

PRIME MINISTER

Meeting with M. Thorn

Gaston Thorn comes at 5 p.m.  
He will have Emile Noel (Commission  
Secretary-General) and Alex Schaub  
(Private Secretary). Suggest meet in  
the White Drawing Room.

Sir Geoffrey Howe and David  
Williamson will advise.

Brief is attached.

M. Thorn wants to start with  
15 minutes strictly tête-à-tête (see  
Robert Armstrong's note below).

CAP

14 June 1984

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Ref. A084/1741

MR POWELL

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I received a telephone call from Monsieur Durieux, the Chef de Cabinet to Monsieur Thorn (who is also my European Commission colleague as a Personal Representative).

2. He was ringing on behalf of Monsieur Thorn to say that Monsieur Thorn would very much like the first part of his conversation with the Prime Minister tomorrow to be strictly tete-a-tete and unter vier Augen: ie no note-takers present. He envisaged this phase of the talk lasting from a quarter to half an hour, before the meeting was enlarged.

3. I promised to convey this message to the Prime Minister.

R

Approved by  
ROBERT ARMSTRONG  
and signed in his absence.

14 June 1984

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Foreign and Commonwealth Office

London SW1A 2AH

14 June 1984

*John Charles*

Visit of the President of the European Commission

As requested by John Coles in his letter of 11 June, we have looked at the brief for the Prime Minister's use with M. Thorn at the London Economic Summit. I submit a slightly revised version for the Prime Minister's use at their meeting on Friday. This has been seen by Cabinet Office and Treasury and incorporates their suggestions.

As the Secretary of State suggested in his minute of 7 June to the Prime Minister, we think it would be right for the Prime Minister to begin by referring to our paper on the future development of the Community and to move on from there to the budget question.

A handwritten signature in dark ink, appearing to read 'R B Bone'.

(R B Bone)  
Private Secretary

C D Powell Esq  
10 Downing Street

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CALL BY PRESIDENT OF THE EC COMMISSION ON THE PRIME MINISTER:  
15 JUNE 1984

OBJECTIVES

To make clear:

- (a) that we wish to reach agreement by the time of the June European Council provided this is on a satisfactory basis;
- (b) that we attach value to the role the Commission can play in reaching an agreement.

POINTS TO MAKE

1. Hope Thorn has had a chance to look at paper on "Europe - the Future" which Sir C Tickell gave him during the Economic Summit. Look forward to discussing these and other ideas for the development of the Community, including those in Thorn's speech in Florence on 24 May, at Fontainebleau and afterwards.
2. As I made clear to President Mitterrand and Chancellor Kohl, we wish to see the relaunch of the European Community take place at Fontainebleau in June. For this to happen we need to reach agreement on the one outstanding issue in the negotiations: budget imbalances.
3. Considerable progress has been made. If we are to reach an agreement it must be by building on that progress, a point which you (M. Thorn) have also been making.
4. This means that we would accept one more year of ad hoc reliefs at 1000 mecu to be followed by the system from 1985 onwards. UK could not accept more than one further ad hoc year. Nor could we accept 1000 mecu on 1983 figures as the basis for the system. This arrangement would not be good enough. It would not give equitable results over a period of time and would contradict the principle now agreed that all Member States should make a

/contribution

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contribution in accordance with their ability to pay.

5. The gap between ourselves and other Member States is not insurmountable provided others do not try to widen it. What is needed is a final effort by all Member States. Should make clear however, that UK has only limited room for manoeuvre. We could not make a further move unless it was to clinch a settlement. UK could not put forward a figure which would simply be taken as a bargaining counter. We have also been ready to look at the problem in different ways eg by trying to set the threshold and rates of compensation. We would still be happy to approach the problem in this way if others were to find it helpful. But the negotiations so far have centred on the notional figure and it may be simpler to stick to that concept.

6. What role does the Commission see for itself in helping to bring matters to the point of agreement?

7. Even under the system UK will continue to make substantial contribution to Community budget. Our readiness to do so reflects our commitment to the Community. But our contribution must be an equitable one which we can justify to UK Parliament and public which believes that we make a very substantial contribution (fishing opportunities, agricultural market, market for manufactures, defence) to prosperity and security of Europe. Some ideas being put forward by our partners far from equitable.

8. Have always made clear that would not be prepared to increase own resources unless there is a satisfactory settlement on budgetary imbalances. No question of providing supplementary finance for 1984 budget overrun and we shall expect 1985 budget to be brought within 1% VAT ceiling.

New Commission

9. UK believes that Member States should agree on one Commissioner per Member State in enlarged Community. A Commission of 17 - the natural progression on enlargement from present 14 -

/would

would be too large. Not enough proper jobs for ambitious and capable Commissioners, so chance of recruiting a top calibre team would be reduced. We shall press for this when European Council is discussing next President at Fontainebleau.

[If Thorn mentions possibility of present Commission staying on.]  
10. Understand that normal procedure would be for Commission to change at end of year. Community should not put itself in position of circumventing clear Treaty intentions.

Budget Overrun [If raised]

11. UK recognises effort the Commission have made to find savings. We realise this is a matter not just for the Commission but for the Council: hence our suggestion, adopted at the last Foreign Affairs Council, that other Councils should be asked to find savings also. Only in the light of that investigation will it be possible to judge to what extent the Community faces a real problem.

EMS [If raised]

12. No immediate plans to join. But we have always made it clear that we have no objection in principle to joining the ERM, and the matter is kept under review. In the interests of the system as a whole, and of our domestic policy, UK must be particularly careful about timing. Joining at wrong time would benefit no-one, but ready to consider entering when conditions are right.

Innovation Loans [If raised]

13. We are always ready to examine new, cost effective ways of stimulating innovation in Europe. But did not believe that a Community scheme on the lines proposed by Commission was the right approach. The specific needs of small innovative firms and the availability of different kinds of finance vary in each Member State, and we take the view that the needs of these firms are met more effectively and with more beneficial results to the Community as a whole by national initiatives tailored to particular national circumstances.

/Draft

Draft Recommendation on Reduction and Reorganisation of Working Time [If Raised]

14. Believe that for Council to approve this recommendation would send the wrong signal to social partners. Despite wording in recommendation about maintaining competitiveness and avoiding increase in unit production costs, little sign that trade unions are prepared in practice to accept reduction in real wages in line with reduction in working week. But recognise importance which Presidency and other Member States attach to this recommendation. Ready to discuss at Fontainebleau if Presidency so decide.

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ESSENTIAL FACTS

1. President Thorn is keen to reach an early solution to the problem of budget imbalances. But he is nervous of making a Commission proposal which would not be accepted by others. The work being undertaken by M Davignon on the threshold and rates of compensation is blocked for the time being by the French.
2. At his meeting with Sir Geoffrey Howe on 13 May, M Thorn said that he had made it clear to President Mitterrand when they met at the end of April, that Britain would not accept more than one ad hoc year. He warned Sir Geoffrey Howe, however, that the French wanted to go back on 1000 mecu and that it would be very difficult to persuade either them or others to move.
3. We want to keep open a possibility that the Commission's work on the threshold and rate of compensation might help unblock the negotiations and that they might come forward with a compromise proposal which would provide the basis of an agreement at the European Council. We should therefore let M Thorn understand that we think he has a valuable role to play. At the same time we should leave him in no doubt that we will not accept one more ad hoc year or 1000 mecu in the system and that if others were to go back on the progress made so far then they must accept the consequences ie no increase in own resources, no consideration of the problem of the budget overrun etc.

Innovation Loans

4. The Commission tabled a proposal last autumn to promote investment by small innovative firms in the EC by providing subsidised loans under the New Community Instrument to help them overcome the problem of raising risk capital. We (and others) opposed the proposal on the grounds that action of this kind was more effectively taken at national rather than Community level; and that in any case the budget cost of the scheme (arising from bad debts and interest rate subsidies) was unacceptably high. At ECOFIN in June the Presidency abandoned the effort to get the

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proposal adopted. But the Commission may wish to return to the charge.

Development of the Community

5. Thorn should have had time to look at the paper on "Europe - the Future" which was given to him in the margins of the Economic Summit last weekend. The Prime Minister will wish to make clear that we are ready to discuss these and other ideas (eg those of President Mitterrand as set out in his 24 May speech to the European Parliament) at Fontainebleau. Thorn may refer to his speech of the same date to the European University Institute in Florence. He was not complimentary to the UK on some points in his speech (he implied for example that we were using the Community's financial crisis as a negotiating lever) but he did say that the Community must agree quickly a more equitable budget system.

New Commission

6. There is no chance of the FRG and France agreeing to give up their second Commissioner. But we should give our ideas for a smaller Commission another airing at Fontainebleau; they cost nothing and gain us credit with the smaller Member States.

7. We would not wish to see the present Commission extended. it is not particularly competent; nor is M. Thorn an effective President. We have doubts whether it would be legally possible to extend the present Commission's mandate and, if the idea looked like attracting support, we should mention this, re-stating at the same time our view that the Commission should change in accordance with the normal procedures.

MRS. RYDER

Visit by President of European Commission

As I told you the Prime Minister wants to see M. Thorn at 1700 hours on Friday, 15 June. His office are aware of this but I promised to confirm on Tuesday. Could you kindly ring Mr. Alex Schaub and confirm the appointment.

A.S.C.

Confirmed.

CR

12/6

11 June 1984

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10 DOWNING STREET

*From the Private Secretary*

11 June 1984

Visit of the President of the  
European Commission

BF | As things turned out, the Prime Minister was not able to have a bilateral meeting with Mr. Thorn during the Economic Summit. We have accordingly arranged for him to call on the Prime Minister at 1700 hours on Friday, 15 June. I should be grateful if you would let Charles Powell know soon whether the briefing supplied for the Economic Summit is still adequate or whether you wish to submit supplementary briefing.

I am copying this letter to David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

A. J. COLES

R.B. Bone, Esq.,  
Foreign and Commonwealth Office

Community Issues

Want settlement of budget problems at Fontainebleau, to open way for relaunch of Community. Will be circulating some ideas on future of Community before Fontainebleau.

Agreement must come from building on what already achieved. UK could not accept more than one further ad hoc year or 1,000 mecu on 1983 figures as basis for system. UK prepared to make limited move but only to clinch agreement.

What role does Commission see for itself?

Budget overrun (if raised)

UK recognises efforts made to find savings, but thinks more possible. Recognise that Councils must help Commission.

EMS (if raised)

No immediate plans to join. Keep under review but UK's joining at wrong time would benefit no-one.

Innovation loans (if raised)

Do not favour Community scheme. Believe needs met more effectively by national schemes. Interested in exploring ways of orienting existing lending mechanisms towards innovation.

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BRIEFING FOR THE LONDON ECONOMIC SUMMIT

EUROPEAN COMMUNITY: PRIME MINISTER'S MEETING WITH PRESIDENT THORN/  
VICE PRESIDENT ORTOLI

OBJECTIVES

(i) To make clear that we wish to reach agreement by the time of the June European Council provided this is on a satisfactory basis.

(ii) To make clear that we attach value to the role the Commission can play in reaching an agreement.

POINTS TO MAKE

1. Our position remains as I have described to President Mitterrand and Chancellor Kohl: we wish to see the relaunch of the European Community take place at Fontainebleau in June. For this to happen we need to reach agreement on the one outstanding issue in the negotiations: budget imbalances.

2. Considerable progress has been made. If we are to reach an agreement it must be by building on that progress, a point which you (M Thorn) have also been making.

3. This means that we would accept one more year of ad hoc reliefs at 1000 mecu to be followed by the system from 1985 onwards. UK could not accept more than one further ad hoc year. Nor could we accept 1000 mecu on 1983 figures as the basis for the system. This would not give equitable results over a period of time and would contradict the principle now agreed that all Member States should make a contribution in accordance with their ability to pay.

4. The gap between ourselves and other Member States is not insurmountable provided others do not try to widen it. What is needed is a final effort by all Member States ie a move by all to a final figure to clinch a settlement. This cannot be done on the basis of the UK putting forward a figure which would simply be

/taken

taken as a bargaining counter. We have also been ready to look at the problem in different ways eg by trying to set the threshold and rates of compensation. We would still be happy to approach the problem in this way if others were to find it helpful, though we recognise that the negotiations so far have centred on the notional figure and it may be easier to stick with that concept alone.

5. What role does the Commission see for itself in helping to bring matters to the point of agreement?

Budget Overrun [If raised]

6. UK recognises effort the Commission have made to find savings. Do not however accept that further savings cannot be found. We realise this is a matter not just for the Commission but for the Council: hence our suggestion, adopted at the last Foreign Affairs Council, that other Councils should be asked to find savings also. Only in the light of that investigation will it be possible to judge to what extent the Community faces a real problem.

EMS [If raised]

7. No immediate plans to join. But we have always made it clear that we have no objection in principle to joining the ERM, and the matter is kept under review. In the interests of the system as whole, and of our domestic policy, UK must be particularly careful about timing. Joining at wrong time would benefit no-one, but ready to consider entering when conditions are right.

Innovation Loans [If raised]

8. We are always ready to examine new, cost effective ways of stimulating innovation in Europe. But we do not believe that a Community scheme on the lines currently under discussion is the right approach. The specific needs of small innovative firms and the availability of different kinds of finance vary in each Member State, and we take the view that the needs of these firms are met more effectively and with more beneficial results to the Community as a whole by national initiatives tailored to particular national /circumstances

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circumstances. We are nevertheless interested in exploring ways in which the existing activities of the EIB or NIC (a new Community loan facility) could be orientated towards promotion of innovation.

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ESSENTIAL FACTS

1. President Thorn is keen to reach an early solution to the problem of budget imbalances. But he is nervous of making a Commission proposal which would not be accepted by others. The work being undertaken by M Davignon on the threshold and rates of compensation is blocked for the time being by the French.

2. At his meeting with Sir Geoffrey Howe on 13 May M Thorn said that he had made it clear to President Mitterrand when they met at the end of April that Britain would not accept more than one ad hoc year. Nor would he accept, instead of implementation of the system from 1985, a review of how the system might operate from enlargement. He warned Sir Geoffrey Howe, however, that the French wanted to go back on 1000 mecu and that it would be very difficult to persuade either them or others to move. When he had tried in the margins of the 27 March Foreign Affairs Council to suggest 1100 mecu he had encountered very strong resistance.

3. We want to keep open a possibility that the Commission's work on the threshold and rate of compensation might help unblock the negotiations and that they might come forward with a compromise proposal which would provide the basis of an agreement at the European Council. We should therefore let M Thorn understand that we think he has a valuable role to play. At the same time we should leave him in no doubt that we will not accept one more ad hoc year or 1000 mecu in the system and that if others were to go back on the progress made so far then they must accept the consequences ie no increase in own resources, no consideration of the problem of the budget overrun etc. This would also be the message to get across to M Ortoli, particularly since anything said to him is likely to get back to the French.

Innovation Loans

4. The Commission tabled a proposal last autumn to promote investment by small innovative firms in the EC by providing subsidised loans under the New Community Instrument to help them

/overcome

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overcome the problem of raising risk capital. We (and others) opposed the proposal on the grounds that action of this kind was more effectively taken at national rather than Community level; and than in any case the budget cost of the scheme (arising from bad debts and interest rate subsidies) was unacceptably high. The Commission are now working on a revised scheme which aims to meet these objections by establishing a guarantee fund and removing interest rate subsidies. However we remain unconvinced and at ECOFIN in June our objective will be to persuade our partners that the whole idea should be shelved. (The Germans and to some extent the Dutch and Danes share our doubts, whilst the Belgians and Greeks oppose the new proposal on the grounds that the incentive element has been almost entirely removed.)

Foreign and Commonwealth Office  
24 May 1984