States not to vote directly against one another at the UN. We could not talk of progress towards a common foreign policy while at the same time weakening that commitment. In addition, Article 8 weakened the UK draft on security co-operation. The UK would, however, accept the Franco-German version if that would enable the Irish to go along with it. The UK text had also been changed in 2 other respects. First its title: a Treaty instead of an agreement. And, secondly, the proposal for a POCO Secretary-General. There was no need for another Secretary-General; the Council already had a very good one in Ersboell, who should assist the European Council as at present. The UK favoured a small POCO unit to assist the Presidency, alongside the Council Secretariat in Brussels.

of Article 8

(ii) Decision Taking

The Prime Minister introduced and re-circulated the UK's 4 proposals, commenting that President Mitterrand's latest ideas were almost identical to them. In addition, the European Council was not being used to full advantage. It should give strategic direction by setting the Community's priorities each year. There was no need to amend the Treaty.

(iii) Commission

The UK still favoured a Commission of 12, as endorsed in the Dooge Report. What did the President of the Commission think about that?

(iv) European Parliament

In the Community one body had to be responsible for decisions. It was not feasible to give the Parliament powers of co-decision. But the UK had suggested ways of enabling the Parliament to make a positive and responsible contribution through closer association with decision taking within the existing Treaty powers.

(v) IGC

The issues before Milan had been studied for

months. The Council should now take the decisions which could be taken. There was no point in remitting to a IGC issues which could not be settled by the Council. It should instead take positive decisions and give clear guidance for any necessary follow-up work.

12. Lubbers (Netherlands)

(i) Decision Taking

The Treaty should be applied as it was. If that were agreed, he could agree that national interests could be evoked in exceptional cases. He was prepared to go further and accept Treaty amendment, but first the Council would need to agree precisely what was necessary.

(ii) Commission

He agreed with the Dooge report.

(iii) European Parliament

He agreed that co-decision was an ambiguous concept. He therefore favoured the approach of Kohl and Martens, which permitted co-decision on particular issues, such as Enlargement. Since the Community had a Parliament, it must give it something to do.

(iv) Political Co-operation

He agreed with the UK approach: the Council should agree that Foreign Ministers should work on that basis. He did not agree that Pöhl should be put under the rubric of European Union, that would be a delusion. And, while he favoured co-ordination, he feared that the appointment of a Secretary-General would create a new institutional rivalry.

15.45 13. Santer (Luxembourg)

(i) Political Co-operation

He congratulated the UK on its draft. He had not had time to study the Franco-German text.

(ii) Decision Taking

The veto as such was anathema to the ethos of the Community. It should be possible to safeguard

national interest without blocking all progress. One option was for the country affected to opt out of the decision. The Presidency's paper was broadly acceptable.

(iii) European Parliament

It would be intolerable for Member States to go on treating the Parliament as a consultative assembly. Obviously it could not be given as much power as a national Parliament but it should be given a legislative role in some areas. The Council should, however, retain the last word.

(iv) IGC

An IGC should take place provided that it was on specific issues and with a specific mandate.

14. Mitterrand (France) in a long and unfocused intervention (without notes) said that all Member States were responsible for the vices which had crept into the application of the Treaty. They had abused unanimity, ignored the Parliament and constrained the Commission.

(i) Decision Taking

The Community should first apply the Treaty it has. France was ready to reduce the number of issues which had to be decided unanimously.

(ii) European Parliament

Should become involved in particular areas (he mentioned 9 from his memorandum) without being able to block the process.

(iii) Political Co-operation

He favoured a Political Secretariat but stressed that France had never thought of turning this into a separate institution.

(iv) IGC

The Council should, above all, avoid calling for the moon and courting failure. Decisions could, if necessary, be taken at the next Council. He was content for the Italian Presidency to settle whether the decision should be taken by an IGC or the Council. But a IGC, if it was called, would have to be a success.

15. He concluded with a long general statement about the need to move Europe towards greater unity, including a military and security aspect. Those who wished to participate should do so. If this was not possible within the Treaty, fewer than 12 might go ahead outside it. He favoured a maximal outcome, including Treaty amendment, but would be ready to accept less.
16. Andreotti (Italy) said that the Community did not need to adapt because it was a Community of 12, but because it was currently not making a success of its work. The institutional arrangements were simply not right. The difficulties over the Frontier Directive which followed from the first Adonnino Report illustrated this.

(i) Decision Taking

The existence of the Luxembourg compromise was an obstacle which should be eliminated.

(ii) European Parliament

Parliament was frustrated. Conciliation did not work. The Community of course needed a centre for decision taking but Parliament would not inhibit that. Co-decision making should be introduced gradually, but a start should be made now.

(iii) Political Co-operation

He favoured the formalisation of Peco but would be disappointed if that was the only achievement of Milan. At the least, he would want to see the addition of a preamble about European union.

17. Delors said that he looked to the Council today to endorse his proposals on the internal market. But to achieve that would require a better decision making process. He had disappointed the Parliament by telling them that it was possible to secure the Community's aims without amending the Treaty. But in fact he thought it would be difficult to make progress without Treaty amendment. A major cause of paralysis was that the Council failed to vote by majority even when this was foreseen. Out of every 100 decisions gathering dust on the Commission's shelves, only 45 required unanimity; 55 were held up because of the insidious effect of the Luxembourg compromise. The Community could not afford a process which took account of every national reason for delay. The Architects' Directive had taken 17 years. The directive on company mergers had been around for 12 years and never reached Ministers. The use of unanimity should be strictly limited and with a time limit (the

Commission told us privately that Delors envisaged 30 days). But it would also be necessary to do away with unanimity on Articles 57.2, 99 and 100. Unanimity should apply only to questions about the scope of the Treaty, amendments and derogations.

(i) European Parliament

None of the proposals put forward would work. A "shuttle system" would double the time taken. Conciliation would not work. The Treaty had to be changed. He proposed a two stage plan.

- (a) Partial modification of the Treaty to reconcile efficiency and democracy. On all matters relating to the internal market, the Council should proceed by majority voting whenever the Parliament agreed on a proposal.
 - (b) An IGC should take up the other issues raised in the Dooge Report.
18. On the question of differentiation, Delors distinguished between its negative form (when one country wanted to hold back) and its positive form (when 5 or 6 wanted to go ahead). He had no quarrel with the latter.
 19. Gonzales (Spain) said that he spoke with diffidence as a new boy. He emphasised the need to apply the Treaty as it was and to limit the area of application of the Luxembourg compromise. The European Parliament suffered from the contradiction between its direct election and its lack of power. The Commission should be the motor of the Community but was not allowed to function as such. He favoured political co-operation but not a separate institution.
 20. Soares (Portugal) spoke in favour of the internal market, a technological Community and a new impulse to Pocco. He was basically open-minded about institutions.
 21. Craxi said that although different views had been expressed they were not irreconcilable. Everyone wanted more majority voting but without overriding vital national interests. Everyone agreed that the Council should have the final say. There was a close relationship between decision taking and the internal market. He believed the Treaty had to be revised: no Treaty could be changeless. There was a need for a deeper understanding in the Council. It would require a miracle to get decisions at Milan. But Foreign Ministers should discuss and that evening the Council would consider institutional subjects again the following morning.

People's Europe

22. Craxi proposed that the FAC should report on progress on the interim report to the Luxembourg Council and on the final report to the Brussels Council. Slow progress on the interim report had caused him some anxiety. Andreotti noted that, despite agreement in the Council, people were now placing reservations on the Frontier Controls Directive. Delors complained that the Council should not endorse these reports on the nod. They contained too many proposals to be implemented in a year. Craxi clearly wanted to defer any further discussion until the next European Council. But Andreotti objected. The report had been produced by the representatives of Heads of Government, not by some university. There could be disagreements about timing, but the proposals called for a strong political steer. Lubbers agreed and suggested that some of Mitterrand's proposals might be taken at the same time. Mitterrand was content with this. He suggested that the Council should say that it accepted the Adonnino Report and had set up machinery to implement it.

EC/CMEA

23. Craxi introduced the draft Community statement on relations with CMEA. He thought that it was a little cold. The Prime Minister commented that it was warm enough as it was. Delors said that the Polish Ambassador had been in a great hurry to deliver his message in order to avoid it being handled by the next CMEA President, the Romanian. He had not had a reply to his question whether a joint statement by the Community and CMEA would preclude negotiations between the Community and individual CMEA members. Genscher (Germany) reported that the Hungarians had said that they would welcome a statement of this kind provided it was in general terms. Only it would not preclude bilateral negotiations with CMEA members. Craxi wanted to add a sentence saying that the Community appreciated the CMEA's approach. The Secretary of State questioned whether a statement was necessary at all. Lubbers suggested a sentence to the effect that the Community was awaiting the results of exploratory talks. FitzGerald wanted to make it plain that the Community awaited the CMEA's response to Delors question. The text was approved as agreed.

Economic Situation

24. Delors reported on recent discussion with Finance Ministers and Central Bankers about the reinforcement of EMS. Central Bank Governors had proposed a package of measures to improve the usability of the official ecu. But other questions remained unanswered, particularly about the potential role of the ecu as a reserve currency and its use in private

hands. Unfortunately, two countries participating in the EMS thought that the private ecu was a popular idea only because of the weakness of some currencies. There were serious doubts about whether it was appropriate for use as a central currency. (Delors later commented that he had had no comments on this from the Council: he assumed from this that the Council was "endorsing inertia for another 6 months".)

25. Delors continued that he had not been able to finalise the Commission's study of the reason for Europe lagging behind the US and Japan. He promised a constructive report for the December Council with proposals to invigorate the European economy.
26. The Prime Minister referred to the consensus reached at Dublin and Brussels on the need for a firm financial strategy for the medium-term. There was also a wide measure of agreement that Member States should try to free markets from unnecessary restrictions and look critically at the role of the public sector. Some social legislation was having the opposite effect from what was intended. Member States should support each other in their efforts to correct faults in social security arrangements and to maximise the real opportunities for growth and employment.
27. The Prime Minister pointed to the need for action at national and Community level to reduce burdensome regulations. She welcomed the Commission's response to the Brussels Council Conclusions. A permanent machinery should be set up to review existing burdens on businesses and to vet future proposals. She hoped that Delors would consider setting up a central unit within the Commission to deal with this. She looked forward to determined action for the remainder of 1985 and to receiving a full report from the Commission for the next European Council.
28. The Prime Minister also underlined the need for the Community to be firm in its dealings with Japan, whose 1984 surplus (\$45 billion globally and \$10 million with the Community) threatened the world trading system. The Japanese Government needed to open up its market, but the first stage of its import action programme appeared inadequate, especially from the Community point of view. She suggested that the Council should endorse the FAC's declaration of 19 June and that Delors should stress to Nakasone that the Community would judge Japanese policies by their actual results and would review these in the Autumn.
29. Delors confirmed that the Commission was studying the problem of small and medium-sized enterprises, as requested at Brussels. A report would be produced in time for discussion at Luxembourg.

30. He reported on his meetings with employers and trade unions (except the French CBI and the British TUC). On the strength of this, he concluded that it would be possible to get them to co-operate on 2 subjects: new technology and training, especially of young people. The Commission was also reviewing the organisation of the labour market, especially the sharing of working time. There were grounds for hope of European agreement here.
31. On Japan, he shared the Prime Minister's analysis. The problem was not just one of customs procedures. Europe did 45% of its trade with the outside world, compared with only 5% in the case of Japan (15% for the US). How could Japan claim to play its full part? He saw two ways of dealing with the problem: to set the Japanese an import target; or to increase European tariffs in order to ensure that firms would have enough profits to finance research and development in the future. He intended to put both approaches to the Council of Ministers soon. Meanwhile, he did not take the Japanese mini-package seriously, especially while the Yen remained undervalued. This was a problem which the Community should discuss with the US. He would certainly speak sharply to Nakasone about it.
32. Kohl agreed that Delors should speak toughly with the Japanese. But he had doubts about using tariffs against Japan: this would risk aggravating the problem of protectionism in the US.
33. On EMS, Kohl commented that the Bundesbank was bound by the law. If the Commission wanted to make progress here it should discuss further with ECOFIN. The starting conditions needed to be right: some countries restricted movement of capital; exchange control arrangements differed; economic policies were in some cases divergent. As for the private use of the ecu, he agreed that this was an area where the FRG could be a little more flexible; but only if other states played their part.
34. Lubbers agreed with the Prime Minister and Delors about Japan: Japan should open her market or Europe should close hers, with a preference for the former. Some selective protectionism might be necessary: for new technologies at least.
35. FitzGerald said that the Council could not deal only with institutional change: it must say something about economic and social policy. After short comments from Santer, Martens and Mitterrand, Delors said that he would like to examine further the implications of the private ecu and, as agreed at Sicily, its possible use as a reserve currency. He did not think that Europe should wait until all capital

movements were free, the Belgian double currency was removed and the Pound Sterling was in the Exchange Rate Mechanism before taking these studies forward. He favoured progress on all these fronts step by step.

36. Kohl warned Delors to consult Finance Ministers and Bank Governors before shooting from the hip. He repeated what he had said in Dublin about the immobility of labour in Germany. FitzGerald referred to the ECOFIN proposals on conjunctural policy, which he regarded as very important. Andreotti agreed that Delors should go ahead as proposed with his studies in depth.

18.55: Technology

37. Craxi introduced the subject by reading a message from Austria about EUREKA. Mitterrand said that EUREKA was just the product of a few Frenchmen (1). He noted that the Commission had done a lot of work on a technological Community. This should be joined to the EUREKA proposals. The aim was to strengthen collaboration between European researchers and enterprises. His list of fields was not exclusive. He was not suggesting any particular method or agency. He did not agree with the traditional French approach that every new idea needed a new institution. 16 countries had expressed an interest in EUREKA (Norway, Sweden, Switzerland and Austria as well as the Twelve). The Japanese had shown interest, as had the Soviet Ambassador. Some companies were already going ahead: Phillips, GEC, Thompson, Siemens etc. The next step should be to call an ad hoc Committee of the 16 countries interested by 14 July.
38. He noted that EUREKA was linked chronologically to the SDI. But he stressed that he had not proposed EUREKA in order to block SDI. EUREKA was a civil programme whereas SDI was a military project with a 30 year time scale. There could be a conflict in resource terms and competition between military and civil applications, for example over lasers and mirrors. But it was vital to close the gap with the US and Japan. Without an early start it would take a hundred years to catch up and would be as though Europe had failed to introduce electricity.
39. The Prime Minister strongly supported Mitterrand. The problem was not a lack of ability or funds for research: it was a failure to get from the research stage to the market place. The fragmented European market and national procurement and fiscal measures worked against a Europe-wide product. That was why Europe had 9 digital switching systems for a market which could support 2 or 3. As Dr Dekker of Phillips had said, a real Common Market was of more value than any amount of Government money.

40. The Prime Minister made 3 proposals. First we should identify the high technology products on which to concentrate. Discussion with European companies had identified the following sectors:

high speed trains

air traffic control

mobile digital radio

post office automation, including automated parcel handling

interfaces for computers for Europe-wide application

advanced robotics

industrial lasers

factory automation

information and control systems in the home.

41. Secondly, we should find ways of encouraging commercial exploitation of those products. The internal market was crucial here. But the Prime Minister also proposed a Euro-type guarantee, to encourage companies to co-operate. Thirdly, we should find ways of involving firms in EUREKA products. Finance and Internal Market Ministers should examine all the ideas coming forward.
42. Lubbers gave very clear support to this approach, stressing the importance of opening public procurement. He had a long list of projects which were supported by Dutch companies. He proposed that the EIB should have a role in Eureka.
43. Kohl warmly welcomed Mitterrand's initiative. He said that he saw no conflict between Eureka and SDI: indeed those who had been most hostile to SDI were now among the first to join in contracts with the US. He felt that the Community should be the core for Eureka, but other countries should be allowed to take part (though Soviet interest need not be taken seriously). He suggested that Mitterrand should call the first meeting in France, to be attended by technologists rather than bureaucrats. Lubbers tried to introduce the Commission's paper on this stage, but Craxi said that it would be taken the following day. Mitterrand said that he would call a meeting of 2 representatives from each country and from the Commission.

Institutions

44. At 2000 hrs Kohl and the Secretary of State had a private meeting and agreed to co-operate in producing draft conclusions containing the maximum amount of common ground. Butler, Williamson and Renwick then had a series of meetings with the Germans (Teltschik), the French (Attali, Bianco, Bernard and Mme Gigou) and the Irish (Fogarty). In each case, the purpose was to put on paper the maximum that could be agreed on decision making, the European Parliament, political co-operation and the internal market in order to put pressure on Craxi not to leave all these issues for decision after Milan. There was no difficulty with the Germans over Poco or Eurotype, which they appreciated: but the Germans went too far for our taste on the internal market (where they played up the excellence of the Commission's paper and gave high priority to tax harmonisation) and decision making (where they wanted at least 2 Treaty articles amended). The German proposals were the subject of a UK redraft and by 2330 hrs, we had a final German text which was broadly acceptable except for references to tax harmonisation "at an early stage".
45. With the French the main difficulty was over the European Parliament (where they wanted to retain Mitterrand's idea of involving the Parliament in a future decision to increase Own Resources to 1.6%) and other parts of the Mitterrand memorandum - notably the campaigns on youth and cancer.

B. MEETING OF FOREIGN MINISTERS: 28 JUNE

46. This ran from about 2100 hrs to 2240 hrs and was followed by dinner until 0100 hrs on 29 June. The meeting was described by the Secretary of State as one of the worst he had attended. Dumas (France) waffled unhelpfully. Genscher produced a draft which took matters in the wrong direction. Behind the scenes, there was a row between Ersboell (Council Secretariat) and the Presidency, who seemed to believe that they could force an agreement on an IGC for Treaty amendment by holding us up on the internal market. In the end, however, only the Presidency and, to some extent the Belgians, appeared to oppose our proposal for a package on specific decisions in the 4 areas under discussion. The Secretary of State summed up the outcome as 8½ to 1½ in favour. As a result, the Presidency's short and general draft was abandoned and Ersboell was told to go away and produce an alternative to Andreotti's conclusions. The UK's drafts were given to Ersboell, who made good use of the material on the Internal Market. But the Presidency prevented him from including our package of institutional proposals.

C. DINNER OF HEADS OF STATE AND GOVERNMENT: 28 JUNE

47. This was devoted to a general discussion on political co-operation subjects, in particular terrorism, Afghanistan and South Africa. On terrorism, the Prime Minister put forward the UK's ideas for closer cooperation (FCO telno 1031 to Washington). There was a general feeling that the Ten should be doing more. But the Greeks objected to the text on the ground that it implied that it was wrong in all circumstances to give way to terrorists. On South Africa there was a consensus in favour of reviewing and strengthening the code of conduct for Community firms.

48. D. FOREIGN MINISTERS' MEETING: 29 JUNE

19 The meeting had before it draft Conclusions which postponed all institutional decisions until December but envisaged an intergovernmental conference (IGC) under Article 236.
09.15 Andreotti proposed various amendments and Genscher asked for several "European Union" additions. The Secretary of State tabled the UK's proposals on political co-operation and decision taking. He was supported by Elleman-Jensen (Denmark), who objected to the Presidency's proposal to change the rules of procedure to permit a majority of Member States or the Commission to demand a vote. Van den Broek (Netherlands) supported the UK proposals, but wanted a reference to the fact that the Community was proceeding towards European Union. Haralambopoulos (Greece) supported the UK line except on POCO. Dumas (France) agreed that it was desirable to make progress as the UK proposed on Parliament, decision taking and POCO; but he also wanted a stronger reference to European Union including a date for its formalisation at an IGC, perhaps based on the Council.

49. By 1030 hrs, when the Prime Minister arrived, the position was that the Italians were still resisting a package of specific decisions, but the UK had support from several Member States, including Luxembourg and France. There was still a difficulty with the French over the exclusion of Parliament from any role in Own Resources. The main difference with the Germans was over whether to call the POCO agreement a "Treaty".

E. MORNING SESSION: 29 JUNE

50. Andreotti reported on the Foreign Ministers' meetings. He had wanted to see if agreement could be reached on steps which would enable the Council to come up with the European Union which was sought. He acknowledged that the Italian draft had not gone beyond generality. But he claimed that some of the British ideas were old hat: for example the proposal for abstention under Article 148(iii) had been

agreed at Stuttgart. Denmark and Greece both said they were opposed to any change in the Treaty. But the Council had to take account of the Commission's view that changes were needed to complete the internal market by 1992. He said that there was now a new Presidency text as well as a new German one (which called for an intergovernmental conference to prepare a draft Treaty on European Union by 31 October for discussion at Luxembourg). Andreotti floated the idea of calling a conference by majority vote to modify articles of the Treaty.

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51. Kohl then spoke to the German paper, arguing that the moment of truth had been reached. An IGC should be set up with a clear mandate. If not, the issue would drift into the Luxembourg and Netherlands presidencies. If some partners did not want such a thing, that should be recorded. If it was not possible to revise the Treaty, the Council would decide what to do instead to improve the system.
52. The Secretary of State restated the UK position. The Council should concentrate on the specific decisions which could be reached in the 4 areas under consideration. Martens said that he preferred the German paper which offered a mandate for an IGC. Lubbers seconded him. He did not believe that the Community could reach its objectives without Treaty amendment. The Council should ask the Commission what was the absolute minimum of necessary change.
53. Santer said that the Luxembourg Presidency had to know exactly what was intended. Without very clear guidelines, the enterprise would fail. He could agree with Kohl's mandate though he had no illusions about it being accepted in a future European Council. Mitterrand spoke in favour of the German text. The Ten should be able to agree on certain points: in particular the powers of the Commission and the Parliament; and the tightening of the Luxembourg compromise. But if clear guidelines could not be produced for an IGC/European Council, he would favour agreement on the changes which could be accepted by the Ten now. Those who wanted to go further with an IGC could then do so. Andreotti, addressing Papandreou, said that he had always been argued that the Community should work on a basis of fair play. That was the purpose of the Social Fund etc. But it was also relevant to the functioning of the Community, which was more than an abstract legal exercise.
54. The Prime Minister said that the central point was the need to get behind the rhetoric and to achieve results. The Council should decide what it could agree and what it could not. Further proposals could always be put forward later. The choice was between success and failure. She did not think that there was any need for Treaty amendment nor for

an IGC, of which the Community already had 3 a year in the form of the Council. Andreotti denied that the Italians were being rhetorical and offered to send the Prime Minister a copy of Cicero to prove it! He maintained that all the pragmatic proposals on the table had been agreed at Stuttgart.

55. Schluter said that the best was the enemy of the good. The important thing was to streamline the decision making process. He feared however that the proposal that a majority of the Council or the Commission could demand a vote would spell the end of the Luxembourg compromise.
- 26 56. Delors said that the internal market document had been produced at the request of the Council and it was not being offered "à choix". He referred to his two stage proposals from the previous day, to which noone had responded. He still believed that minor Treaty amendment was necessary. But the alternative approach - a solemn commitment on procedures - was still available.
- 14 57. Elleman-Jensen persisted with the view that the earlier voting procedures would undermine the Luxembourg compromise, which depended on the postponement of a decision. Genscher said that an IGC would enable Member States to see how far the Community could go. Haralambopoulos said that Greece could accept the Presidency's text as a basis for discussion but not the German text. Craxi said that he would be happy to work on the German paper with some additions, notably on the extension of the scope of the Community. Kohl proposed that lunch should be delayed in order to clarify the position. The Council should not leave Luxembourg holding the baby. Craxi then said that, in the light of 2 days of debate, his inclination was to convene an IGC under Article 236 of the Treaty to discuss all the questions on the table. It remained to define the IGC's mandate.
- 1215 58. (Williamson reported to the Secretary of State that the French (Lalumiere) and Germans (Ruhfus) had agreed outside the Council on some broadly acceptable amendments to the draft conclusions. The only difficult area was that they envisaged political co-operation and possible Treaty amendment being taken in the same framework. But discussions were going on between our delegation and the Germans and the French to separate these issues so that political co-operation could be agreed early and other matters left for later consideration.
59. By this stage, however, the atmosphere in the Council had become very strained and there was a break for bilateral discussion. During this period, there was a furious row between the Prime Minister and Kohl, who accused the UK of not wanting to develop the Community. The Prime Minister
- 1215

replied in kind, referring to the German record on infractions and its recent vote in the Agriculture Council. During the break the Belgians began to argue actively that an IGC could, under article 236, be convened by majority vote. As a footnote, the Greek record has it that the Prime Minister went over the Papandreou and said "Andreas, we are allies in this: but more important, we are friends". This followed a handsome apology from Papandreou the previous morning for what he was reported to have said about a "Police State" in Britain).

- 1245 60. After the break, Craxi said that the Presidency had received a number of amendments to its text from the Germans. FitzGerald warned that if the FRG text was accepted as a basis, discussion would have to start all over again. Papandreou felt that it would be better to stick to the Presidency's text. Craxi said that the FRG text was the mandate for a conference on which the Council had to decide. The conference would consist either of the Council or of Foreign Ministers representing Member States. Parliament demanded a conference. The Presidency approved this approach.
61. The Prime Minister pointed out that the only purpose of an IGC under Article 236 was to make Treaty amendment. But the formal procedures had not been followed. Parliament had not been consulted. She still saw no case for Treaty amendment. Craxi commented that Parliament's views were well known. Amendments had been proposed by all sides. He therefore concluded that a conference must be called. Papandreou supported the Prime Minister. Of course the Presidency could call a conference, but the Greek Government would not support Treaty amendment. FitzGerald said that a conference should be called only if it was likely to be fruitful. The Council should follow the correct procedure. Lubbers said that the proposals in front of the Council included a lot of elements of European integration: including political co-operation, the external market and technology. The one thing missing was how to streamline decision making. A majority seemed to favour Treaty amendment. Others preferred to act more quickly without Treaty changes. He thought it would be necessary to call a special meeting to put all the building blocks in place. But such a meeting would need a mandate. He noted that FitzGerald was not opposed to a conference or to Treaty amendment.
62. Schluter said that it would be a mistake to call an IGC. The Council should take decisions immediately on the basis of page 1 of the Presidency text and the UK amendment on page 2. Santer favoured Lubbers's approach. The Council should agree on the points to be discussed. The Secretary of State repeated that a conference would be inappropriate. It could only consider Treaty amendment. Its remit would

therefore be too narrow.

65. Andreotti said that an IGC could consider all the various proposals on the table, including the "pragmatic" ones. An IGC would meet political expectations. It would not be a repeat of the Dooge debate, since it would involve Foreign Ministers. Lubbers said the key issue was whether or not to amend the Treaties. Mitterrand said that he did not disregard the arguments put forward by the UK, Denmark and Greece. Everyone had some doubts about the outcome of an IGC. But further arguments could be reserved for an IGC.

64. Craxi said that the Council already had the opinion of the European Parliament but, if the formal procedure required it, then the FAC could take the decision on an IGC after receiving the opinion of the Parliament and of the Commission. Delors confirmed that the calling of a conference could be arranged by majority vote. Whether to resort to majority vote was at the discretion of the Presidency. Craxi said that political co-operation could be taken by the IGC at the same time. All issues could be a subject for negotiation at an IGC using the powers flowing from Article 236.

65. The Prime Minister said that the Council had so far reached its conclusions always by unanimity. It was a matter for Craxi and Andreotti whether to exercise their discretion on majority voting. She remained opposed to an IGC, for which she saw no need. Andreotti pointed out that the UK could always abstain under Article 148! FitzGerald said that these proposals had taken him by surprise. The only proposals before the Council concerned Articles 57, 99 and 100. If he had known in advance, he would have had other proposals for example about the Parliament and the Commission. Andreotti pointed to the proposals in the Dooge Report. FitzGerald commented that the Dooge Committee was neither the Commission nor a Government. If the Council called an IGC now it would not be able to look at any other proposals. Craxi then called a formal vote (for the first time in the history of the European Council). The Prime Minister, Papandreou and Schluter voted against and the rest in favour.

1400 66. As the Council then broke for lunch, the Prime Minister had a discussion with Craxi. She pointed out that HMG were pledged not to amend the Treaty provisions on decision making. In any case, the IGC under Article 236 could consider only formal proposals for Treaty amendment. It could not take up the other ideas, such as Poco. The 7:3 vote would lead to no achievement. The Presidency, having decided to use their discretion, were on their own. The alternative course would have been better. Craxi acknowledged that decisions at an IGC would have to be

unanimous: there was therefore no reason for the UK to be worried. He agreed too on the need to go through the correct procedures with the FAC and that any Member State or the Commission put forward additional proposals.

67. Before lunch Butler spoke to Dumas who agreed that it should still be possible to reach an agreement on a consensus basis. Butler said that the UK, France and Germany were quite close. Did he agree that the political cooperation agreement should be treated separately? If so, we might be able to reach full agreement with France and Germany. Dumas said he was inclined to agree and would put the point to Mitterrand. Butler said he would submit a revised draft to the Prime Minister and then show it to the French if she agreed.
68. At the Prime Minister's briefing before lunch, the general view was that the vote had greatly reduced the chances of securing a package of specific decisions at Milan. But the Prime Minister agreed that a further effort should be made to amend the Franco-German text on the lines attempted the night before. After lunch however, the Council was confronted by another Presidency draft, which tried to combine some instant decisions on procedure with an IGC to deal with POCO and Treaty amendment. A UK draft was agreed by the Prime Minister and Secretary of State and circulated shortly afterwards, but, partly because of delays over translating it into French and German, never featured at the centre of the discussion in the afternoon.)
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F. AFTERNOON SESSION: 29 JUNE

69. In discussion of the Presidency draft, Delors proposed the deletion of "without prejudice to Ic" from paragraph Ia and the whole of paragraph Ic; the deletion of "the essential acts of the common policies" from paragraph 3; the addition of Article 99 to paragraph II; and a reference to the powers of the Commission in III. De Keersmaker (Belgium) said that he could not accept the inclusion of paragraph Ic on the Luxembourg compromise. In paragraph Ib, on exemption of States from particular policies, he insisted on adding "in full respect of Treaty obligations". He offered an alternative formulation on the Luxembourg compromise. Santer, Vandenbroek and Genscher agreed. Papandreou said that there was no sense in discussing any of these proposals pending an IGC.
- 34
70. The Prime Minister proposed the deletion of any reference to the Commission in paragraph Ia on the speeding up of voting. She insisted on retaining Ic. As to the third part of the Presidency paper, she proposed the alternative UK text which was then circulated. PitzGerald wanted a reference on page
- 33

2 to economic convergence. Genscher argued against including Article 99 in the remit of the IGC. The time was not ripe for fiscal approximation. As to convergence, this would have to refer to "economic policies" rather than "economies". FitzGerald could not accept Genscher's proposals. Craxi argued that economic convergence was covered by the reference to Article 2 of the Treaty. FitzGerald reserved his position. Dumas agreed with the Commission about paragraph Ia and the Belgians about paragraph Ic.

71. The Prime Minister said that the Council needed a document to summarise where it now was. Papandreou repeated that, if the Council insisted on going for an IGC, there was no sense in pursuing any other proposals. He would withhold unanimity on them. Craxi said that Delors' proposal to add Article 99 had to be rejected. But the other Commission and Belgian amendments seemed to be agreed. The Prime Minister repeated that Ia needed to be retained as in the Presidency text in order not to undermine the effect of Ic. Elleman-Jensen supported the Prime Minister. He also suggested the inclusion of "possible" before the reference to Treaty amendments in part III and to "Treaty or agreement" on political co-operation.
72. Genscher said that he could not agree to the Luxembourg compromise becoming the Milan compromise. The Belgian proposals were as far as he could go. The Prime Minister pointed out that the compromise and its use was a political fact. She could not depart from the agreed text. Delors argued that the Belgian version was accurate. Mrs Thatcher warned that the Council needed to proceed on the basis of unanimity. Not to do so would spell the end of the Council. Lubbers tried to explain that the gist of the Belgian amendment was that members who wished to invoke the Luxembourg compromise should agree to justify it. Paragraph Ia did not affect the Luxembourg compromise. Papandreou said that the Council could have an IGC or procedural amendments but not both. FitzGerald did not understand the logic of this position. Schluter argued that the remit for an IGC could not be decided by a majority vote. Given that the Council disagreed, all the proposals would have to go to the IGC. Andreotti maintained that there was no need for unanimity on an agenda. Any Greek objections could be included in a footnote as reserves. Papandreou could not accept this suggestion. The Council had to proceed by unanimity on this matter. The Prime Minister agreed that unanimity was essential if the procedural proposals agreed were to be binding. Papandreou remained adamant. Dumas proposed that the decision on an IGC and its mandate should be fixed by the Foreign Affairs Council.
73. The Secretary of State proposed the whole of part I should

be dropped in order to get round Papandreou's opposition. Delors argued that I was part of the IGC's mandate. Craxi said that he could accept the UK proposal but he would like to put part I to the FAC for decision by majority. The Secretary of State pointed out there was no point in doing this. Haralambopoulos argued that such decisions had to be unanimous and that Greece would not abstain. The Prime Minister agreed that the part I proposals could not be settled by a majority vote in the FAC.

74. Lubbers pointed out that the proposals in I could all be settled without Treaty amendment. The UK and Denmark were ready to do so. There would be no problem therefore if Greece agreed. Papandreou repeated his objections. Genscher proposed that part III alone should go to an IGC. The Council should now adopt parts I and II, which would be converted by the Presidency into proposals for the Foreign Affairs Council. Mitterrand supported Genscher.
75. Craxi summarised that the conclusions would consist of the first 2 paragraphs of page 1 and the whole of section 'III. All the rest would be worked on by the Presidency for submission to the Foreign Affairs Council. He noted that Papandreou continued to disagree.

18.45 Internal Market

76. The Prime Minister proposed that "the measures necessary" in paragraph 3 of the draft conclusions should be amended to "which measures might be necessary". This was agreed. Genscher secured the addition of "the liberalisation of capital movements". Delors objected that the conclusions were still no good, but they were too late to change now. Craxi pointed out that paragraph 1 was very satisfactory. Delors said that he had circulated a re-draft at noon but it was too late for consideration now. The Commission must be given time to support its overall plan, which should be discussed soon.
77. Kohl said that he could live with the Commission text with some changes. The Secretary of State said that it was too late to start working on the Commission's text. Lubbers suggested adding to the Presidency text "the completion of the internal market will be achieved on the basis of improved decision taking procedures to which Member States will commit themselves". The Prime Minister proposed adding to the Presidency text paragraphs 2 and 4 of the Commission text (which approved the Commission's communication and welcomed favourably its White Paper; and instructed the Council to ensure that the Commission's proposals were adopted within the deadlines established in the timetable). Delors welcomed this. FitzGerald objected that he could not accept paragraph 4 of the Commission text. Craxi said that

paragraphs 2 and 4 served the same purpose as paragraph 1 of the Presidency conclusions, which should therefore be omitted. (Comment: in the event, both sets of paragraphs were retained.)

Technology

78. Delors spoke to the Commission's proposals. Martens speaking for Benelux, said that Europe's approach needed to be based on the Community. He proposed a number of amendments to the Commission text. The Prime Minister proposed several amendments to the draft conclusions. The Council should note rather than approve the Commission's proposals. The EUREKA meeting should be open only to Western European countries rather than all non-Community countries. It should be attended by representatives of Heads of Government and not confined to Ministers of Research. And the action programme should include a reference to Eurotype.
79. Andreotti said that the Commission's proposals should obviously be studied. Meanwhile EUREKA was going forward. It had the merit of flexibility. But the Commission should not be excluded from this work, which should not be confined to Western European countries. Lubbers said that he still preferred the Commission text. If it did not receive support the Council should say that it had not even been discussed. Martens agreed that the Council should do more than merely note the Commission's proposals. They were interesting and deserved support. Mitterrand spoke up for the Presidency conclusions. He was afraid of putting work on technology into a strait-jacket of red tape. He supported most of the UK amendments.
80. Delors threatened to withdraw his text. All he wanted was some support for what he had been doing. But the Council merely proposed to bury it with a wreath. The Council had had time to study the Commission's papers. He did not want to discourage his staff in this way. Andreotti said that everyone supported EUREKA and a closer link to the Community. Lubbers said that EUREKA and the Commission's proposals were of equal importance and proposed adding "the European Council considers that with reference to EUREKA it would be right to achieve good co-ordination with the Commission's proposals". Santer agreed. But Delors persisted that his text had been withdrawn. He had been trying not to challenge but to reinforce EUREKA. How could the Council work efficiently when no one read the Commission's papers? Delors spoke very emotionally and the atmosphere became tense at this stage. But it was noticeable that the discussion concerned only a few members of the Council. Ellemann-Jensen was making Council briefs into paper boats to float on the tank of lilies inside the

Council table; and Moran (Spain) was busy drafting an illustrated risqué poem about the European Council).

81. Mitterrand appealed for reason. Everyone welcomed EUREKA. The Commission's proposals were very good. There need be no conflict between them. The Benelux approach went too far. But there is no reason why the Council should not approve and espouse the Commission's proposals, provided that the key paragraphs about EUREKA were retained. (The Council Secretariat people who were present claim that the Prime Minister had earlier argued on the lines of her speaking note but shrugged her shoulders when others appeared to accept Mitterrand's "approve and endorse" formula).
 43 Andreotti undertook to re-draft the text on this basis. The Secretary of State asked for Eurotype to be included and Lubbers asked for participation of the EIB to be mentioned. Andreotti agreed.

Famine in Africa

82. Natali (Commission) spoke to the draft conclusions. The Prime Minister suggested adding to paragraph 2 that the proposal for the special reserve of 1/2 million tons of cereal equivalent needed to be studied by Development Ministers. Natali agreed, though the money for it was already in the draft budget for 1986. FitzGerald proposed that Development Ministers should be asked to examine the proposal as a matter of urgency. This was agreed.
83. People's Europe
- 36 There was some debate as to whether the report of the Adonnino Committee should be noted, as the Prime Minister proposed, or accepted, as Dumas preferred. The final version read "approved".
85. The Council ended at 9 pm.

Postscript

86. Ersboll later gave his account of why the discussion on institutions went so badly awry after lunch on 29 June. The UK's draft conclusions were circulated at 1600 (in English) and several Governments (including the Belgians) received it favourably. But delay over translating it had enabled the Presidency to concentrate a discussion on their paper circulated at 1500, with translations shortly afterwards. In the tired, irritated and confused atmosphere of the Council, Craxi had been able to block all the UK's procedural proposals in the hope of remitting them to the IGC. Andreotti had throughout said that he preferred no result to one which involved only minor procedural improvements. The Italians had been materially helped in

this by Papandreou's obstinacy in refusing to accept any of the decision making changes proposed in paragraph I. Ersboll commented that in retrospect, the vote on a IGC had been the turning point. This had given the Italian Presidency the only institutional decision which they wanted to get out of Milan. Andreotti had realised quite late in the day (certainly no earlier than the evening of 28 June) that Article 236 provided a means of isolating the UK, Denmark and Greece. The Benelux had been happy to collaborate because of their anger at the success of the British press campaign in which they were labelled as hopeless idealists. The French and Germans had remained fatally ambivalent, actively discussing a package of decisions while at the same time concerned to ensure that they were not sold as a British triumph.

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23 JUL 1985

EUROPEAN COUNCIL: MILAN: 28/9 JUNE 1985

A. FIRST SESSION 28 JUNE

- 11.15 1. Craxi (Italy) did not discuss the agenda of the Council, on
1 2 which the Presidency had already circulated a letter.
Instead, after briefly welcoming the new Spanish and
Portuguese observers, he immediately introduced a discussion
on the institutions.

Institutions

2. Craxi said that, from the Presidency's many contacts, it was
clear that there were differences of opinion but a
constructive spirit which raised the hope that an agreement
could be reached. Everyone agreed on the need for more
efficient decision making.

(i) Luxembourg Compromise

Without questioning the principle of recourse to
national interests, he thought that everyone
wanted to shelter the Community from the
excessive use of the veto. The enlargement of
the Community required a different system, and it
should not be too difficult to reach a consensus
on this.

(ii) European Parliament

The Parliament wanted to see a redefinition of
its powers and functions. Its members were
profoundly frustrated. On 27 June the President
of the Parliament had spoken again of their
"demands". Various proposals had been made which
needed to be examined.

(iii) Commission

There was also the problem of the Commission's
competences and the possible reinforcement of its
role. There had been discussion of extending the
scope of the Community to areas which were not
strictly economic. The progressive development
of the European ideal required a broader view of
European collaboration.

(iv) Political Co-operation

The structure of political co-operation needed to
be reinforced. Drafts had been circulated which
offered "important insights" into how to do this.

3. Craxi commented that the degree of disagreement in the Community had been exaggerated. Negotiation at the political level could produce agreement. He did not exclude Treaty amendment. The option also existed of organising a conference, which could take the form of the European Council itself. He concluded "we need balanced reasonable conclusions based on compromise".
4. Kohl (Germany) said that the Council had decided in Brussels to try to get Europe out of its rut. The Dooge Report provided the basis for this. Earlier meetings had focussed on whether to hold a conference or not. That should be considered at the end when it would be clear whether there was a mandate for such a conference. He could agree to a conference provided that it had a clear mandate.

(i) Decision Taking

He favoured majority voting as provided for in the Treaty. He would also be prepared to amend the Treaty in specific ways for specific objectives. The main need was to find common ground. He acknowledged that Germany had invoked the Luxembourg compromise. It had done so because others had done so. If the instrument had not existed, Germany's behaviour would have been different. But he would prefer to go further and was ready for detailed discussion of Treaty amendment.

(ii) European Parliament

Europe could not afford to enter the next elections without doing something about the Parliament's powers. In 9 cases out of 10, the Council took no notice of the Parliament's views. Kohl then spoke to a German note circulated on the Parliament's powers. This drew a distinction between:

- (a) Areas where the Parliament should be consulted as at present. This should cover all themes which were not included in (b) and (c).
- (b) Areas where the Council would decide on the basis of a text approved by the Parliament. A new conciliation procedure would be established but the Council would have the final say. This category would include decisions on the internal market and harmonisation of law as well as the key decisions on common

policies, including new policies.

(c) Here the Council and Parliament would act by co-decision. This would apply to decisions on new accessions and associations and on modification of Treaties.

(iii) Commission

He favoured an examination of the Commission's powers and greater delegation of power to the Commission.

5. Kohl concluded that he was ready for major changes but ready also to compromise. Above all we needed a timetable and check list for an IGC. (The Secretary of State commented in his notes that Kohl had done no more than roam around the agenda).

6. Speaking to a paper circulated after the Benelux co-ordination meeting that morning, Martens (Belgium) said:

(i) Decision Taking

Better decision taking was necessary to achieve a genuine internal market which in turn was necessary for a technological Community. This required two things: to do away with the paralysis which arose from the Luxembourg compromise; and to reduce the areas where unanimity was required.

(ii) European Parliament

The present position was a standing reproach to the Community. The Parliament should be given investigative powers over the Commission; should be allowed to ratify treaties; its powers over non-obligatory expenditure should be extended to obligatory expenditure; and eventually it should have revenue-raising powers.

(iii) Commission

Belgium agreed with the Dooge proposals.

(iv) Political Co-operation

3 He had not had time to examine the Franco-German text but was in favour of the UK draft Treaty, subject to minor technical amendments.

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(iv) Political Co-operation

He had not had time to examine the Franco-German text but was in favour of the UK draft Treaty, subject to minor technical amendments.

(v) IGC

He was convinced that the targets of an internal market and a technological Community made it necessary to amend the Treaty. He thought the Presidency's paper on this was excellent. He proposed that the Council should agree the heads of agreement for an IGC.

7. Schluter (Denmark) said that one should not under-estimate what the Community had achieved: budget discipline, the own resources decision, enlargement and IMPs. Denmark was happy with a Commission that took initiatives; he supported Delors' active approach. The Milan Council was well placed to take important decisions, including those on technology and the internal market.

(i) Political Co-operation

He could accept the UK draft. Foreign Ministers should be asked to take it forward between now and the December Council.

(ii) Decision Taking

This would be improved if Member States applied the existing Treaty. There was no need for amendment. The Luxembourg compromise had to be accepted as a political reality; he favoured the UK proposal for an explanation whenever it was invoked.

(iii) IGC

The Council should reach decisions now: there was no need to wait for an IGC.

(iv) European Parliament

It was not realistic to extend the EP's powers at the expense of national Parliaments, the Council or the Commission. Co-decision would mean no decision. The British proposals were very attractive.

8. FitzGerald (Ireland).

(i) Decision Taking

The way in which the Luxembourg compromise had worked was very damaging. Proposals were left hanging for 20 years. The arrangement must be

modified. He did feel however that there should be some room for invoking genuine national interests. He favoured a special procedure involving the FAC.

(ii) Commission

He agreed with Kohl that the Commission's powers should be restored and, in the right areas, increased. He approved the arrangement on IMPs. The appointment of the President should be approved by Parliament and the President should have a say in selecting his colleagues.

(iii) European Parliament

The Community would not achieve its aims without extending the role of Parliament. He favoured co-decision on constitutional matters. Proposals of the Commission should go through Parliament to the Council, subject to strict time limits and a process of conciliation. The last word must rest with the Council.

(iv) Political Co-operation

He had only glanced at the Franco-German text, but paragraphs 8.1 and 8.2 were broadly acceptable. The Council needed to consider how to link POCO with existing procedures.

(v) IGC

If agreement could not be reached at Milan, he was ready to agree to a conference, provided that it had clear terms of reference.

9. In a parenthesis, FitzGerald criticised the Commission's proposals for tax harmonisation. Tax policy had a major impact on social policy. Harmonisation would involve the loss of one third of Ireland's tax revenue. It would also lead to a huge increase in consumption of alcohol and tobacco. Ireland could not face the 14% increase in food prices which would result.
10. Papandreou (Greece) spoke mainly about economic and social problems facing the Community and the need for convergence. The Community needed a re-distributive mechanism in parallel with the creation of the internal market. Federal States devoted 3 to 4% of their GDP to removing regional imbalance. But the Community's structural funds involved only .1%. They needed to be substantially increased. And any moves to a technological Community should ensure that all Member

States participated and benefitted. (While he was speaking, Kohl and Genscher ostentatiously took out their wallets and put them on the table).

(i) Decision Taking

The problem was not one of structures but of lack of will. He favoured greater majority voting under the Treaty; more use of abstention under Article 148; and the Luxembourg Compromise as it was, without qualifications.

(ii) European Parliament

Its influence, but not its powers, should be increased by means of better conciliation.

(iii) Political Co-operation

Greece thought that this had been very effective. There was no need for further Secretarial support which would reduce the role of the Presidency. He could agree to the extension of Peco to security provided that the Ten took account of the needs of countries such as Greece, which were in a special position.

(iv) IGC

He saw no need for Treaty amendment or, by implication, for a conference.

11. The Prime Minister said that the Community had shown its capacity to take decisions over the last year. The Milan Council was the occasion to strengthen its unity internally through completion of the Common Market and improved decision taking and externally through the strengthening of political co-operation. The internal market was now a priority objective. The Commission's White Paper was a major contribution to this. The Council should establish the priorities, which should then be worked on by ECOFIN, and the Internal Market and other Councils. There should be a progress report to each European Council which would set the priorities. These were the removal of obstacles to free movement of goods; the creation of a free market in financial and other services; full freedom of establishment; and a liberalised transport market. These were feasible near-term priorities compared with tax approximation, which would pose enormous difficulties for all Member States, and the abolition of frontier controls, where action had to be reconciled with the need for protection against terrorism, drugs and illegal immigration.

(i) Political Co-operation

The Franco-German draft was based pretty well verbatim on the UK proposals. Article 5 omitted the provision committing Member States not to vote directly against one another at the UN. We could not talk of progress towards a common foreign policy while at the same time weakening that commitment. In addition, Article 8 weakened the UK draft on security co-operation. The UK would, however, accept the Franco-German version of Article 8 if that would enable the Irish to go along with it. There was no need for another Secretary-General; the Council already had a very good one in Ersboell, who should assist the European Council as at present. The UK favoured a small POCO unit to assist the Presidency, alongside the Council Secretariat in Brussels.

(ii) Decision Taking

The Prime Minister introduced and re-circulated the UK's 4 proposals, commenting that President Mitterrand's latest ideas were almost identical to them. In addition, the European Council was not being used to full advantage. It should give strategic direction by setting the Community's priorities each year. There was no need to amend the Treaty.

(iii) Commission

The UK still favoured a Commission of 12, as endorsed in the Dooge Report. What did the President of the Commission think about that?

(iv) European Parliament

In the Community one body had to be responsible for decisions. It was not feasible to give the Parliament powers of co-decision. But the UK had suggested ways of enabling the Parliament to make a positive and responsible contribution through closer association with decision taking within the existing Treaty powers.

(v) IGC

The issues before Milan had been studied for

months. The Council should now take the decisions which could be taken. There was no point in remitting to a IGC issues which could not be settled by the Council. It should instead take positive decisions and give clear guidance for any necessary follow-up work.

12. Lubbers (Netherlands)

(i) Decision Taking

The Treaty should be applied as it was. If that were agreed, he could agree that national interests could be evoked in exceptional cases. He was prepared to go further and accept Treaty amendment, but first the Council would need to agree precisely what was necessary.

(ii) Commission

He agreed with the Dooge report.

(iii) European Parliament

He agreed that co-decision was an ambiguous concept. He therefore favoured the approach of Kohl and Martens, which permitted co-decision on particular issues, such as Enlargement. Since the Community had a Parliament, it must give it something to do.

(iv) Political Co-operation

He agreed with the UK approach: the Council should agree that Foreign Ministers should work on that basis. He did not agree that Pöhl should be put under the rubric of European Union, that would be a delusion. And, while he favoured co-ordination, he feared that the appointment of a Secretary-General would create a new institutional rivalry.

15.45 13. Santer (Luxembourg)

(i) Political Co-operation

He congratulated the UK on its draft. He had not had time to study the Franco-German text.

(ii) Decision Taking

The veto as such was anathema to the ethos of the Community. It should be possible to safeguard

national interest without blocking all progress. One option was for the country affected to opt out of the decision. The Presidency's paper was broadly acceptable.

(iii) European Parliament

It would be intolerable for Member States to go on treating the Parliament as a consultative assembly. Obviously it could not be given as much power as a national Parliament but it should be given a legislative role in some areas. The Council should, however, retain the last word.

(iv) IGC

An IGC should take place provided that it was on specific issues and with a specific mandate.

14. Mitterrand (France) in a long and unfocused intervention (without notes) said that all Member States were responsible for the vices which had crept into the application of the Treaty. They had abused unanimity, ignored the Parliament and constrained the Commission.

(i) Decision Taking

The Community should first apply the Treaty it has. France was ready to reduce the number of issues which had to be decided unanimously.

(ii) European Parliament

Should become involved in particular areas (he mentioned 9 from his memorandum) without being able to block the process.

(iii) Political Co-operation

He favoured a Political Secretariat but stressed that France had never thought of turning this into a separate institution.

(iv) IGC

The Council should, above all, avoid calling for the moon and courting failure. Decisions could, if necessary, be taken at the next Council. He was content for the Italian Presidency to settle whether the decision should be taken by an IGC or the Council. But a IGC, if it was called, would have to be a success.

15. He concluded with a long general statement about the need to move Europe towards greater unity, including a military and security aspect. Those who wished to participate should do so. If this was not possible within the Treaty, fewer than 12 might go ahead outside it. He favoured a maximal outcome, including Treaty amendment, but would be ready to accept less.
16. Andreotti (Italy) said that the Community did not need to adapt because it was a Community of 12, but because it was currently not making a success of its work. The institutional arrangements were simply not right. The difficulties over the Frontier Directive which followed from the first Adonnino Report illustrated this.

(i) Decision Taking

The existence of the Luxembourg compromise was an obstacle which should be eliminated.

(ii) European Parliament

Parliament was frustrated. Conciliation did not work. The Community of course needed a centre for decision taking but Parliament would not inhibit that. Co-decision making should be introduced gradually, but a start should be made now.

(iii) Political Co-operation

He favoured the formalisation of Peco but would be disappointed if that was the only achievement of Milan. At the least, he would want to see the addition of a preamble about European union.

17. Delors said that he looked to the Council today to endorse his proposals on the internal market. But to achieve that would require a better decision making process. He had disappointed the Parliament by telling them that it was possible to secure the Community's aims without amending the Treaty. But in fact he thought it would be difficult to make progress without Treaty amendment. A major cause of paralysis was that the Council failed to vote by majority even when this was foreseen. Out of every 100 decisions gathering dust on the Commission's shelves, only 45 required unanimity; 55 were held up because of the insidious effect of the Luxembourg compromise. The Community could not afford a process which took account of every national reason for delay. The Architects' Directive had taken 17 years. The directive on company mergers had been around for 12 years and never reached Ministers. The use of unanimity should be strictly limited and with a time limit (the

Commission told us privately that Delors envisaged 30 days). But it would also be necessary to do away with unanimity on Articles 57.2, 99 and 100. Unanimity should apply only to questions about the scope of the Treaty, amendments and derogations.

(i) European Parliament

None of the proposals put forward would work. A "shuttle system" would double the time taken. Conciliation would not work. The Treaty had to be changed. He proposed a two stage plan.

(a) Partial modification of the Treaty to reconcile efficiency and democracy. On all matters relating to the internal market, the Council should proceed by majority voting whenever the Parliament agreed on a proposal.

(b) An IGC should take up the other issues raised in the Dooge Report.

18. On the question of differentiation, Delors distinguished between its negative form (when one country wanted to hold back) and its positive form (when 5 or 6 wanted to go ahead). He had no quarrel with the latter.
19. Gonzales (Spain) said that he spoke with diffidence as a new boy. He emphasised the need to apply the Treaty as it was and to limit the area of application of the Luxembourg compromise. The European Parliament suffered from the contradiction between its direct election and its lack of power. The Commission should be the motor of the Community but was not allowed to function as such. He favoured political co-operation but not a separate institution.
20. Soares (Portugal) spoke in favour of the internal market, a technological Community and a new impulse to POCO. He was basically open-minded about institutions.
21. Craxi said that although different views had been expressed they were not irreconcilable. Everyone wanted more majority voting but without overriding vital national interests. Everyone agreed that the Council should have the final say. There was a close relationship between decision taking and the internal market. He believed the Treaty had to be revised: no Treaty could be changeless. There was a need for a deeper understanding in the Council. It would require a miracle to get decisions at Milan. But Foreign Ministers should discuss and that evening the Council would consider institutional subjects again the following morning.

People's Europe

22. Craxi proposed that the PAC should report on progress on the interim report to the Luxembourg Council and on the final report to the Brussels Council. Slow progress on the interim report had caused him some anxiety. Andreotti noted that, despite agreement in the Council, people were now placing reservations on the Frontier Controls Directive. Delors complained that the Council should not endorse these reports on the nod. They contained too many proposals to be implemented in a year. Craxi clearly wanted to defer any further discussion until the next European Council. But Andreotti objected. The report had been produced by the representatives of Heads of Government, not by some university. There could be disagreements about timing, but the proposals called for a strong political steer. Lubbers agreed and suggested that some of Mitterrand's proposals might be taken at the same time. Mitterrand was content with this. He suggested that the Council should say that it accepted the Adonnino Report and had set up machinery to implement it.

EC/CMEA

23. Craxi introduced the draft Community statement on relations with CMEA. He thought that it was a little cold. The Prime Minister commented that it was warm enough as it was. Delors said that the Polish Ambassador had been in a great hurry to deliver his message in order to avoid it being handled by the next CMEA President, the Romanian. He had not had a reply to his question whether a joint statement by the Community and CMEA would preclude negotiations between the Community and individual CMEA members. Genscher (Germany) reported that the Hungarians had said that they would welcome a statement of this kind provided it was in general terms. Only it would not preclude bilateral negotiations with CMEA members. Craxi wanted to add a sentence saying that the Community appreciated the CMEA's approach. The Secretary of State questioned whether a statement was necessary at all. Lubbers suggested a sentence to the effect that the Community was awaiting the results of exploratory talks. FitzGerald wanted to make it plain that the Community awaited the CMEA's response to Delors question. The text was approved as agreed.

12 Economic Situation

24. Delors reported on recent discussion with Finance Ministers and Central Bankers about the reinforcement of EMS. Central Bank Governors had proposed a package of measures to improve the usability of the official ecu. But other questions remained unanswered, particularly about the potential role of the ecu as a reserve currency and its use in private

hands. Unfortunately, two countries participating in the EMS thought that the private ecu was a popular idea only because of the weakness of some currencies. There were serious doubts about whether it was appropriate for use as a central currency. (Delors later commented that he had had no comments on this from the Council: he assumed from this that the Council was "endorsing inertia for another 6 months".)

25. Delors continued that he had not been able to finalise the Commission's study of the reason for Europe lagging behind the US and Japan. He promised a constructive report for the December Council with proposals to invigorate the European economy.
26. The Prime Minister referred to the consensus reached at Dublin and Brussels on the need for a firm financial strategy for the medium-term. There was also a wide measure of agreement that Member States should try to free markets from unnecessary restrictions and look critically at the role of the public sector. Some social legislation was having the opposite effect from what was intended. Member States should support each other in their efforts to correct faults in social security arrangements and to maximise the real opportunities for growth and employment.
27. The Prime Minister pointed to the need for action at national and Community level to reduce burdensome regulations. She welcomed the Commission's response to the Brussels Council Conclusions. A permanent machinery should be set up to review existing burdens on businesses and to vet future proposals. She hoped that Delors would consider setting up a central unit within the Commission to deal with this. She looked forward to determined action for the remainder of 1985 and to receiving a full report from the Commission for the next European Council.
28. The Prime Minister also underlined the need for the Community to be firm in its dealings with Japan, whose 1984 surplus (\$45 billion globally and \$10 million with the Community) threatened the world trading system. The Japanese Government needed to open up its market, but the first stage of its import action programme appeared inadequate, especially from the Community point of view. She suggested that the Council should endorse the FAC's declaration of 19 June and that Delors should stress to Nakasone that the Community would judge Japanese policies by their actual results and would review these in the Autumn.
29. Delors confirmed that the Commission was studying the problem of small and medium-sized enterprises, as requested at Brussels. A report would be produced in time for discussion at Luxembourg.

30. He reported on his meetings with employers and trade unions (except the French CBI and the British TUC). On the strength of this, he concluded that it would be possible to get them to co-operate on 2 subjects: new technology and training, especially of young people. The Commission was also reviewing the organisation of the labour market, especially the sharing of working time. There were grounds for hope of European agreement here.
31. On Japan, he shared the Prime Minister's analysis. The problem was not just one of customs procedures. Europe did 45% of its trade with the outside world, compared with only 5% in the case of Japan (15% for the US). How could Japan claim to play its full part? He saw two ways of dealing with the problem: to set the Japanese an import target; or to increase European tariffs in order to ensure that firms would have enough profits to finance research and development in the future. He intended to put both approaches to the Council of Ministers soon. Meanwhile, he did not take the Japanese mini-package seriously, especially while the Yen remained undervalued. This was a problem which the Community should discuss with the US. He would certainly speak sharply to Nakasone about it.
32. Kohl agreed that Delors should speak toughly with the Japanese. But he had doubts about using tariffs against Japan: this would risk aggravating the problem of protectionism in the US.
33. On EMS, Kohl commented that the Bundesbank was bound by the law. If the Commission wanted to make progress here it should discuss further with ECOFIN. The starting conditions needed to be right: some countries restricted movement of capital; exchange control arrangements differed; economic policies were in some cases divergent. As for the private use of the ecu, he agreed that this was an area where the FRG could be a little more flexible; but only if other states played their part.
34. Lubbers agreed with the Prime Minister and Delors about Japan: Japan should open her market or Europe should close hers, with a preference for the former. Some selective protectionism might be necessary: for new technologies at least.
35. FitzGerald said that the Council could not deal only with institutional change: it must say something about economic and social policy. After short comments from Santer, Martens and Mitterrand, Delors said that he would like to examine further the implications of the private ecu and, as agreed at Sicily, its possible use as a reserve currency. He did not think that Europe should wait until all capital

movements were free, the Belgian double currency was removed and the Pound Sterling was in the Exchange Rate Mechanism before taking these studies forward. He favoured progress on all these fronts step by step.

Kohl warned Delors to consult Finance Ministers and Bank Governors before shooting from the hip. He repeated what he had said in Dublin about the immobility of labour in Germany. FitzGerald referred to the ECOFIN proposals on conjunctural policy, which he regarded as very important. Andreotti agreed that Delors should go ahead as proposed with his studies in depth.

18.55

Technology

Craxi introduced the subject by reading a message from Austria about EUREKA. Mitterrand said that EUREKA was just the product of a few Frenchmen. He noted that the Commission had done a lot of work on a technological Community. This should be joined to the EUREKA proposals. The aim was to strengthen collaboration between European researchers and enterprises. His list of fields was not exclusive. He was not suggesting any particular method or agency. He did not agree with the traditional French approach that every new idea needed a new institution. 16 countries had expressed an interest in EUREKA (Norway, Sweden, Switzerland and Austria as well as the Twelve). The Japanese had shown interest, as had the Soviet Ambassador. Some companies were already going ahead: Phillips, GEC, Thompson, Siemens etc. The next step should be to call an ad hoc Committee of the 16 countries interested by 14 July.

He noted that EUREKA was linked chronologically to the SDI. But he stressed that he had not proposed EUREKA in order to block SDI. EUREKA was a civil programme whereas SDI was a military project with a 30 year time scale. There could be a conflict in resource terms and competition between military and civil applications, for example over lasers and mirrors. But it was vital to close the gap with the US and Japan. Without an early start it would take a hundred years to catch up and would be as though Europe had failed to introduce electricity.

The Prime Minister strongly supported Mitterrand. The problem was not a lack of ability or funds for research: it was a failure to get from the research stage to the market place. The fragmented European market and national procurement and fiscal measures worked against a Europe-wide product. That was why Europe had 9 digital switching systems for a market which could support 2 or 3. As Dr Dekker of Phillips had said, a real Common Market was of more value than any amount of Government money.

40. The Prime Minister made 3 proposals. First we should identify the high technology products on which to concentrate. Discussion with European companies had identified the following sectors:

- high speed trains
- air traffic control
- mobile digital radio
- post office automation, including automated parcel handling
- interfaces for computers for Europe-wide application
- advanced robotics
- industrial lasers
- factory automation
- information and control systems in the home.

41. Secondly, we should find ways of encouraging commercial exploitation of those products. The internal market was crucial here. But the Prime Minister also proposed a Euro-type guarantee, to encourage companies to co-operate.
- 13 Thirdly, we should find ways of involving firms in EUREKA products. Finance and Internal Market Ministers should examine all the ideas coming forward.
42. Lubbers gave very clear support to this approach, stressing the importance of opening public procurement. He had a long list of projects which were supported by Dutch companies. He proposed that the EIB should have a role in Eureka.
43. Kohl warmly welcomed Mitterrand's initiative. He said that he saw no conflict between Eureka and SDI: indeed those who had been most hostile to SDI were now among the first to join in contracts with the US. He felt that the Community should be the core for Eureka, but other countries should be allowed to take part (though Soviet interest need not be taken seriously). He suggested that Mitterrand should call the first meeting in France, to be attended by technologists rather than bureaucrats. Lubbers tried to introduce the Commission's paper on this stage, but Craxi said that it would be taken the following day. Mitterrand said that he would call a meeting of 2 representatives from each country and from the Commission.

Institutions

At 2000 hrs Kohl and the Secretary of State had a private meeting and agreed to co-operate in producing draft conclusions containing the maximum amount of common ground. Butler, Williamson and Renwick then had a series of meetings with the Germans (Teltschik), the French (Attali, Bianco, Bernard and Mme Gigou) and the Irish (Fogarty). In each case, the purpose was to put on paper the maximum that could be agreed on decision making, the European Parliament, political co-operation and the internal market in order to put pressure on Craxi not to leave all these issues for decision after Milan. There was no difficulty with the Germans over Poco or Eurotype, which they appreciated: but the Germans went too far for our taste on the internal market (where they played up the excellence of the Commission's paper and gave high priority to tax harmonisation) and decision making (where they wanted at least 2 Treaty articles amended). The German proposals were the subject of a UK redraft and by 2330 hrs, we had a final German text which was broadly acceptable except for references to tax harmonisation "at an early stage".

With the French the main difficulty was over the European Parliament (where they wanted to retain Mitterrand's idea of involving the Parliament in a future decision to increase Own Resources to 1.6%) and other parts of the Mitterrand memorandum - notably the campaigns on youth and cancer.

B. MEETING OF FOREIGN MINISTERS: 28 JUNE

This ran from about 2100 hrs to 2240 hrs and was followed by dinner until 0100 hrs on 29 June. Genscher produced a draft which took matters in the wrong direction. Behind the scenes, there was a row between Ersboell (Council Secretariat) and the Presidency, who seemed to believe that they could force an agreement on an IGC for Treaty amendment by holding us up on the internal market. In the end, however, only the Presidency and, to some extent the Belgians, appeared to oppose our proposal for a package on specific decisions in the 4 areas under discussion. The Secretary of State summed up the outcome as 8½ to 1½ in favour. As a result, the Presidency's short and general draft was abandoned and Ersboell was told to produce an alternative to Andreotti's conclusions. The UK's drafts were given to Ersboell, who made good use of the material on the Internal Market. But the Presidency prevented him from including our package of institutional proposals.

C. DINNER OF HEADS OF STATE AND GOVERNMENT: 28 JUNE

47. This was devoted to a general discussion on political co-operation subjects, in particular terrorism, Afghanistan and South Africa. On terrorism, the Prime Minister put forward the UK's ideas for closer cooperation (FCO telno 1031 to Washington). There was a general feeling that the Ten should be doing more. But the Greeks objected to the text on the ground that it implied that it was wrong in all circumstances to give way to terrorists. On South Africa there was a consensus in favour of reviewing and strengthening the code of conduct for Community firms.

48. D. FOREIGN MINISTERS' MEETING: 29 JUNE

- 19 The meeting had before it draft Conclusions which postponed all institutional decisions until December but envisaged an intergovernmental conference (IGC) under Article 236.
- 09.15 Andreotti proposed various amendments and Genscher asked for several "European Union" additions. The Secretary of State tabled the UK's proposals on political co-operation and
- 24 decision taking. He was supported by Elleman-Jensen (Denmark), who objected to the Presidency's proposal to change the rules of procedure to permit a majority of Member States or the Commission to demand a vote. Van den Broek (Netherlands) supported the UK proposals, but wanted a reference to the fact that the Community was proceeding towards European Union. Haralambopoulos (Greece) supported the UK line except on POCO. Dumas (France) agreed that it was desirable to make progress as the UK proposed on Parliament, decision taking and POCO; but he also wanted a stronger reference to European Union including a date for its formalisation at an IGC, perhaps based on the Council.

49. By 1030 hrs, when the Prime Minister arrived, the position was that the Italians were still resisting a package of specific decisions, but the UK had support from several Member States, including Luxembourg and France. There was still a difficulty with the French over the exclusion of Parliament from any role in Own Resources. The main difference with the Germans was over whether to call the POCO agreement a "Treaty".

E. MORNING SESSION: 29 JUNE

50. Andreotti reported on the Foreign Ministers' meetings. He had wanted to see if agreement could be reached on steps which would enable the Council to come up with the European Union which was sought. He acknowledged that the Italian draft had not gone beyond generality. But he claimed that some of the British ideas were old hat: for example the proposal for abstention under Article 148(iii) had been

agreed at Stuttgart. Denmark and Greece both said they were opposed to any change in the Treaty. But the Council had to take account of the Commission's view that changes were needed to complete the internal market by 1992. He said that there was now a new Presidency text as well as a new German one (which called for an intergovernmental conference to prepare a draft Treaty on European Union by 31 October for discussion at Luxembourg). Andreotti floated the idea of calling a conference by majority vote to modify articles of the Treaty.

51. Kohl then spoke to the German paper, arguing that the moment of truth had been reached. An IGC should be set up with a clear mandate. If not, the issue would drift into the Luxembourg and Netherlands presidencies. If some partners did not want such a thing, that should be recorded. If it was not possible to revise the Treaty, the Council would decide what to do instead to improve the system.
52. The Secretary of State restated the UK position. The Council should concentrate on the specific decisions which could be reached in the 4 areas under consideration. Martens said that he preferred the German paper which offered a mandate for an IGC. Lubbers seconded him. He did not believe that the Community could reach its objectives without Treaty amendment. The Council should ask the Commission what was the absolute minimum of necessary change.
53. Santer said that the Luxembourg Presidency had to know exactly what was intended. Without very clear guidelines, the enterprise would fail. He could agree with Kohl's mandate though he had no illusions about it being accepted in a future European Council. Mitterrand spoke in favour of the German text. The Ten should be able to agree on certain points: in particular the powers of the Commission and the Parliament; and the tightening of the Luxembourg compromise. But if clear guidelines could not be produced for an IGC/European Council, he would favour agreement on the changes which could be accepted by the Ten now. Those who wanted to go further with an IGC could then do so. Andreotti, addressing Papandreou, said that it had always been argued that the Community should work on a basis of fair play. That was the purpose of the Social Fund etc. But it was also relevant to the functioning of the Community, which was more than an abstract legal exercise.
54. The Prime Minister said that the central point was the need to get behind the rhetoric and to achieve results. The Council should decide what it could agree and what it could not. Further proposals could always be put forward later. The choice was between success and failure. She did not think that there was any need for Treaty amendment nor for

an IGC, of which the Community already had 3 a year in the form of the Council. Andreotti denied that the Italians were being rhetorical and offered to send the Prime Minister a copy of Cicero to prove it! He maintained that all the pragmatic proposals on the table had been agreed at Stuttgart.

Schluter said that the best was the enemy of the good. The important thing was to streamline the decision making process. He feared however that the proposal that a majority of the Council or the Commission could demand a vote would spell the end of the Luxembourg compromise.

Delors said that the internal market document had been produced at the request of the Council and it was not being offered "à choix". He referred to his two stage proposals from the previous day, to which noone had responded. He still believed that minor Treaty amendment was necessary. But the alternative approach - a solemn commitment on procedures - was still available.

Elleman-Jensen persisted with the view that the earlier voting procedures would undermine the Luxembourg compromise, which depended on the postponement of a decision. Genscher said that an IGC would enable Member States to see how far the Community could go. Haralambopoulos said that Greece could accept the Presidency's text as a basis for discussion but not the German text. Craxi said that he would be happy to work on the German paper with some additions, notably on the extension of the scope of the Community. Kohl proposed that lunch should be delayed in order to clarify the position. The Council should not leave Luxembourg holding the baby. Craxi then said that, in the light of 2 days of debate, his inclination was to convene an IGC under Article 236 of the Treaty to discuss all the questions on the table. It remained to define the IGC's mandate.

(Williamson reported to the Secretary of State that the French (Lalumiere) and Germans (Ruhfus) had agreed outside the Council on some broadly acceptable amendments to the draft conclusions. The only difficult area was that they envisaged political co-operation and possible Treaty amendment being taken in the same framework. But discussions were going on between our delegation and the Germans and the French to separate these issues so that political co-operation could be agreed early and other matters left for later consideration.

By this stage, however, the atmosphere in the Council had become very strained and there was a break for bilateral

/discussion

1215 discussion during which the Belgians began to argue actively that an IGC could, under article 236, be convened by majority vote.

1245 After the break, Craxi said that the Presidency had received a number of amendments to its text from the Germans. FitzGerald warned that if the FRG text was accepted as a basis, discussion would have to start all over again. Papandreou felt that it would be better to stick to the Presidency's text. Craxi said that the FRG text was the mandate for a conference on which the Council had to decide. The conference would consist either of the Council or of Foreign Ministers representing Member States. Parliament demanded a conference. The Presidency approved this approach.

The Prime Minister pointed out that the only purpose of an IGC under Article 236 was to make Treaty amendment. But the formal procedures had not been followed. Parliament had not been consulted. She still saw no case for Treaty amendment. Craxi commented that Parliament's views were well known. Amendments had been proposed by all sides. He therefore concluded that a conference must be called. Papandreou supported the Prime Minister. Of course the Presidency could call a conference, but the Greek Government would not support Treaty amendment. FitzGerald said that a conference should be called only if it was likely to be fruitful. The Council should follow the correct procedure. Lubbers said that the proposals in front of the Council included a lot of elements of European integration: including political co-operation, the external market and technology. The one thing missing was how to streamline decision making. A majority seemed to favour Treaty amendment. Others preferred to act more quickly without Treaty changes. He thought it would be necessary to call a special meeting to put all the building blocks in place. But such a meeting would need a mandate. He noted that FitzGerald was not opposed to a conference or to Treaty amendment.

Schluter said that it would be a mistake to call an IGC. The Council should take decisions immediately on the basis of page 1 of the Presidency text and the UK amendment on page 2. Santer favoured Lubbers's approach. The Council should agree on the points to be discussed. The Secretary of State repeated that a conference would be inappropriate. It could only consider Treaty amendment. Its remit would

therefore be too narrow.

63. Andreotti said that an IGC could consider all the various proposals on the table, including the "pragmatic" ones. An IGC would meet political expectations. It would not be a repeat of the Dooge debate, since it would involve Foreign Ministers. Lubbers said the key issue was whether or not to amend the Treaties. Mitterrand said that he did not disregard the arguments put forward by the UK, Denmark and Greece. Everyone had some doubts about the outcome of an IGC. But further arguments could be reserved for an IGC.
64. Craxi said that the Council already had the opinion of the European Parliament but, if the formal procedure required it, then the PAC could take the decision on an IGC after receiving the opinion of the Parliament and of the Commission. Delors confirmed that the calling of a conference could be arranged by majority vote. Whether to resort to majority vote was at the discretion of the Presidency. Craxi said that political co-operation could be taken by the IGC at the same time. All issues could be a subject for negotiation at an IGC using the powers flowing from Article 236.
65. The Prime Minister said that the Council had so far reached its conclusions always by unanimity. It was a matter for Craxi and Andreotti whether to exercise their discretion on majority voting. She remained opposed to an IGC, for which she saw no need. Andreotti pointed out that the UK could always abstain under Article 148! FitzGerald said that these proposals had taken him by surprise. The only proposals before the Council concerned Articles 57, 99 and 100. If he had known in advance, he would have had other proposals for example about the Parliament and the Commission. Andreotti pointed to the proposals in the Dooge Report. FitzGerald commented that the Dooge Committee was neither the Commission nor a Government. If the Council called an IGC now it would not be able to look at any other proposals. Craxi then called a formal vote (for the first time in the history of the European Council). The Prime Minister, Papandreou and Schluter voted against and the rest in favour.
- 1400 66. As the Council then broke for lunch, the Prime Minister had a discussion with Craxi. She pointed out that HMG were pledged not to amend the Treaty provisions on decision making. In any case, the IGC under Article 236 could consider only formal proposals for Treaty amendment. It could not take up the other ideas, such as Poco. The 7:3 vote would lead to no achievement. The Presidency, having decided to use their discretion, were on their own. The alternative course would have been better. Craxi acknowledged that decisions at an IGC would have to be

unanimous: there was therefore no reason for the UK to be worried. He agreed too on the need to go through the correct procedures with the FAC and that any Member State or the Commission put forward additional proposals.

67. Before lunch Butler spoke to Dumas who agreed that it should still be possible to reach an agreement on a consensus basis. Butler said that the UK, France and Germany were quite close. Did he agree that the political cooperation agreement should be treated separately? If so, we might be able to reach full agreement with France and Germany. Dumas said he was inclined to agree and would put the point to Mitterrand. Butler said he would submit a revised draft to the Prime Minister and then show it to the French if she agreed.
68. At the Prime Minister's briefing before lunch, the general view was that the vote had greatly reduced the chances of securing a package of specific decisions at Milan. But the Prime Minister agreed that a further effort should be made to amend the Franco-German text on the lines attempted the night before. After lunch however, the Council was confronted by another Presidency draft, which tried to combine some instant decisions on procedure with an IGC to deal with POCO and Treaty amendment. A UK draft was agreed by the Prime Minister and Secretary of State and circulated shortly afterwards but, ~~partly because of delays over translating it into French and German,~~ never featured at the centre of the discussion in the afternoon.

F. AFTERNOON SESSION: 29 JUNE

69. In discussion of the Presidency draft, Delors proposed the deletion of "without prejudice to Ic" from paragraph Ia and the whole of paragraph Ic; the deletion of "the essential acts of the common policies" from paragraph 3; the addition of Article 99 to paragraph II; and a reference to the powers of the Commission in III. De Keersmaker (Belgium) said that he could not accept the inclusion of paragraph Ic on the Luxembourg compromise. In paragraph Ib, on exemption of States from particular policies, he insisted on adding "in full respect of Treaty obligations". He offered an alternative formulation on the Luxembourg compromise. Santer, Vandenbroek and Genscher agreed. Papandreou said that there was no sense in discussing any of these proposals pending an IGC.
70. The Prime Minister proposed the deletion of any reference to the Commission in paragraph Ia on the speeding up of voting. She insisted on retaining Ic. As to the third part of the Presidency paper, she proposed the alternative UK text which was then circulated. FitzGerald wanted a reference on page

2 to economic convergence. Genscher argued against including Article 99 in the remit of the IGC. The time was not ripe for fiscal approximation. As to convergence, this would have to refer to "economic policies" rather than "economies". FitzGerald could not accept Genscher's proposals. Craxi argued that economic convergence was covered by the reference to Article 2 of the Treaty. FitzGerald reserved his position. Dumas agreed with the Commission about paragraph Ia and the Belgians about paragraph Ic.

71. The Prime Minister said that the Council needed a document to summarise where it now was. Papandreou repeated that, if the Council insisted on going for an IGC, there was no sense in pursuing any other proposals. He would withhold unanimity on them. Craxi said that Delors' proposal to add Article 99 had to be rejected. But the other Commission and Belgian amendments seemed to be agreed. The Prime Minister repeated that Ia needed to be retained as in the Presidency text in order not to undermine the effect of Ic. Elleman-Jensen supported the Prime Minister. He also suggested the inclusion of "possible" before the reference to Treaty amendments in part III and to "Treaty or agreement" on political co-operation.
72. Genscher said that he could not agree to the Luxembourg compromise becoming the Milan compromise. The Belgian proposals were as far as he could go. The Prime Minister pointed out that the compromise and its use was a political fact. She could not depart from the agreed text. Delors argued that the Belgian version was accurate. Mrs Thatcher warned that the Council needed to proceed on the basis of unanimity. Not to do so would spell the end of the Council. Lubbers tried to explain that the gist of the Belgian amendment was that members who wished to invoke the Luxembourg compromise should agree to justify it. Paragraph Ia did not affect the Luxembourg compromise. Papandreou said that the Council could have an IGC or procedural amendments but not both. FitzGerald did not understand the logic of this position. Schluter argued that the remit for an IGC could not be decided by a majority vote. Given that the Council disagreed, all the proposals would have to go to the IGC. Andreotti maintained that there was no need for unanimity on an agenda. Any Greek objections could be included in a footnote as reserves. Papandreou could not accept this suggestion. The Council had to proceed by unanimity on this matter. The Prime Minister agreed that unanimity was essential if the procedural proposals agreed were to be binding. Papandreou remained adamant. Dumas proposed that the decision on an IGC and its mandate should be fixed by the Foreign Affairs Council.
73. The Secretary of State proposed the whole of part I should

be dropped in order to get round Papandreou's opposition. Delors argued that I was part of the IGC's mandate. Craxi said that he could accept the UK proposal but he would like to put part I to the FAC for decision by majority. The Secretary of State pointed out there was no point in doing this. Haralambopoulos argued that such decisions had to be unanimous and that Greece would not abstain. The Prime Minister agreed that the part I proposals could not be settled by a majority vote in the FAC.

74. Lubbers pointed out that the proposals in I could all be settled without Treaty amendment. The UK and Denmark were ready to do so. There would be no problem therefore if Greece agreed. Papandreou repeated his objections. Genscher proposed that part III alone should go to an IGC. The Council should now adopt parts I and II, which would be converted by the Presidency into proposals for the Foreign Affairs Council. Mitterrand supported Genscher.
75. Craxi summarised that the conclusions would consist of the first 2 paragraphs of page 1 and the whole of section III. All the rest would be worked on by the Presidency for submission to the Foreign Affairs Council. He noted that Papandreou continued to disagree.
- 18.45 Internal Market
76. The Prime Minister proposed that "the measures necessary" in paragraph 3 of the draft conclusions should be amended to "which measures might be necessary". This was agreed. Genscher secured the addition of "the liberalisation of capital movements". Delors objected that the conclusions were still no good, but they were too late to change now. Craxi pointed out that paragraph 1 was very satisfactory. Delors said that he had circulated a re-draft at noon but it was too late for consideration now. The Commission must be given time to support its overall plan, which should be discussed soon.
- 25
77. Kohl said that he could live with the Commission text with some changes. The Secretary of State said that it was too late to start working on the Commission's text. Lubbers suggested adding to the Presidency text "the completion of the internal market will be achieved on the basis of improved decision taking procedures to which Member States will commit themselves". The Prime Minister proposed adding to the Presidency text paragraphs 2 and 4 of the Commission text (which approved the Commission's communication and welcomed favourably its White Paper; and instructed the Council to ensure that the Commission's proposals were adopted within the deadlines established in the timetable). Delors welcomed this. FitzGerald objected that he could not accept paragraph 4 of the Commission text. Craxi said that

paragraphs 2 and 4 served the same purpose as paragraph 1 of the Presidency conclusions, which should therefore be omitted. (Comment: in the event, both sets of paragraphs were retained.)

Technology

28 Delors spoke to the Commission's proposals. Martens speaking for Benelux, said that Europe's approach needed to be based on the Community. He proposed a number of amendments to the Commission text. The Prime Minister proposed several amendments to the draft conclusions. The Council should note rather than approve the Commission's proposals. The EUREKA meeting should be open only to Western European countries rather than all non-Community countries. It should be attended by representatives of Heads of Government and not confined to Ministers of Research. And the action programme should include a reference to Eurotype.

Andreotti said that the Commission's proposals should obviously be studied. Meanwhile EUREKA was going forward. It had the merit of flexibility. But the Commission should not be excluded from this work, which should not be confined to Western European countries. Lubbers said that he still preferred the Commission text. If it did not receive support the Council should say that it had not even been discussed. Martens agreed that the Council should do more than merely note the Commission's proposals. They were interesting and deserved support. Mitterrand spoke up for the Presidency conclusions. He was afraid of putting work on technology into a strait-jacket of red tape. He supported most of the UK amendments.

Delors threatened to withdraw his text. All he wanted was some support for what he had been doing. But the Council merely proposed to bury it with a wreath. The Council had had time to study the Commission's papers. He did not want to discourage his staff in this way. Andreotti said that everyone supported EUREKA and a closer link to the Community. Lubbers said that EUREKA and the Commission's proposals were of equal importance and proposed adding "the European Council considers that with reference to EUREKA it would be right to achieve good co-ordination with the Commission's proposals". Santer agreed. But Delors persisted that his text had been withdrawn. He had been trying not to challenge but to reinforce EUREKA. How could the Council work efficiently when no one read the Commission's papers?

Mitterrand appealed for reason. Everyone welcomed EUREKA. The Commission's proposals were very good. There need be no conflict between them. The Benelux approach went too far. But there is no reason why the Council should not approve and espouse the Commission's proposals, provided that the key paragraphs about EUREKA were retained. Andreotti undertook to re-draft the text on this basis. The Secretary of State asked for Eurotype to be included and Lubbers asked for participation of the EIB to be mentioned. Andreotti agreed.

Famine in Africa

Natali (Commission) spoke to the draft conclusions. The Prime Minister suggested adding to paragraph 2 that the proposal for the special reserve of $\frac{1}{2}$ million tons of cereal equivalent needed to be studied by Development Ministers. Natali agreed, though the money for it was already in the draft budget for 1986. FitzGerald proposed that Development Ministers should be asked to examine the proposal as a matter of urgency. This was agreed.

People's Europe

36 There was some debate as to whether the report of the Adonnino Committee should be noted, as the Prime Minister proposed, or accepted, as Dumas preferred. The final version read "approved".

The Council ended at 9 pm.