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10 DOWNING STREET

From the Private Secretary

8 April 1986

Dear Sir,

PRIME MINISTER'S MEETING WITH THE CONSERVATIVE EUROPEAN  
REFORM GROUP

The Prime Minister met members of the Conservative European Reform Group this afternoon. Those present were:-

Sir Edward du Cann  
Sir Williams Clark  
Sir Richard Body  
Mr Den Dover  
Mr Peter Fry  
Mr Tony Marlow  
Mr Roger Moate  
Mr Richard Shepherd  
Mr Teddy Taylor  
Mr Peter Thurnham  
Mr Bill Walker

David Williamson was also present.

Sir Edward du Cann gave an account of the Group's activities. It now numbered some 70 Members of Parliament and had an organisation in the constituencies including some 24 Young Conservative groups. Their basic approach was that the United Kingdom was now a member of the European Community and there was a duty to make a success of our membership. Their attitude was therefore a positive one aimed at finding ways to help the Government achieve its objectives in the Community. Their vision of the Community was of a free association of nation states not a bureaucratic institution dedicated to imposing uniformity.

Budgetary Control

Sir Edward du Cann said that members of the Group had been unhappy with the decision to raise the VAT ceiling from 1 to 1.4 per cent but had been partly reassured by commitments on the observance of strict budgetary limits in future. They were now concerned at indications that the Commission and several Member States envisaged breaching these limits in practice very rapidly. It was not tolerable to have a situation in which assurances given one day were ignored the next. It seemed doubtful that the United

Kingdom actually had the power to insist on observance of budgetary limits since there was an agreement between Member States that they could be breached in exceptional circumstances. The Group would also welcome assurances that the United Kingdom's abatement, as agreed at Fontainebleau, could not be suspended or otherwise blocked.

The Prime Minister said that the Government shared the European Reform Group's views on the need for budgetary rigor. This had been shown by the firm action which we had taken in the European Court of Justice. Our rebate was now enshrined in Community legislation, though because the precise sum was based on an estimate, payment of any balance could in circumstances be postponed. The position on the 1.4 per cent VAT ceiling was absolutely clear. There was no provision for any further increase in the ceiling before 1988, and any proposal for an increase thereafter would require unanimous agreement of the Member States including the United Kingdom and approval by national parliaments. The Fontainebleau mechanism was already showing its value to us. In illustration, the Prime Minister quoted the figures for United Kingdom's net contribution to the Community budget in the years 1983/84-1986/87. In practice our own contribution remained below the 1 per cent ceiling and it was likely to be only 0.61 per cent VAT in 1986.

Sir Edward du Cann asked whether the Group could take it that HMG was anxious as they were to restrain Community spending and would not support an increase in the 1.4 per cent VAT ceiling. The Prime Minister said that the Government would be inclined to fight strenuously against any increase though she could not give an absolute or indefinite assurance because circumstances changes.

#### CAP

Sir Richard Body argued that the Government needed to give more thought to fundamental reform of the CAP. It should be replaced by a rural affairs policy. A policy based on price support no longer made sense. Farmers should not be given money to produce food but to protect the environment. Other members of the Group spoke of the need for fundamental change in the way in which agriculture was funded in the European Community. It was suggested that one way to achieve this would be through discussions of agricultural policies of the major agricultural trading nations in the GATT. It was also suggested that there was scope for repatriating agricultural policies to member States.

The Prime Minister emphasised the difficulty of securing major changes although the Government was committed to preventing discrimination against British farmers. Our first priority was to tackle surplus production through a policy of price restraint. But consideration was also being given to other ways to reduce agricultural expenditure such as some weakening of intervention and taking land out of production.

Single European Act

Mr Teddy Taylor spoke on the lines of the paper circulated by the Group in advance of the meeting (copy enclosed). Since time was short the Prime Minister undertook to reply to Mr Taylor's points in writing. She thought a number of them were based on a misunderstanding.

Sir Edward du Cann concluded that the Group would like to keep in close touch with the Prime Minister on policy towards the Community which was very much at the forefront of political discussion. The Group did not believe that all the Government's present policies were adequate or all its attitudes sensible. The Government would have the Group's warm support in its effort to control Community expenditure. The Group believed that some alternative to the CAP had to be found whether through piecemeal reform or wholesale change. Work on this was urgent and the Group would put forward some ideas. They were also worried about the continuous reduction in the authority of the Westminster Parliament and the continual increase in the power of the Commission. They hoped that the Government would be sensitive to these concerns. The Prime Minister welcomed the Group's intention to remain in touch and repeated her offer to write to Sir Edward on a number of points which had been raised at the meeting.

Mr Williamsom has kindly agreed to prepare a draft letter.

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

*Yours sincerely,  
Charles Powell*

Charles Powell

Colin Budd Esq  
Foreign and Commonwealth Office