

PO-CH/NL/0086

PART B

Part B.

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PO -CH /NL/0086

PART B

Chancellor's (Lawson) Papers:

**EUROPEAN COUNCIL
COPENHAGEN DECEMBER 1987**

**PO -CH /NL/0086
PART B**

Disposal Directions: 25 Years

Order

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FRAME GENERAL/ECONOMIC

FOREIGN MINISTERS CONCLAVE: 29/30 NOVEMBER 1987.

LUNCH 29 NOVEMBER.

SUMMARY.

1. A GENERAL DISCUSSION REVEALED A DIVISION BETWEEN THOSE SEEKING TO TACKLE THE THREE MAIN AGRICULTURAL COMMODITIES AT THE CONCLAVE (PRESIDENCY AND ITALY) AND THOSE WHO WANT TO LEAVE ALL THE MAIN ISSUES TO THE EUROPEAN COUNCIL (FRANCE AND GERMANY). DELORS, ANNOYED ABOUT THE INCREASINGLY CLOSE QUESTIONING OF THE COMMISSION'S EXPENDITURE FORECASTS UP TO 1992, WARNED THAT, IF THE DOLLAR DROPPED FURTHER, EXPENDITURE IN 1992 COULD REACH 1.35 PERCENT GNP RATHER THAN 1.25. RECOGNITION BY DELORS THAT THE OILS AND FATS TAX WILL NOT BE AGREED AT COPENHAGEN.

2. ELLEMAN JENSEN (PRESIDENCY) BEGAN WITH EXHORTATIONS TO COMPROMISE. IF THE NUMBER OF ISSUES COULD NOT BE REDUCED AT THE CONCLAVE, THERE WAS LITTLE HOPE FOR COPENHAGEN. THE PRESIDENCY'S TEXT WAS NOT PRESENTED ON A TAKE IT OR LEAVE IT BASIS: IT WOULD BE IMPROVED IF NECESSARY. AGRICULTURAL STABILISERS WERE CRUCIAL TO THE PACKAGE. THE FOCUS SHOULD BE ON CEREALS, OILS SEEDS AND PROTEINS. THE PRESIDENCY WANTED TO EXPLORE THE LINK BETWEEN STABILISERS AND SET-ASIDE.

3. DELORS (COMMISSION) AGREED ABOUT THE NEED TO CONCENTRATE ON THE THREE KEY AGRICULTURAL COMMODITIES. THE COMMISSION WERE READY TO MODIFY THEIR PROPOSALS IN ORDER TO HELP REACH AGREEMENT. CEREALS WERE SO POLITICALLY SENSITIVE THAT THEY WOULD HAVE TO BE DISCUSSED AT THE EUROPEAN COUNCIL. BUT THE CONCLAVE SHOULD TRY TO DEAL WITH OIL SEEDS AND THE REST OF THE AGRICULTURAL PACKAGE. RAIMOND (FRANCE) AGREED THAT THE AGRICULTURAL CHAPTER NEEDED TO BE SIMPLIFIED. THIS SHOULD BE DONE ON THE BASIS OF THE PRESIDENCY'S BROAD BRUSH REPORT RATHER THAN THEIR MORE DETAILED DRAFT CONCLUSIONS. THE EUROPEAN COUNCIL SHOULD SETTLE THE MAIN ISSUES AND LEAVE THE DETAIL TO MINISTERS OF AGRICULTURE. ELLEMANN JENSEN WANTED THE FOCUS TO BE ON

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THE PRESIDENCY CONCLUSIONS, WHICH WERE NOT AS DETAILED OR DIFFICULT AS RAIMOND IMPLIED.

4. GENSCHER (GERMANY) ARGUED THAT THE CONCLAVE SHOULD MERELY DEFINE THE PARAMETERS AND IF POSSIBLE DEAL WITH SECONDARY ISSUES. ELLEMANN JENSEN DID NOT WANT THE CONCLAVE TO BE TOO UNAMBITIOUS. IT SHOULD PARE DOWN THE ISSUES, INCLUDING THOSE ON THE STRUCTURAL FUNDS. IT WAS IMPORTANT THAT ALL SHOULD SAY AFTERWARDS THAT THERE WAS A CHANCE OF AGREEMENT AT COPENHAGEN. ANDREOTTI (ITALY) ARGUED AGAINST THE FRANCE-GERMANY APPROACH. THE CONCLAVE SHOULD TRY TO RESOLVE ALL THE MAIN AGRICULTURAL ISSUES, SINCE HEADS OF GOVERNMENT WOULD STICK TO A HIGH LEVEL OF GENERALITY AND ANY DECISIONS TAKEN BY THEM WOULD FALL APART IN THE AGRICULTURE COUNCIL. THE COMMISSION'S PROPOSALS ON AGRICULTURE WERE ON THE RIGHT LINES. BUT HE COULD NOT ACCEPT A TIGHTER STABILISER FOR TOBACCO THAN FOR CEREALS. HE WARNED AGAINST LEAVING TOO MANY LOOPHOLES FOR SMALL FARMERS.

5. IN SEVERAL LONG INTERVENTIONS, DELORS MADE THE FOLLOWING POINTS.

(I) OILSEEDS AND PROTEINS PRESENTED THE MOST URGENT PROBLEM SINCE THEY WERE CURRENTLY 20 PERCENT MORE PROFITABLE THAN CEREALS.

(II) THERE WERE GOOD VERSIONS OF SET ASIDE (AS IN LOWER SAXONY) AND BAD ONES.

(III) THE EUROPEAN COUNCIL SHOULD DISCUSS THE WORLD ECONOMY: IF THE DOLLAR SANK TO DM 1.50, THE BUDGETARY CONSEQUENCES FOR THE COMMUNITY WOULD BE DIRE.

(IV) ON EXPENDITURE UP TO 1992, COMMISSION OFFICIALS HAD GONE TOO FAR IN SUPPLYING DETAILS TO THE COUNCIL. THE SIMPLE FACT WAS THAT THE COMMUNITY WOULD BE INCREASING ITS EXPENDITURE ONLY FROM 1.16 PERCENT OF GNP IN 1988 TO 1.25 PERCENT IN 1992. BUT IF THE DOLLAR DROPPED AS HE FORESAW, OWN RESOURCES WOULD BE NEEDED AT 1.3 OR 1.35 PERCENT. IF THE EUROPEAN COUNCIL SET A 1.3 PERCENT LIMIT, THE PROBLEM WOULD COME BACK WITHIN 5 YEARS.

(V) SINCE THERE WOULD BE NO AGREEMENT ON THE OILS AND FATS TAX, WHICH WOULD HAVE TO REMAIN AS A TACTICAL GAMBIT FOR THE URUGUAY ROUND, A FURTHER 0.05 PERCENT OF OWN RESOURCES WOULD BE NEEDED.

(VI) THE BRITISH PRIME MINISTER MUST BE ABLE TO SAY AFTER COPENHAGEN THAT THE NEW SYSTEM OF BUDGET DISCIPLINE WOULD WORK

(UNLIKE THE FONTENBLAU VERSION). THAT PRESUPPOSED CHAPTER BY CHAPTER MANAGEMENT. BUT THERE WAS A LIMIT TO WHAT BUDGET DISCIPLINE COULD ACHIEVE.

(VII) GONZALEZ AND PAPANDREOU MUST BE GIVEN A SUBSTANTIAL INCREASE IN THE STRUCTURAL FUNDS: TALK OF AN INCREASE AS LOW AS 30 PERCENT WERE SCANDALOUS.

(VIII) THE COMMUNITY MUST PERSUADE THE US AND AUSTRALIA TO STOP DUMPING CEREALS ON THE WORLD MARKET. THE COMMUNITY WAS TOO COMPLIANT WITH THE US, WHICH HAD STOLEN THE MOROCCAN MARKET OVERNIGHT.

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FRAME GENERAL

CONCLAVE: FUTURE FINANCING: STRUCTURAL FUNDS: 29 NOVEMBER.

SUMMARY.

1. LITTLE PROGRESS. IN A TOUR DE TABLE MOST MEMBER STATES RESTATED POSITIONS OUTLINED AT FAC. PRESIDENCY MADE LITTLE EFFORT TO DRAW TOGETHER THE THREADS EVEN THOUGH THE SCOPE FOR AGREEMENT ON MANY ASPECTS OF THE STRUCTURAL FUNDS PACKAGE REMAINS. LEVEL OF FUNDS CONSIDERED BY PRESIDENCY TO BE A MATTER FOR HEADS OF GOVERNMENT SO NO SUBSTANTIVE DISCUSSION.

DETAIL.

2. ELLEMANN-JENSEN (PRESIDENCY) INVITED MINISTERS NOT TO WASTE TIME AT THE CONCLAVE ON THE SIZE OF THE INCREASE IN THE FUNDS. IT SHOULD BE LEFT TO HEADS OF GOVERNMENT. SOME MEMBER STATES WERE TRYING TO UNDERMINE THE COMMISSION'S REFORMS BY INSISTING ON PRIOR ALLOCATION OF THE FUNDS. THE COMMISSION WERE CONCERNED ABOUT EVEN THE MINOR MODIFICATIONS PROPOSED BY THE PRESIDENCY. HE APPEALED TO BENEFICIARY MEMBER STATES NOT TO TINKER WITH THE COMMISSION'S PROPOSALS.

3. THERE FOLLOWED A TOUR DE TABLE. THE PRESIDENCY OFFERED LITTLE IN THE WAY OF DIRECTION AND MADE NO ATTEMPT TO SEARCH FOR COMPROMISES.

4. RAIMOND (FRANCE) SAID THAT IN THE CURRENT YEAR FRANCE HAD RECEIVED 900 MECU FROM THE FUNDS BUT WOULD ACCEPT IN THE INTERESTS OF SOLIDARITY MUCH LOWER ANNUAL FIGURES FOR THE FUTURE PROVIDED THAT THE FUNDS WERE CONCENTRATED ON THOSE IN THE GREATEST NEED. THIS COULD BE ACHIEVED EITHER EXPLICITLY OR THROUGH DETAILED CRITERIA. HE INDICATED THAT IF THERE WERE TO BE QUOTAS FOR MEMBER STATES, ANY UNALLOCATED (HE REFERRED TO ''DEAD'' IN THE MILK QUOTA SENSE) ELEMENT SHOULD BE ASSIGNED TO SPAIN AND PORTUGAL. THOSE COUNTRIES WERE STILL IN A TRANSITIONAL PERIOD, HAD MAJOR PROBLEMS OF ADJUSTMENT AND DID NOT BENEFIT TO THE SAME EXTENT FROM EXISTING POLICIES: NOR DID THEY HAVE ANYTHING LIKE THE INTEGRATED

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MEDITERRANEAN PROGRAMME. DIRECTION OF THE FUNDS TO SPAIN AND PORTUGAL SHOULD NOT AFFECT THE ACQUIRED RIGHTS OF FOR EXAMPLE ITALY WHICH WOULD IN ANY EVENT GAIN BY COMPARISON WITH FRANCE. HE CONCLUDED THAT DOUBLING THE SIZE OF THE FUNDS WAS EXCESSIVE BUT HE COULD ACCEPT A SIGNIFICANT INCREASE.

5. IN DISCUSSION OF THE NOTE FROM THE PRESIDENCY OF 26 NOVEMBER, CHAPTER II (STRUCTURAL FUNDS), THE FOLLOWING POINTS WERE MADE.

OBJECTIVES.

6. THERE WERE NO SUBSTANTIVE COMMENTS.

METHOD FOR SELECTING BACKWARD REGIONS.

7. FERNANDEZ ORDONEZ (SPAIN) SAID HE FULLY SUPPORTED THE FLEXIBILITY CLAUSE WHICH REFERRED TO THE POSSIBILITY OF THE INCLUSION OF REGIONS WHOSE GDP PER CAPITA WAS CLOSE TO THE PROPOSED CUT OFF POINT OF 75 PERCENT. HE UNDERSTOOD THE CLAUSE WOULD COVER THOSE REGIONS THAT WERE ALREADY BENEFITTING FROM COMMUNITY SUPPORT. UNGERER (GERMANY) OPPOSED THE CLAUSE AS BEING TOO FLEXIBLE AND HAD SOME SUPPORT FROM DE SCHOUTHEETE (BELGIUM). PANGALOS (GREECE) JOINED GERMANY IN OPPOSING THE FLEXIBILITY CLAUSE AND ADDED THAT NORTHERN IRELAND AND THE FRENCH OVERSEAS DEPARTMENTS SHOULD BE EXCLUDED FROM THE BACKWARD CATEGORY.

METHOD FOR SELECTING AREAS OF INDUSTRIAL DECLINE.

8. YOU SAID THAT THE PROPOSAL THAT THE CRITERIA COULD BE REVISED BY THE COUNCIL ACTING BY A QUALIFIED MAJORITY ON A COMMISSION PROPOSAL AFTER TWO YEARS COULD LEAD TO UNCERTAINTY. IT WOULD BE MORE APPROPRIATE TO REVISE THE CRITERIA AFTER THREE YEARS AND TO DO SO BY UNANIMITY.

9. UNGERER SAID THAT THE RESPONSIBILITY FOR DRAWING UP THE LIST OF REGIONS OR PART REGIONS (IN INDUSTRIAL DECLINE) SHOULD BE GIVEN TO THE COUNCIL AND THE COMMITTEE SHOULD BE A REGULATORY ONE. PANGALOS (GREECE) SUPPORTED SELECTION OF THE REGIONS BY THE COUNCIL.

10. VAN DEN BROEK (NETHERLANDS) SAID THAT HE HOPED THAT TRANS-FRONTIER PROGRAMMES WOULD BE ELIGIBLE FOR COMMUNITY SUPPORT, AS BELGIUM HAD SUGGESTED EARLIER IN THE WEEK. POOS (LUXEMBOURG) AGREED. ELLERMAN-JENSEN SAID THAT HE UNDERSTOOD SUCH AREAS WOULD BE INCLUDED. DE SCHOUTHEETE SAID THAT THE CRITERIA MUST BE PRECISE BUT ACCOUNT SHOULD BE TAKEN OF THE RAPIDITY WITH WHICH REGIONS COULD DECLINE: THE LIST SHOULD THEREFORE NOT BE FIXED FOR A LONG PERIOD.

GEOGRAPHICAL CONCENTRATION.

11. YOU SAID THAT THE PAPER SHOULD BE CONSISTENT. WHERE IT PROPOSED THAT THE REGIONAL FUND SHOULD BE USED OUTSIDE THE BACKWARD REGIONS AND AREAS OF INDUSTRIAL DECLINE, THEN RELEVANT CRITERIA SHOULD BE LAID DOWN BY THE COUNCIL IN THE REGULATION JUST AS THE PAPER PROPOSED SHOULD BE THE CASE FOR THE SOCIAL FUND AND FEOGA GUIDANCE WHERE THEY WERE TO BE USED OUTSIDE THEIR PRIMARY MISSIONS. AN AMDENDENT TO THE TEXT WOULD ACHIEVE THE NECESSARY CONSISTENCY:

' 'OPERATIONS FALLING OUTSIDE THE PRIMARY MISSIONS OF THE ERDF (TO PROMOTE OBJECTIVES 1 AND 2), THE ESF (TO PROMOTE THROUGHOUT THE COMMUNITY OBJECTIVES 3 AND 4) AND THE EAGGF GUIDANCE SECTION (TO PROMOTE THROUGHOUT THE COMMUNITY OBJECTIVE 5) SHALL BE GUIDED BY CRITERIA TO BE LAID DOWN BY THE COUNCIL IN THE COMPREHENSIVE REGULATION.' '

12. VAN DEN BROEK WANTED CLEAR CRITERIA WHERE THE SOCIAL FUND WAS TO BE USED OUTSIDE ITS PRIMARY MISSIONS. UNGERER HOWEVER WAS GENERALLY CONTENT WITH THE PRESIDENCY NOTE ALTHOUGH FEOGA GUIDANCE SHOULD NOT BE USED IN THE BACKWARD REGIONS NOR SHOULD THE SOCIAL FUND BE USED IN CONJUNCTION WITH THE FIFTH OBJECTIVE (SUPPORT FOR AREAS ADJUSTING TO AGRICULTURAL REFORM).

13. PANGALOS HOWEVER AGREED WITH THE PAPER IN INDICATING THAT SUPPORT FOR THE BACKWARD REGIONS SHOULD COME FROM ALL THREE FUNDS. LENIHAN (IRELAND) AGREED ADDING THAT HE DID NOT WANT TO SEE RESTRICTIONS ON THE USE OF THE SOCIAL FUND IN THE BACKWARD REGIONS. IT WAS IMPORTANT THAT NOT LESS THAN TWO THIRDS OF ALL THREE FUNDS SHOULD BE DIRECTED TO THESE REGIONS. HE ALSO SUGGESTED AN AMENDMENT TO ENSURE THAT SOCIAL FUND AND FEOGA GUIDANCE MONEY GOING TO THE BACKWARD REGIONS SHOULD IN EACH CASE BE NOT LOWER THAN THE AVERAGE THE REGIONS RECEIVED FROM EACH FUND IN 1986/87. ON THIS LATTER BASE LINE FERNANDEZ ORDONEZ SAID THAT HE WOULD NOT ACCEPT IT SO FAR AS FEOGA GUIDANCE WAS CONCERNED.

14. YOU SAID THAT THE PRESIDENCY PROPOSALS ON CONCENTRATION REPRESENTED A SIGNIFICANT BENEFIT FOR THE POORER MEMBER STATES. NONETHELESS, IN THE INTERESTS OF REACHING AGREEMENT AND IN THE CONTEXT OF AN OVERALL SETTLEMENT THE UK WERE PREPARED TO ACCEPT THE PROPOSALS IN PARAGRAPH 5.

DIFFERENTIATION OF COMMUNITY CONTRIBUTION.

15. YOU SAID THAT THE UK HAD PUT FORWARD PROPOSALS FOR MODULATION OF GRANT RATES AT THE FAC LAST WEEK. WE HAD MADE IT CLEAR THEN THAT

WE COULD ACCEPT SOME FORM OF MODULATION ALONG THE LINES PROPOSED BY THE COMMISSION. WE HAD NOT HOWEVER HAD A CHANCE TO ASSESS THEM AND YOU SUGGESTED THAT THIS TECHNICAL MATTER SHOULD BE LEFT FOR DECISION IN THE FRAMEWORK REGULATION.

16. UNGERER RECALLED THE GERMAN INTERVENTION AT THE FAC AND ARGUED THAT THE RATES OF GRANT FOR THE MORE PROSPEROUS COUNTRIES SHOULD BE LOWER, AT AROUND 35 PERCENT. GERMANY COULD HOWEVER NOW ACCEPT AN UPPER LIMIT OF 75 PERCENT BUT FOR THE BACKWARD REGIONS ONLY.

17. VAN DEN BROEK ARGUED FOR AN UPPER LIMIT OF 50 PERCENT AND A MINIMUM OF 25-35 PERCENT. THE ONLY EXCEPTION SHOULD BE FOR PORTUGAL WHICH SHOULD HAVE UP TO 75 PERCENT. MARTINS (PORTUGAL) SAID IT WAS NOT ENOUGH FOR PORTUGAL TO GET A HIGHER GRANT RATE, THE RANGES SHOULD BE ADJUSTED ACCORDING TO PER CAPITA GDP.

18. LENIHAN SUGGESTED SOME MINOR TEXTURAL AMENDMENTS INCLUDING THE INSERTION IN THE MAIN BODY OF THE TEXT OF THE COMMISSION'S FOOTNOTE COVERING THE NEED TO TAKE ACCOUNT OF MEMBER STATES ABILITIES TO CO-FINANCE PROGRAMMES.

BREAK-DOWN OF THE APPROPRIATIONS AMONG MEMBER STATES.

19. YOU FULLY SUPPORTED THE PRESIDENCY'S PROPOSAL. NO ONE ELSE COMMENTED ON IT.

LEVEL OF FUNDING.

20. YOU SAID THAT WE HAD MADE IT CLEAR THAT IN OUR VIEW THE FUNDS SHOULD GROW WITHIN THE CONSTRAINTS PROVIDED BY THE MAXIMUM RATE. THIS WOULD ALLOW FOR GROWTH OF AROUND 35 PERCENT OR BY BETWEEN 15 AND 20 PERCENT IN REAL TERMS BY 1992 PROVIDED RESTRAINT WAS EXERCISED IN OTHER AREAS OF NON-OBLIGATORY EXPENDITURE. YOU AGREED THAT THERE WAS A CASE FOR LOOKING PARTICULARLY CLOSELY AT THE NEEDS OF THE POORER MEMBER STATES PARTICULARLY THE TWO NEWEST MEMBERS. THE SCOPE FOR DIRECTING FUNDS TO THEM WOULD BE GREATER IF THE RICHER MEMBER STATES WERE PREPARED TO MAKE SACRIFICES: THE UK WAS PREPARED TO PLAY A PART IN THIS. OUR CALCULATIONS SHOWED THAT THERE WAS SCOPE WITHIN THE MAXIMUM RATE FOR AN INCREASE OF SOME 45 PERCENT IN REAL TERMS OR 70 PERCENT IN MONEY TERMS IN THE RECEIPTS OF THE FOUR POOREST MEMBER STATES.

21. ANDREOTTI SAID THAT THE FRENCH PROPOSAL TO CONCENTRATE THE FUNDS ON THE POOREST FOUR COUNTRIES WAS NOT PARTICULARLY FAIR TO ITALY. THE COMMITTEE SHOULD STICK TO OBJECTIVE CRITERIA AND THE

COMMISSION'S PROPOSAL OF A 75 PERCENT GDP CUT OFF WAS FAIRER. HE ADDED THAT A NUMBER OF THE POORER MEMBER STATES ALREADY RECEIVED HUGE AMOUNTS IN AGRICULTURAL SUPPORT.

22. FERNANDEZ ORDONEZ SAID THAT DOUBLING THE SIZE OF THE FUNDS WAS THE MINIMUM NECESSARY FOR COHESION. PANGALOS, IN A LENGTHY INTERVENTION, COVERING MUCH OF THE GROUND THAT HE HAD COVERED AT THE FAC, ATTACKED THE CAP AS A CAUSE OF MASSIVE IMBALANCES. THE MORE PROSPEROUS REGIONS OF THE COMMUNITY RECEIVED SEVERAL TIMES AS MANY ECU AS THE POORER REGIONS. DOUBLING THE SIZE OF THE FUNDS WAS THE MINIMUM AND INDISPENSABLE FOR AGREEMENT TO THE REST OF THE PACKAGE. LENIHAN, ANDREOTTI (DOUBLING WAS EQUIVALENT TO ONLY HALF THE AMOUNT SPENT ON THE DAIRY SECTOR) AND MARTINS AGREED.

23. DELORS (COMMISSION) AFTER THANKING THE PRESIDENCY FOR THEIR SUPPORT, DELIVERED A LECTURE TO THE CONCLAVE. THERE WERE SEVERAL REASONS WHY THE PROPOSALS PUT FORWARD BY MINISTERS WERE UNACCEPTABLE. THE AMOUNTS FOR THE STRUCTURAL FUNDS WERE VERY SMALL: 0.3 PERCENT OF COMMUNITY GNP. THE COMMUNITY WOULD BE NO MORE THAN A FREE TRADE AREA IF IT FOLLOWS THE PROPOSALS FROM MEMBER STATES. IF THEY WERE NOT PREPARED TO CONTRIBUTE MORE, THEY SHOULD NOT HAVE AGREED TO ENLARGEMENT. HE CONCLUDED THAT THE GAP BETWEEN THE COMMISSION AND THE COUNCIL WAS STILL VERY WIDE AND THE LATTER WERE NOT STICKING TO THE UNDERTAKINGS ENTERED INTO UNDER THE SEA.

24. ELLEMAN-JENSEN, SUMMING UP SAID IN A GENERAL REFERENCE TO THE DAY'S DISCUSSION THAT THE CONCLAVE WOULD NOT BE TAKEN SERIOUSLY IF IT WERE NOT PREPARED TO COMPROMISE. THE PRESIDENCY HAD MADE AN EFFORT BUT THE DISCUSSIONS, ESPECIALLY ON THE STRUCTURAL FUNDS, HAD SHOWN A DEGREE OF INFLEXIBILITY. PROGRESS HAD BEEN MINIMAL.

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From the Private Secretary

29 November 1987

Dear Resident Clerk,

pp. 3. pl.

EUROPEAN COUNCIL: MR. SCHLÜTER'S LETTER

Lyn Parker wrote to me on 28 November enclosing a draft reply from the Prime Minister to Mr. Schlüter's letter about the European Council.

The Prime Minister has approved a text which is modified in some minor respects. I enclose it with this letter. You may wish to telegraph it to the Foreign Secretary's party in Brussels to ensure that the proposed modifications cause no problem. Thereafter it should be telegraphed to Copenhagen and to other European capitals for action first thing tomorrow morning.

I am copying this letter and enclosure to Alex Allan (HM Treasury), Shirley Stagg (MAFF) and Trevor Woolley (Cabinet Office).

Yours sincerely,
C.D. Powell
(C.D. POWELL)

Resident Clerk,
Foreign and Commonwealth Office.

TO FLASH COPENHAGEN
AND TO IMMEDIATE OTHER EC POSTS

UKREP TELNO 4054: COPENHAGEN EUROPEAN COUNCIL: PRIME
MINISTER'S REPLY TO SCHLÜTER

1. When you see the Danish Prime Minister at 30100Z please deliver the following reply, dated 29 November, from the Prime Minister to Schlüter's 26 November letter. Other action addressees should deliver copies of the Prime Minister's message to the offices of other EC heads of government, all of whom will have received Schlüter's letter. In Paris copies should go to both the Elysee and Matignon. UKRep should give a copy to M. Delors.

2. Message begins:

Thank you for your letter of 26 November about next week's European Council meeting in Copenhagen.

I agree with how you plan to handle the meeting, and in particular with your intention to concentrate discussion on the Community's future financing. My strong view, like yours, is that we should settle these issues now. For my part, I shall come to Copenhagen ready to negotiate an overall agreement covering all such issues. But if there is to be such an agreement, involving an increase in the own resources ceiling (and in the Structural Funds), it is essential that there should be comprehensive measures to bring agricultural spending under control. Such measures must be effective and binding. Effective stabilisers, accompanied if necessary by an element of "set-aside", are in my judgement the key to success at the European Council.

But I must tell you that the proposals in last week's Presidency papers are not, in our considered view,

sufficient. They do not fulfil the mandate from our June meeting in Brussels for the adoption of "the additional regulations which will enable the Commission to keep the level of agricultural expenditure within the budgetary framework". They would not stop the accumulation of excessive stocks which brings ever-growing criticism of the Community from our trading partners and our own peoples. We would fail the Community if we were to settle now for inadequate stabilisers, and I think it only right to warn you that I am not prepared to do so. I believe we need to look again at the Commission's proposals, particularly for cereals and oilseeds.

In your letter you also raise the question of budgetary imbalances and express the hope that it will not occupy our time in Copenhagen. I share your hope. But I think it right to warn that such hopes will be dashed if the discussion proceeds on the basis of the proposition you describe.

When we discussed this at Fontainebleau the United Kingdom was already a substantial net contributor to the Community. It was agreed then, specifically in the context of the Community of 12, that it would be right to reduce our burden and that the Abatement mechanism was the right way to do so. The United Kingdom remains a substantial net contributor. Indeed our under-lying burden, as measured by the VAT/expenditure gap, has more than doubled since Fontainebleau. In 1984 it was under one and a half billion ecu: it is now some three and a half billion ecu. So despite the Fontainebleau mechanism our net contribution after abatement has also risen steeply, to around one and one-quarter billion ecu this year.

I see no logic in a proposal for an additional, and wholly arbitrary, increase in the UK's net contribution. Yet that is apparently what is envisaged in your letter. Incidentally the Commission's proposals would - on our

calculations - mean an increase far larger than the one you mention. We shall certainly not reach agreement by that route. I cannot accept that the Fontainebleau mechanism should be dropped, and our net contribution arbitrarily increased, while UK GNP per head remains at about the Community average, and many richer member states remain substantial net beneficiaries.

I thought it would help our discussions if I let you (and our other EC colleagues, to whom I am sending copies) have my reactions to your abatement proposal without delay. I also wanted to alert you to the vital importance I attach to effective agricultural stabilisers. I repeat that I am ready to reach an overall agreement at Copenhagen. But it must include binding and effective spending control, and it must be fair.

I look forward to discussing all these matters when you come here on Tuesday.

Message ends

(RE-ISSUED PHOTOCOPY INCLUDING PAGE 2)

Mufax Mr Crow ECD(I)
cc FF Distribution
Mr Fear

EUROPEAN COMMUNITIES
THE COUNCIL

Brussels, 29 November 1987

10005/87

RAU 43

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COPY OF LETTER

from : Lord PLUMB, President of the European Parliament

dated: 26 November 1987

to : Mr Uffe ELLEMANN-JENSEN, President of the Council of the
European Communities

No. prev. doc.: 9642/1/87 RAU 35

No. Cion prop.:

Subject: Making a success of the Single Act

- message of Lord Plumb, President of the European
Parliament, to the members of the Council of Ministers
Brussels, 26th November 1987

Dear President,

I am writing to convey to you and your colleagues attending the "Conclave" which is preparing the European Council, the main conclusions of the European Parliament which I look forward to presenting in greater detail to that Council on 4 December.

Following its early support for the general orientations of the Commission over the measures necessary for ensuring the success of the Single European Act, the European Parliament has now expressed its global political support for the detailed proposals which are before the European Council. Parliament has already been able to adopt legal opinions on some of these proposals. We therefore ask the Commission and the Council to consider these amendments and the political resolutions in their deliberations.

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These amendments are inspired by three basic principles:

- CAP expenditure must be effectively controlled. The Parliament is in principle in favour of stabilizers.
- Adequate means must be found to finance Community obligations under the Treaties, including those related to "Cohesion".
- Rigorous budgetary discipline must be applied to all types of expenditure and be implemented by agreement between Council and Parliament.

I wish you and your colleagues, to whom I am copying this letter, every success in your preparation of the deliberations of the European Council in Copenhagen.

(s.) Henry PLUMB

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Copenhagen, 30 November 1987

Letter from Prime Minister Poul SCHLÜTER to his colleagues

I have thought it useful after the meeting of Foreign Affairs Ministers to set out the questions on which the Presidency intends to concentrate in our discussion of the Delors-package during the meeting of the European Council in Copenhagen Friday and Saturday. I have attached a short note setting out these questions.

The Presidency will as usual prepare in the light of our deliberations on the first day in the European Council a complete set of conclusions in the light of our deliberations and on the basis of the text presently on the table.

I am looking forward to seeing you in Copenhagen.

signed Poul SCHLÜTER

SN 4017/87

Copenhagen, 30 November 1987

N O T E

Subject : MAKING A SUCCESS OF THE SINGLE ACT
- Main questions on which the Presidency intends to concentrate discussion during the European Council in Copenhagen (1)

BUDGETARY DISCIPLINE

Two main questions will be discussed:

- 1) The base for the agricultural guideline, its growth rate and depreciation of excessive agricultural stocks

Discussion has shown that these questions are interlinked. Two options are on the table:

- a) The option set out in the Presidency's draft conclusions (base - real needs for 1987, growth rate equal to GNP-growth and revision downwards of the guideline after 1992.)
- b) The option put forward during the Conclave (base 27.000 million ECU for 1988, growth rate equal to 60 % of GNP-growth and existing excess stocks outside the guideline.)

(1) A consolidated version of the Presidency draft conclusions circulated on 26 November and the specific textual changes set out in doc. 3954/87 distributed to the "conclave" and resulting from its discussion will be available shortly.
SN 4017/87

2) The introduction of a monetary reserve in the rules on exceptional circumstances

The Commission has made more precise in the conclave the conditions for operation of the reserve which it proposed in the original package. (2) The European Council must decide whether to include this proposal or limit itself to a clause on exceptional circumstances as proposed by the Presidency text.

AGRICULTURE

The Presidency remains of the opinion that success at Copenhagen largely depends on agreement being reached on the overall question of agricultural stabilizers.

The Presidency is convinced that this can be achieved if agreement is reached on the three main arable crops - cereals, oilseeds and proteins.

So far none of the proposals tabled has proved capable of achieving agreement on those products. This is true both for the Commission's proposals, the compromise proposed by the Presidency, and the approach proposed by France. Also the particular problem raised by the Federal Republic of Germany has so far not found a satisfactory solution.

Following the Commission's helpful proposal on certain oilseeds circulated during the "conclave" the Presidency will seek with the Commission to arrive at suitable texts for decision on all three arable products so that the European Council can dispose of clearly defined political options permitting a decision to be taken by it.

(2) A document setting out these precisions will be circulated.

STRUCTURAL FUNDS

Taking account of the orientations which the European Council already laid down in Brussels on the objectives of the funds, on concentration of their actions and on the recourse to the programme method, the Presidency intends to concentrate the discussion on the overall financial amount and geographical concentration.

On this latter question two contradictory trends exist around the Presidency compromise and will have to be discussed :

- 1) The proposal of certain delegations to concentrate 2/3 of the Funds on the regions covered by Objective No 1.
- 2) The proposal of certain other delegations to foresee a special effort of concentration on the less prosperous Member States, with particular emphasis on the two new Members.

OWN RESOURCES

The Presidency intends to concentrate the debate on this chapter in the European Council on :

- j) the size of the overall ceiling and in the light of this decision the question of subceilings ;
- ii) the definition and the role of the 4th resource.

BUDGETARY IMBALANCES

The Presidency intends to concentrate on the following questions :

- a) Should the UK compensation be reduced at the outset to reflect the United Kingdom's relative position within the Community of Twelve, in addition to the reduction to take account of the effect on the United Kingdom's contribution of the introduction of a fourth resource ?

- b) Can we agree that the result of any new compensatory mechanism should not lead to a financial result that deviates significantly from the result of the present mechanism taking into account what is decided under point a)?

- c) The distribution key.

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OBJET: EUROPEAN COUNCIL 4-5 DECEMBER 1987 IN COPENHAGEN:
DRAFT DECLARATION ON THE MIDDLE EAST
REF: CPE/BRU 647, CPE/BON 486

THE PRESIDENCY IS GRATEFUL TO PARTNERS FOR SUGGESTIONS FOR INCLUSION IN A EUROPEAN COUNCIL DECLARATION ON THE MIDDLE EAST AND SUBMITS THE FOLLOWING DRAFT FOR CONSIDERATION BY POLITICAL DIRECTORS. PARTNERS ARE KINDLY INVITED TO SUBMIT ANY COMMENTS NOT LATER THAN DECEMBER 2ND AT 17.00 HOURS.

' ' D R A F T

DECLARATION BY THE EUROPEAN COUNCIL ON THE MIDDLE EAST

1. THE HEADS OF STATE AND GOVERNMENT OF THE TWELVE MEMBER STATES OF THE EUROPEAN COMMUNITY EXPRESS THEIR PROFOUND CONCERN ABOUT THE CONTINUATION OF THE WAR BETWEEN IRAQ AND IRAN AND REITERATE THEIR FIRM AND WHOLE-HEARTED SUPPORT FOR SECURITY COUNCIL RESOLUTION 598 AS THE MEANS TO ACHIEVE A NEGOTIATED SETTLEMENT TO THIS ARMED CONFLICT. CONTINUED NON-COMPLIANCE WITH THIS MANDATORY RESOLUTION WOULD NOT BE ACCEPTABLE TO THE WORLD COMMUNITY, AND THE SECURITY COUNCIL WOULD HAVE TO CONSIDER WAYS AND MEANS TO ENFORCE ITS IMPLEMENTATION. THE TWELVE CONTINUE TO GIVE THEIR UNRESERVED AND STRONG SUPPORT TO THE UNITED NATIONS SECRETARY GENERAL IN HIS EFFORTS TO OBTAIN EARLY AND FULL IMPLEMENTATION OF THIS RESOLUTION. THEY URGE BOTH BELLIGERENTS TO COOPERATE WITH THE SECRETARY GENERAL TO THIS END, TO EXERCISE RESTRAINT AND NOT INTENSIFY THE FIGHTING BEFORE IMPLEMENTATION, TO RESPECT THE FREE-

DOM OF NAVIGATION IN THE GULF AND TO REFRAIN FROM VIOLATION OF INTERNATIONAL NORMS.

2. THE HEADS OF STATE AND GOVERNMENT CONFIRM THEIR DESIRE FOR A NEGOTIATED SOLUTION TO THE ARAB-ISRAELI CONFLICT WHICH WOULD BRING TO THE REGION A JUST, COMPREHENSIVE AND LASTING PEACE AND GOOD NEIGHBOURLY RELATIONS. AT PRESENT THEY SEE NO ALTERNATIVE TO AN INTERNATIONAL CONFERENCE UNDER THE AUSPICES OF THE UNITED NATIONS AS THE MEANS TO BRING ABOUT A NEGOTIATED SOLUTION. THEY THEREFORE WELCOME THE RESOLUTE SUPPORT BY THE ARAB LEAGUE AT THE AMMAN SUMMIT FOR AN INTERNATIONAL CONFERENCE. THE RESULT OF THE SUMMIT SHOULD NOW BE APPLIED AND NEW MOMENTUM BROUGHT TO THE PEACE PROCESS.

3. THE HEADS OF STATE AND GOVERNMENT REMAIN DEEPLY CONCERNED ABOUT THE SITUATION IN LEBANON. THEY CALL FOR A PEACEFUL SOLUTION TO THE LEBANON CONFLICT BASED ON THE INDEPENDENCE, UNITY, SOVEREIGNTY AND TERRITORIAL INTEGRITY OF LEBANON. THEY URGE ALL PARTIES TO ADOPT SUCH A SOLUTION BEFORE THE ECONOMIC, POLITICAL AND SECURITY SITUATION IN LEBANON DETERIORATES STILL FURTHER. THEY UNDERLINE THE IMPORTANT ROLE FALLING TO SYRIA IN THIS PROCESS AND THE PARTICULAR RESPONSIBILITY OF THE SYRIAN GOVERNMENT. THE TWELVE CONTINUE THEIR SUPPORT FOR UNIFIL AND INSIST THAT IT BE ALLOWED TO FULFILL ITS MANDATE UNOBSTRUCTED AND FREE FROM ATTACKS. THEY REITERATE THEIR CONDEMNATION OF THE CONTINUING DETENTION OF HOSTAGES AND VICTIMS OF KIDNAPPING IN LEBANON''.

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OF 302030Z NOVEMBER 87
INFO ROUTINE EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC
INTERNAL MARKET COUNCIL : 30 NOVEMBER 1987
DRAFT REGULATION DETERMINING THE PERSONS LIABLE FOR PAYMENT OF A
CUSTOMS DEBT.

SUMMARY

1. SUBJECT TO UK PARLIAMENTARY SCRUTINY RESERVE, COMMON POSITION
AGREED ACCEPTING ARTICLE 100A AS THE LEGAL BASE FOR THE REGULATION.

DETAIL

2. WILHJELM (PRESIDENCY) EXPLAINED THAT THE ONLY OUTSTANDING
POINT WAS WHETHER ARTICLE 100A WAS ACCEPTABLE AS THE LEGAL BASE FOR
THE REGULATION, AS PROPOSED BY THE COMMISSION. CADET (FRANCE),
CASANOVA (SPAIN), LYMBEROPOULOS (GREECE) AND MR MAUDE ALL MAINTAINED
THEIR VIEW THAT ARTICLE 100A WAS NOT ACCEPTABLE, PREFERRING ARTICLES
43 AND 235. RESPONDING TO THESE VIEWS, LORD COCKFIELD (COMMISSION)
SAID THAT THE PURPOSE OF THE CUSTOMS UNION WAS NOT THE PROTECTION OF
OWN RESOURCES. A CUSTOMS UNION WAS A FUNDAMENTAL PILLER OF THE
PRINCIPLE OF FREE MOVEMENT OF GOODS, WHICH ITSELF WAS FUNDAMENTAL TO
THE INTERNAL MARKET. ARTICLE 8A OF THE TREATY IDENTIFIED THE COMMON
CUSTOMS TARIFF AS ONE OF THE MEANS OF ACHIEVING THE INTERNAL MARKET.
THEREFORE THE COMMISSION'S USE OF ARTICLE 100A WAS SQUARELY BASED ON
THE TREATY AND SEA PROVISIONS.

3. IN AN ATTEMPT TO WIN ROUND DELEGATIONS, WILHJELM PROPOSED A
MINUTES STATEMENT (BY HAND OF LOUGHEAD, DTI) IN WHICH THE COUNCIL
WOULD STATE THAT THE USE OF ARTICLE 100A WOULD NOT PREJUDICE FUTURE
DECISIONS IN THE CUSTOMS OR ANY OTHER FIELD, AND THAT A CASE BY CASE
APPROACH WOULD BE ADOPTED. LORD COCKFIELD REFUSED TO JOIN THE
COMMISSION TO THIS STATEMENT IN CASE IT MIGHT BE USED IN FUTURE TO
ARGUE THAT THE COMMISSION'S HANDS HAD BEEN TIED. MR MAUDE MAINTAINED
THE UK'S RESERVE, AND ALSO REGISTERED A PARLIAMENTARY SCRUTINY
RESERVE.

4. ON RESUMING AFTER LUNCH, THE PRESIDENCY CIRCULATED THE
FOLLOWING REVISED MINUTES STATEMENT:
'THE COUNCIL AND THE COMMISSION NOTE THAT FUTURE DECISIONS

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CONCERNING THE LEGAL BASIS TO BE ADOPTED FOR OTHER ACTS IN THE CUSTOMS FIELD OR IN OTHER FIELDS WILL BE TAKEN ON A CASE BY CASE BASIS ACCORDING TO THEIR MERITS''.

WILHJELM STATED THAT HE WOULD CONSIDER THAT THIS WOULD ALLOW ALL DELEGATIONS TO ACCEPT ARTICLE 100A UNLESS THERE WERE OBJECTIONS. NO-ONE SPOKE, AND THE PRESIDENCY CONCLUDED THAT THE COUNCIL HAD REACHED A COMMON POSITION ON THE PROPOSAL.

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FRAME ECONOMIC

INTERNAL MARKET COUNCIL: 30 NOVEMBER 87

NON LIFE INSURANCE SERVICES

SUMMARY

1. INITIAL TOUR DE TABLE PRODUCES LITTLE SIGN OF MOVEMENT FROM PREVIOUS POSITIONS.

2. PRESIDENCY SUBSEQUENTLY PRESENT REVISED LESS LIBERAL COMPROMISE INCLUDING STAGED PHASING FOR THRESHOLDS (WITH A DEROGATION TO INCLUDE ALSO SPAIN) AND MATCHING, AND A NEW TEXT ON TAX.

3. FRANCE AND LUXEMBOURG WILLING TO JOIN INCREASINGLY RELUCTANT UK, NETHERLANDS, GERMANY AND DENMARK, BUT NO FURTHER NEW SUPPORT.

4. PRESIDENCY NOW UNDECIDED ON NEXT MOVE BUT MAY SEND PROPOSAL TO A FUTURE COUNCIL IN DECEMBER (ANOTHER INTERNAL MARKET COUNCIL HAS BEEN CALLED FOR 18 DECEMBER A.M.)

DETAIL

5. LORD COCKFIELD (COMMISSION) OPENED BY STRESSING THE IMPORTANCE OF BRINGING TO A SPEEDY CONCLUSION THIS LONG-STANDING PROPOSAL WHICH COULD SO REDUCE THE COSTS OF TRADE AND INDUSTRY AND THUS BENEFIT THE CONSUMER. IN THEIR DECEMBER 1986 JUDGEMENTS, THE ECJ HAD CONSIDERED THE PROTECTION OF POLICY HOLDERS AND THIRD PARTIES AS THE PRIORITY AND THEN ONLY AS REGARDS MASS RISKS: FOR LARGE RISKS IT WAS CLEAR THAT THERE SHOULD BE FREEDOM OF SERVICES SUBJECT TO HOME COUNTRY CONTROL AND MUTUAL RECOGNITION. THEREFORE IT WAS FOR THE COUNCIL TO SET THE DIVIDING LINE. THE COMMISSION SUPPORTED THE PRESIDENCY COMPROMISE: AGREEMENT ON THRESHOLDS SHOULD OPEN THE DOOR TO THE OTHER POINTS IN THE PACKAGE.

6. WILHJELM (PRESIDENCY) AGREED BUT WARNED THAT THE ECJ HAD IN EFFECT GIVEN THE COUNCIL A LAST CHANCE TO NEGOTIATE A SERVICES

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REGIME. IF IT FAILED, THE COURT WOULD SIMPLY STEP IN AND PRODUCE A SOLUTION LESS BALANCED TO THE MUTUAL INTERESTS OF MEMBER STATES. AS FOR THRESHOLDS, THE PRESIDENCY FIGURES SHOULD BE A MAXIMUM: HIGHER WOULD RENDER THE DIRECTIVE MEANINGLESS.

7. AN ENSUING TOUR DE TABLE CONTAINED PREDICTABLE SET STATEMENTS. CASANOVA (SPAIN) REITERATED HIS COUNTRY'S REQUEST FOR A WAVER AND FOR A SOLUTION TO THE SPANISH INSURANCE CONSORTIUM PROBLEM: LORD COCKFIELD COMMENTED THAT DISCUSSIONS WERE CONTINUING AND HE WAS OPTIMISTIC. MENESES (PORTUGAL) FAILED TO PRODUCE HIS PROMISED 'CONCRETE PROPOSALS FOR FLEXIBLE PHASING' AND APPEALED AGAIN FOR A LONG TRANSITIONAL PERIOD. DE KEERSMAEKER (BELGIUM) REELED OUT THE SAME OLD LIST OF DEMANDS EG HIGHER THRESHOLDS, CUMUL VARIANT 3, HOST STATE CONTROL OF TECHNICAL RESERVES ACROSS THE BOARD PENDING HARMONISATION, AN ABSOLUTE LIMIT ON MATCHING AND PROVISION FOR A FISCAL REPRESENTATIVE. BOTH CASANOVA - IN A SUBSEQUENT INTERVENTION - AND LYMBEROPOULOS (GREECE) ECHOED MOST OF THIS, THE LATTER CHIMING IN WITH HIS WELL KNOWN THRESHOLDS OF 2000 EMPLOYEES AND 200 MECU TURNOVER (ON A LEGAL ENTITY BASIS).

8. LAHURE (LUXEMBOURG) AND BRENNAN (IRELAND) BOTH AGAIN SAID THEY COULD MOVE ON THRESHOLDS ON A LEGAL ENTITY BASIS BUT WERE STILL FOR AN ABSOLUTE LIMIT ON MATCHING.

9. BOSSON (FRANCE) WHILE AGAIN BRINGING UP THE SUBSIDIARY LOOPHOLE POINT AND PUSHING HIS HIGHER THRESHOLD FIGURES COULD HOWEVER RALLY TO THE PRESIDENCY COMPROMISE IF THERE WAS SOMETHING ON FISCAL REPRESENTATION: WHILE LA PERGOLA (ITALY) AS EXPECTED PRESSED FOR HOST COUNTRY CONTROL OF ALL TECHNICAL RESERVES AS A CONDITION FOR SUPPORTING A LIBERAL CUMUL: THE PHASING OF THRESHOLDS PROPOSED AT THE LAST COREPER WAS ONLY ALLUDED TO, HOWEVER, WITH 500 EMPLOYEES AND 70 MECU BEING MENTIONED AS A POSSIBLE ALTERNATIVE (ALTHOUGH WHETHER ON A LEGAL ENTITY OR CONSOLIDATED BASIS WAS UNCLEAR).

10. FROM THE LIBERAL CAMP, MR MAUDE (UK) SAID WE HAD CONCERNS WITH MUCH OF THE COMPROMISE BUT IN THE INTERESTS OF THE PROPOSAL'S SPEEDY ADOPTION WOULD BE PREPARED TO ACCEPT THE PACKAGE AS A WHOLE. IN PARTICULAR HE URGED THE COUNCIL NOT TO GO BEYOND THE PRESIDENCY'S FIGURES ON THRESHOLDS: BUT IF THERE WAS TO BE ANY PHASING THERE MUST BE FINITE TIME LIMITS. IT WAS IMPORTANT FOR BUSINESS AT LARGE TO BE ABLE TO BENEFIT FROM THE INCREASED COMPETITION THAT THE DIRECTIVE STOOD TO PROVIDE. SCHLECHT (GERMANY) WHOLEHEARTEDLY AGREED ON THE TIMETABLE POINT WHILE VAN BEUGE (NETHERLANDS) SUPPORTING NO INCREASE IN THRESHOLDS SAID IT WAS IMPORTANT TO CONSIDER THE BENEFITS THAT

COULD ACCRUE FOR SMES - THE PRESIDENCY'S THRESHOLDS WERE THEREFORE ONLY JUST ACCEPTABLE: ON THE FRENCH TAX PROPOSAL, HOWEVER, HE WAS CONCERNED THAT A FISCAL REPRESENTATIVE WAS MERELY A BACK DOOR TO ESTABLISHMENT. FINALLY, DYREMOSE (DENMARK) ADDED THAT IF THERE WAS TO BE ANY PHASING OF THRESHOLDS THE RELATIONSHIP BETWEEN THE THREE COMPONENTS OF THE FOURTH COMPANY LAW DIRECTIVE NEEDED TO BE PRESERVED. BUT DENMARK WOULD HAVE PREFERRED NO LIMITS.

11. ASKED TO COMMENT THUS FAR, LORD COCKFIELD NOTED THAT WHAT THE ILLIBERAL STATES SEEMED CONCERNED WITH WAS TO PROTECT INSURANCE COMPANIES: THE ECJ HAD BEEN PURELY CONCERNED WITH THE PROTECTION OF POLICY HOLDERS AND THIRD PARTIES AND IN THIS REGARD THE PRESIDENCY'S FIGURES AS SUGGESTED NOT BY THE CEA (AN INSURERS TRADE UNION) BUT BY UNICE (WHICH REPRESENTED THE CONSUMER) AND CONSIDERED A MAXIMUM TOLERABLE LIMIT, HAD TO BE TAKEN. THESE MUST NOT BE SEEN AS THE OPENING BID IN AN AUCTION: THE COMMISSION CONSIDERED THEM TOO HIGH. AS REGARDS ANY MORE RESTRICTIVE VERSION OF CUMUL AND HOST COUNTRY CONTROL FOR LARGE RISKS NEITHER HAD ANY BASIS IN THE ECJ JUDGEMENTS. MORE GENERALLY, IT WAS VITAL NOT TO CUT DOWN ON EXISTING RIGHTS UNDER THE TREATY.

12. AFTER A BREAK, A REVISED PRESIDENCY COMPROMISE WAS TABLED OVER LUNCH AND ROUNDLY ATTACKED BY LORD COCKFIELD AS A STEP BACKWARDS. THIS CONTAINS A TWO-STAGE PHASING FOR THRESHOLDS - WITH DOUBLE THE PRESIDENCY FIGURES UNTIL END-1992 IN THE INITIAL PHASE AND THE INCLUSION OF SPAIN WITH GREECE AND PORTUGAL IN A STRETCHED FIRST STAGE ENDING DECEMBER 1996: AN AMENDED TEXT ON TAX ENABLING 'EACH MEMBER STATE, PENDING FUTURE HARMONISATION, TO APPLY ... ITS OWN NATIONAL PROVISIONS TO ENSURE THE TAX COLLECTION' TOGETHER WITH A NEW COUNCIL MINUTE STATEMENT INDICATING THAT MEMBER STATES MAY REQUIRE SERVICES INSURERS 'INTER ALIA TO FORWARD AN EXHAUSTIVE LIST OF CONTRACTS UNDERWRITTEN OR TO APPOINT A FISCAL AGENT ...': A THREE STAGE PHASING ON ABSOLUTE LIMITS FOR MATCHING FOR GREECE, PORTUGAL AND IRELAND WITH THE FIRST TWO STAGES OF THIS PHASING APPLYING ALSO TO BELGIUM, LUXEMBOURG AND SPAIN: THE COMMISSION COMPROMISE PROPOSAL ON ECU MATCHING (OBLIGATORY UP TO 20 PER CENT, OPTIONAL UP TO 50 PER CENT): AND FINALLY NO CHANGE AS REGARDS TECHNICAL RESERVES.

13. REACTION TO THIS WAS VERY MIXED WITH MR MAUDE, VAN DER LINDEN (NETHERLANDS), GRUNHAGE (GERMANY) AND DYREMOSE REFUSING TO GO ANY FURTHER WHATEVER, FRANCE AND - IN A PROMISING CHANGE OF HEART - LUXEMBOURG SUPPORTING IN THE SPIRIT OF COMPROMISE, BUT OTHERWISE NO FURTHER MOVEMENT. MOST DISAPPOINTINGLY ITALY SIMPLY DESCRIBED IT AS

UNACCEPTABLE, WHILE DE KEERSMAEKER WAS ALMOST AS NEGATIVE JOINING A CHORUS OF PLEAS FROM LYMBEROPOULOS, BRENNAN AND MARTINS (PORTUGAL) FOR HIGHER THRESHOLDS, LONGER PHASING ETC. CASANOVA MAY HAVE IMPLIED THAT IF THE SPANISH CONSORTIUM PROBLEM WAS RESOLVED SPAIN MIGHT BE MORE AMENABLE BUT THE THRESHOLDS HE SUGGESTED IN THE FIRST PHASE WERE RIDICULOUSLY HIGH.

14. DYREMOSE, NO DOUBT SENSING THE PRESIDENCY'S INCREASING FRUSTRATION, COMMENTED THAT IF THE COUNCIL COULD NOT AGREE EVEN ON THIS VERSION, IT WOULD BE BETTER TO LEAVE THE MATTER TO THE COURTS. LORD COCKFIELD DESCRIBED IT AS A 'WEAK, SPINELESS, GUTLESS COMPROMISE' AND THOUGHT IT WOULD BE THE ABSOLUTE LIMIT THE COMMISSION COULD ACCEPT ALTHOUGH IT WOULD MAKE A MOCKERY OF THE INTERNAL MARKET OBJECTIVE.

15. AS THIS POINT DISCUSSION FIZZLED OUT, BEING GIVEN NO FOCUS BY THE PRESIDENCY: AND IN A CONCLUSION LACKING MUCH WEIGHT WILHJELM MERELY INDICATED THAT THE AMENDED COMPROMISE SEEMED AN APPROPRIATE EQUILIBRIUM. ALTHOUGH THERE APPEARED TO BE REAL DISAGREEMENT, THE PRESIDENCY MIGHT STILL TAKE THIS UP AT A FUTURE COUNCIL BEFORE THE END OF THE YEAR. (AN INTERNAL MARKET COUNCIL HAS SINCE BEEN SET FOR THE MORNING OF 18 DECEMBER BUT IF THIS PROPOSAL IS TO BE ON THE AGENDA THE PRESIDENCY WILL CLEARLY HAVE TO BE CONVINCED OF SIGNS OF MOVEMENT FROM CERTAIN OBVIOUSLY 'RECALCITRANT' STATES EG ITALY AND BELGIUM.

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INFO PRIORITY EUROPEAN COMMUNITY POSTS

FRAME EXTERNAL/FRAME GENERAL
PREPARATIONS FOR THE COPENHAGEN EUROPEAN COUNCIL

1. I HAVE SPOKEN TO THE SECRETARY GENERAL OF THE COUNCIL TO FOLLOW UP YOUR LETTER TO ELLEMANN-JENSEN EXPRESSING CONCERN LEST THE OILS AND FATS ISSUE SHOULD NOW BECOME ENTANGLED WITH THE DISCUSSION OF THE BASE AND SLOPE FOR THE AGRICULTURAL GUIDELINE.

2. ERSBOELL SAID HE FULLY SHARED YOUR CONCERN AND WOULD DO HIS BEST TO KEEP ANY MENTION OF THE OILS AND FATS TAX AWAY FROM THE DOCUMENTATION FOR THE EUROPEAN COUNCIL. ALTHOUGH THE DANES THEMSELVES HAD BEEN LARGELY RESPONSIBLE FOR POKING THE ISSUE UP AGAIN AT THIS MORNING'S CONCLAVE, HE BELIEVED THEY WOULD NOW BE MORE CAUTIOUS. OF COURSE, NO ONE COULD GUARANTEE THAT ONE OR OTHER MEMBER OF THE EUROPEAN COUNCIL MIGHT RAISE THE ISSUE IN CONNECTION WITH THE DISCUSSION OF THE 27 BILLION ECU FIGURE FOR THE 1988 BASE OF THE AGRICULTURAL GUIDELINE. BUT, EVEN IF THEY DID, SCHLUTER OUGHT TO BE ABLE TO STEER THE DISCUSSION INTO SAFE WATERS AND TO AVOID ANY CHANGE IN THE FIGURES WHICH THE PRESIDENCY HAD CIRCULATED TO THE CONCLAVE THIS MORNING.

3. I THEN ELICITED FROM ERSBOELL THE FOLLOWING INFORMATION ABOUT PRESIDENCY INTENTIONS FOR THE COPENHAGEN DOCUMENTATION. HE SAID HE BELIEVED WE WOULD GET THREE FURTHER DOCUMENTS WHICH WOULD BE AVAILABLE IN BRUSSELS ABOUT LUNCHTIME TOMORROW:

- I) A FURTHER, VERY SHORT, COVERING LETTER FROM SCHLUTER TO THE OTHER MEMBERS OF THE EUROPEAN COUNCIL WITH NO SUBSTANTIVE CONTENT ADDITIONAL TO HIS EARLIER LETTER:
- II) A DOCUMENT WHICH ERSBOELL DESCRIBED AS A KIND OF ANNOTATED AGENDA, IDENTIFYING THE MAIN SUBJECTS ON WHICH THE DANISH PRESIDENCY BELIEVED THE EUROPEAN COUNCIL SHOULD FOCUS. SO FAR AS ACTUAL NEGOTIATING TEXTS WERE CONCERNED, THE ANNOTATED AGENDA WOULD CROSS REFER TO:
- III) A REVISED VERSION OF THE DOCUMENT WHICH WENT TO THE CONCLAVE INCORPORATING THE FEW CHANGES WHICH WERE AGREED OR BROADLY SUPPORTED THERE.

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ERSBOELL SAID THAT ELLEMANN-JENSEN WAS MEANT TO CLEAR THESE DOCUMENTS THIS EVENING. THEY WOULD BE SHOWN BRIEFLY TO PRESIDENT DELORS TOMORROW AND WOULD THEN BE MADE AVAILABLE TO ALL DELEGATIONS.

4. IN REPLY TO MY QUESTION ERSBOELL AT FIRST EQUIVOCATED ABOUT WHETHER ANDRIESSEN'S REVISED PROPOSAL ON OIL SEEDS WOULD BE INCORPORATED IN THE DOCUMENTATION FOR COPENHAGEN. ERSBOELL AND THE DANISH PRESIDENCY ARE CLEARLY HOPING THAT DELORS WILL TABLE A REVISED PROPOSAL ON CEREALS WHICH ANDRIESSEN REFUSED TO DO AT THE CONCLAVE AND WANT TO LEAVE THE WAY CLEAR FOR THAT. I SAID I DID NOT SEE HOW ANDRIESSEN'S OIL SEED PROPOSAL, WHICH HAD BEEN FORMALLY PUT TO THE CONCLAVE AND CIRCULATED THERE IN WRITING, COULD BE WITHHELD FROM THE EUROPEAN COUNCIL. SINCE WE AND THE DUTCH WERE NOT PREPARED TO ACCEPT THE PRESIDENCY PROPOSAL ON OIL SEEDS AND MOST OTHERS WERE NOT PREPARED TO ACCEPT THE COMMISSION'S ORIGINAL PROPOSAL WHICH WE SUPPORTED, IT WAS RATHER IMPORTANT THAT THE REVISED PROPOSAL BE AVAILABLE. ERSBOELL SAID HE WAS INCLINED TO AGREE AND WOULD SEE WHAT COULD BE DONE.

5. ERSBOELL WENT ON TO SAY THAT HE STRONGLY AGREED WITH THE LINE WE HAD BEEN TAKING ABOUT THE NEED FOR COPENHAGEN TO TAKE DECISIONS ON THE WHOLE PACKAGE OF AGRICULTURAL STABILISERS THAT HAD BEEN UNDER DISCUSSION. IT WAS MOST UNWISE TO SEND A LOT OF THESE BACK TO THE AGRICULTURE COUNCIL WITHOUT DECISIONS BEING TAKEN. PEOPLE MIGHT HAVE TO HOLD THEIR NOSES TO TAKE THE DECISIONS NOW AS A PACKAGE BUT THAT WOULD BE FAR BETTER THAN SEEING IT UNRAVEL IN THE AFTERMATH OF COPENHAGEN, SUCCESSFUL OR UNSUCCESSFUL.

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FRAME ECONOMIC

CONCLAVE: 29 NOVEMBER.

OWN RESOURCES AND BUDGET IMBALANCES.

SUMMARY.

VIRTUALLY NO CHANGE ON OWN RESOURCES SYSTEM. SLIGHT HINTS OF GERMAN FLEXIBILITY ON UK BUDGET IMBALANCE. YOU REPEAT OUR CRITICISMS OF EXPENDITURE SIMULATIONS.

DETAIL.

2. ON THE OWN RESOURCES SYSTEM THERE WAS VIRTUALLY NO MOVEMENT, WITH DELEGATIONS REPEATING THE POSITIONS THEY HAD ADOPTED AT THE FAC ON 24 NOVEMBER (MY TELNO 3975). THERE WERE ONLY THREE MINOR CHANGES OF POSITION:

(A) GENSCHER SAID THAT THE PRESIDENCY PROPOSAL FOR A GNP BASED FOURTH RESOURCE WAS AN IMPROVEMENT ON THE COMMISSION'S IDEAS, THOUGH GDP WOULD BE BETTER.

(B) DE SCHOUTHEETE (BELGIUM) COULD ACCEPT A GNP OR GDP BASED FOURTH RESOURCE.

(C) DE SCHOUTHEETE ALSO INDICATED WILLINGNESS TO CONSIDER THE SUGGESTION THAT REFUNDS OF TRADITIONAL OWN RESOURCES MIGHT BE BASED ON A REALISTIC ASSESSMENT OF COLLECTION COSTS IN MEMBER STATES. (VAN DEN BROEK (NETHERLANDS) DOUBTED WHETHER 10 PERCENT WOULD PROVE TO BE AN OVER ESTIMATE OF THE REALISTIC COST OF COLLECTION.)

3. ON BUDGET IMBALANCES THE ONLY ADDITION TO REMARKS MADE AT THE FAC CAME FROM GENSCHER (GERMANY) WHO HINTED AT SOME WILLINGNESS TO COMPROMISE AT THE END OF THE NEGOTIATION. BOSSON (FRANCE) WENT OUT OF HIS WAY TO SAY THAT COMPENSATION SHOULD BE RELATED TO FEOGA GUARANTEE EXPENDITURE ALONE.

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4. THE COMMISSION CIRCULATED TODAY REVISED SIMULATIONS OF EXPENDITURE ON 1988 AND 1992 (BY HAND OF KERR). YOU POINTED OUT THAT THE SIMULATIONS DID NOT PROVIDE A GOOD JUSTIFICATION FOR AN INCREASE IN OWN RESOURCES ON THE SCALE PROPOSED BY THE COMMISSION. THEY INCLUDED PROVISION FOR:

(A) A MONETARY RESERVE OF 1000 MECU OUTSIDE THE AGRICULTURAL GUIDELINE:

(B) AN UNACCEPTABLY LARGE INCREASE IN THE STRUCTURAL FUNDS:

(C) THE UNREALISTIC ASSUMPTION THAT THE EUROPEAN DEVELOPMENT FUND WOULD BE BUDGETISED:

(D) PROVISION FOR NEW POLICIES WHICH TURNED OUT TO MEAN POLICIES RELATED TO THE SEA, E.G. ON 'COHESION' AND RESEARCH WHICH ALREADY FIGURED ELSEWHERE IN THE TABLE:

(E) AN ALLOWANCE OF 0.07 PERCENT OF GNP IN CASE GNP GROWTH TURNED OUT TO BE LESS THAN EXPECTED. THIS WAS THE WRONG APPROACH. EC EXPENDITURE MUST BE TAYLORED TO THE EC'S ECONOMIC PERFORMANCE. IT WAS WRONG TO SET QUANTITATIVE SPENDING TARGETS AND STICK TO THEM WHATEVER HAPPENED TO THE COMMUNITY GNP.

5. DELORS (COMMISSION) SAID THAT THE ABATEMENT SHOULD BE DEGRESSIVE (WITHOUT EXPLAINING IN EXACTLY WHAT WAY). IF THE COMMISSION'S PROPOSALS ON THE STRUCTURAL FUNDS WERE ACCEPTED, THE COMMISSION WOULD BE PREPARED TO PROPOSE THAT ALL MEMBER STATES SHOULD CONTRIBUTE TO THE ABATEMENT. YOU NOTED WITH APPROVAL THE PRESIDENCY SUGGESTION THAT COMPENSATION TO THE UK SHOULD APPEAR IN THE FUTURE AS NOW ON THE REVENUE SIDE OF THE BUDGET: AND THE COMMISSION'S RECOGNITION THAT A DURABLE SOLUTION WAS NEEDED TO THE DURABLE PROBLEM REPRESENTED BY THE UK'S BUDGET IMBALANCE. THE UK COULD NOT HOWEVER ACCEPT CHANGES TO THE ABATEMENT SYSTEM WHICH WOULD FURTHER INCREASE A BUDGETARY BURDEN FOR THE UK WHICH HAD INCREASED MASSIVELY SINCE 1984 AND WOULD CONTINUE TO INCREASE IN THE FUTURE. THE COMMISSION'S PROPOSAL WOULD INCREASE THAT BURDEN BY SOME 750 MECU A YEAR, MUCH MORE THAN THE FIGURE QUOTED IN SCHLOUTER'S LETTER. THE FONTENBLEAU SYSTEM HAD BEEN APPROPRIATE IN 1984. IT WAS APPROPRIATE NOW. THE ONLY CHANGES TO THE SYSTEM WHICH THE UK COULD ACCEPT WERE CHANGES WHICH WOULD REDUCE, NOT INCREASE, THE UK'S BUDGETARY BURDEN.

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MR EDWARDS TRSY
MR MERCER TRSY
MR BONNEY TRSY
PERMANENT SEC/MAFF
MR CARDEN MAFF
MR HOLLIS MAFF
MR P KENT HM CUSTOMS

4. THREE SUBJECTS, ALL AGRICULTURAL, DOMINATED THE DISCUSSIONS: WHETHER STOCKS SHOULD BE INSIDE OR OUTSIDE THE GUIDELINE: FEOGA BUDGET MANAGEMENT: AND EXCEPTIONAL CIRCUMSTANCES.

5. I SET OUT OUR CASE FOR FINANCING THE DEPRECIATION OF EXISTING STOCKS OUTSIDE THE GUIDELINE: PREFERABLY IN A SPECIAL OPERATION IN 1988, POSSIBLY SPREAD OUT OVER A PERIOD OF YEARS, AS THE COMMISSION HAD SUGGESTED. BUT IF THE DEPRECIATION OF OLD STOCKS WAS TAKEN OUTSIDE THE GUIDELINE, THE BASE AND THE 'SLOPE' SHOULD BE REDUCED. THE COMMISSION HAD SUGGESTED THAT 1.2 BECU SHOULD BE DEDUCTED FROM THE GUIDELINE IN 1988, AND 1.4 BECU IN EACH SUBSEQUENT YEAR, TO COVER THE DEPRECIATION OF OLD STOCKS. SUCH REDUCTIONS IN THE GUIDELINE COULD NOT BE ACHIEVED WITH A 1987 BASE FIGURE OF 26860 MECU. ELLEMAN-JENSEN (PRESIDENCY) INDICATED THAT EITHER OFF-GUIDELINE OR ON-GUIDELINE FINANCING WAS POSSIBLE.

6. DELORS AND ANDREOTTI (COMMISSION) INSISTED THAT THERE WAS NO JUSTIFICATION FOR A REDUCTION IN THE COMMISSION'S BASE FIGURE. SUBSEQUENT DISCUSSION IN THE MARGINS SUGGESTED THAT THE COMMISSION MAY HAVE HAD IN MIND A SCHEME IN WHICH

- A) THE 26860 MECU BASE IS RETAINED AND MULTIPLIED BY GNP GROWTH.
- B) FROM THAT SUM IS DEDUCTED 1.2 BECU IN 1988 AND 1.4 BECU IN EACH SUBSEQUENT YEAR (IN 1987 PRICES) TO BE USED FOR THE DEPRECIATION OF OLD STOCKS.
- (C) THE GUIDELINE IS THE EXPENDITURE FIGURE WHICH RESULTS FROM (A) AND (B).
- (D) (POSSIBLY) THE BASE OF THE GUIDELINE AT THE END OF THE 1988-92 PERIOD IS THE 1992 EXPENDITURE FIGURE WHICH RESULTS FROM (A) AND (B).

7. FERNANDEZ ORDONEZ (SPAIN) AND PINHEIRO (PORTUGAL) PUT IN A WORD FOR FINANCING OF STOCK DISPOSALS OFF-GUIDELINE, OFF BUDGET, AND BY THE MEMBER STATES WHO HAD BUILT THEM UP. IN REPLY ANDRIESSEN GAVE THE STANDARD COMMISSION REBUTTAL OF NATIONAL FINANCING: ELLEMAN-JENSEN SAID IT WAS FOR THE COURT TO RULE ON SPAIN'S AND PORTUGAL'S CASES AGAINST THE COMMUNITY'S ARRANGEMENTS FOR FINANCING STOCK DISPOSALS.

8. ON BUDGET MANAGEMENT DELORS, WITH UK AND SPANISH SUPPORT,

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FRAME ECONOMIC

CONCLAVE 29 NOVEMBER
BUDGET DISCIPLINE AND MANAGEMENT.

SUMMARY.

DISCUSSION ON LARGELY EXPECTED LINES MAINLY ABOUT AGRICULTURAL
BUDGET DISCIPLINE. FRENCH DEMAND FOR CONSEQUENCES OF EMS
REALIGNMENTS TO BE REGARDED AS EXCEPTIONAL CIRCUMSTANCES.

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A large red asterisk-like symbol at the top.
A large red arrow pointing downwards.
Handwritten text: "|| certain" and "not" with a checkmark.

2. COMMISSION AND PRESIDENCY REGARD OFF GUIDELINE FINANCING OF
DEPRECIATION OF OLD STOCKS (BUT ON GUIDELINE AND OVER 5 YEARS) AS
SERIOUS POSSIBILITY BUT NOT YET CLEAR WHETHER AN ACCEPTABLE SCHEME
CAN BE DEvised.

3. ELLERMAN-JENSEN (PRESIDENCY) EXPLAINED THAT THE PRESIDENCY
TEXT WAS MORE PRECISE AND BINDING THAN THE PROPOSAL ORIGINALLY MADE
BY THE COMMISSION IN JULY. IT INVOLVED:

- CLOSE CONTROL OF COMMITMENTS AS WELL AS PAYMENTS:
- TIGHTER LANGUAGE ON STOCK DISPOSAL, TO GUARANTEE THAT THE "BURDEN OF THE PAST" WOULD NOT BUILD UP AGAIN:
- THE PAYMENT OF ADVANCES ONLY AFTER THE COMMISSION HAD RELIABLE INFORMATION ON A CHAPTER BY CHAPTER BASIS.
- A CLEAR COMMITMENT THAT ALL PRICE FIXING PROPOSALS FROM THE COMMISSION WOULD BE CONSISTENT WITH THE GUIDELINE:
- NO MONETARY RESERVE AND ONLY TWO EXCEPTIONAL CIRCUMSTANCES (A MAJOR CHANGE IN THE DOLLAR/ECU RATE AND A BREACH OF INTERNATIONAL UNDERTAKINGS BY A THIRD COUNTRY).

HE NOTED THAT THE BASE AND SLOPE OF THE AGRICULTURAL GUIDELINE WAS STILL NOT AGREED: BUT THE PRESIDENCY NOTE 10002/87 CLARIFIED THE POSITION AND SUGGESTED A SOLUTION.

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ARGUED FOR THE COMMISSION'S ORIGINAL PROPOSAL: CHAPTER BY CHAPTER CONTROL, REIMBURSEMENT RATHER THAN ADVANCES. RAIMOND (FRANCE) ARGUED THAT THE PRINCIPLE OF ADVANCES MUST BE SACROSANCT. ELLEMAN-JENSEN SAID THAT THE PRESIDENCY TEXT GAVE THE COMMISSION IN SUBSTANCE THE IMPROVEMENTS IN BUDGET MANAGEMENT WHICH IT HAD REQUESTED. DELORS DISAGREED, INDICATING THAT THE MAIN OBJECTIVE FOR THE COMMISSION WAS AGREEMENT THAT PAYMENTS WOULD NOT BE MADE TO MEMBER STATES UNLESS THE BUDGETARY CHAPTERS CONCERNED CONTAINED SUFFICIENT FUNDS.

9. ON EXCEPTIONAL CIRCUMSTANCES, I REPEATED OUR VIEW THAT THERE WAS NO JUSTIFICATION FOR ANY SUCH LOOPHOLES. BUT IF THE PRESIDENCY TEXT WAS TO BE CONSIDERED, IT NEEDED TO BE SERIOUSLY TIGHTENED UP. THE FIRST SENTENCE OF PARAGRAPH 12 SHOULD BE DELETED (TO REMOVE ANY AMBIGUITY ABOUT THE DEFINITION OF EXCEPTIONAL CIRCUMSTANCES). SO SHOULD THE PARAGRAPH WHICH CLASSIFIED UNFAIR TRADING PRACTICES BY THIRD COUNTRIES AS EXCEPTIONAL CIRCUMSTANCES. THE FRANCHISE SHOULD BE A 15 PERCENT CHANGE IN THE ECU/DOLLAR RATE FROM THE REFERENCE RATE: THE COUNCIL MUST BE INSTRUCTED TO WORK OUT A PROCEDURE FOR SETTING THIS REFERENCE RATE. THE CLAWBACK CLAUSE SHOULD BE TIGHTENED UP, PERHAPS ON THE LINES OF EARLIER PRESIDENCY NON-PAPERS: VAN DEN BROEK AGREED.

10. RAIMOND ARGUED THAT THE EXPENDITURE CONSEQUENCE OF EMS REALIGNMENTS MUST BE REGARDED AS EXCEPTIONAL CIRCUMSTANCES. ANDRIESSEN APPEARED TO AGREE. ON THE FRANCHISE, VAN DEN BROEK SUPPORTED 15 PERCENT: RAIMOND DEFENDED 500 MECU: THE COMMISSION VARIOUSLY ATTACKED THE PRINCIPLE OF A FRANCHISE (DELORS) AND THE AMOUNT I HAD SUGGESTED (CHRISTOPHERSEN). DELORS REPEATEDLY URGED THAT WHAT WAS NEEDED WAS A MONETARY RESERVE OF 1 BECU, NOT JUST A MONETARY EXCEPTIONAL CIRCUMSTANCES CLAUSE. POOS (LUXEMBOURG), TINDEMANS (BELGIUM), VAN DEN BROEK, ANDREOTTI (ITALY) AND PINHEIRO EXPRESSED SOME INTEREST IN A MONETARY RESERVE, NONE WITH GREAT ENTHUSIASM.

11. ON OTHER POINTS:

(A) I REPEATED OUR OBJECTIONS TO ANNUAL SUB-CEILINGS: MRS ADAM SCHWAERTZER SAID THAT THEIR ACCEPTABILITY DEPENDED ON THE LEVEL OF THE OVERALL CEILING.

(B) RAIMOND SAID THAT ANY DECISIONS TAKEN ABOUT THE GUIDELINE WOULD BE CONDITIONAL ON ADOPTION OF THE OILS AND FATS TAX.

(C) I ARGUED THAT, SO FAR AS DNO WAS CONCERNED, THE COUNCIL SHOULD RE-ENACT ARTICLE 9 OF THE 1984 BUDGET DISCIPLINE CONCLUSIONS, WITH THE ADDITION OF THE PRO-RATE RULE. VAN DEN BROEK SAID THE MAXIMUM RATE MUST BE RESPECTED FOR DNO TAKEN AS A WHOLE. RAIMOND SUGGESTED

AN AMENDMENT TO PARAGRAPH 15 WHICH WOULD HAVE REQUIRED THE COUNCIL TO KEEP TO HALF THE MAXIMUM RATE ON DNO OTHER THAN STRUCTURAL FUNDS, IMPS AND R AND D (THOUGH FRENCH OFFICIALS INSISTED IN THE MARGINS THAT THE FRENCH STILL SHARE OUR VIEWS ON DNO AND THE MAXIMUM RATE). (D) I SAID THAT WE STILL WANTED A MUCH BETTER LIMIT ON ACTIONS PONCTUELLES.

HANNAY

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PRIME MINISTER

EC Future Financing:

Foreign Minister's Conclave: 29/30 November

1. Despite strenuous efforts by the Danish Presidency, little progress was made at the Conclave of Foreign Ministers which ended at lunchtime today.
2. The discussion took place on the basis of the Presidency paper for Copenhagen, which was enclosed with Schlüter's letter of 26 November to you, and which represented an improvement on previous texts. It included most of what we wanted on budget management (including a very strict limit on so-called negative reserves). On the future organisation of the Structural Funds it was significantly better than previous versions and, with a few minor changes which I suggested this weekend, should now be acceptable; the key issue of the size of the increase in the Funds of course remains for decision by Heads of Government. The Danes will circulate a revised version of the paper tomorrow: it will at least serve adequately to focus our Copenhagen debate, and Schlüter deserves congratulations on the efficiency of the Presidency's preparations: a striking contrast with the Belgian performance in June.



3. On a number of issues the Conclave however reached no satisfactory conclusions, and on these issues the Presidency proposals in the revised text will therefore be no more than a map of the Copenhagen course.

4. On budget discipline they have been ready to narrow down the exceptional circumstances clause. I argued at the Conclave that any provision must be limited to significant dollar/ecu movements and got support from the Dutch. But the French continued to argue that expenditure resulting from EMS realignments, or a breach by a third country of its international trade undertakings, should also constitute exceptional circumstances. M. Delors reverted to his idea of a monetary reserve of 1 billion ecu, in addition to provision for exceptional circumstances. The Germans still oppose this idea, as we do, but I suspect that it may now find a place in the Presidency paper.

5. There was some progress on the agricultural guideline and its rate of growth. Our idea of nationally-financed disposal of existing stocks has not found support (other than from Spain and Portugal), but I pressed the possibility of stock disposal off-guideline (but within the budget) matched by a significant reduction in the guideline base and rate of growth. The Presidency have now proposed that the guideline base should be set at the 1988 figure of 27 becu (in 1988 prices) ie 1.2 becu less than the Commission proposal; that 6.8 becu off-guideline financing for disposals should be spread virtually evenly throughout the period up to 1992; and that the guideline itself should grow at only 60% of the GNP growth rate. This would be a



significant move towards us. There is still a complication in that the Presidency are arguing that the base would have to be raised in compensation if the oils and fats tax were not adopted. We disputed that, and will have to continue to do so. We got strong support from the Dutch. (Incidentally Delors again acknowledged that the tax would not be adopted at Copenhagen: the Germans and Dutch are still solidly with us.)

6. There was very little progress on agricultural stabilisers. It is clear that the French and Germans are still searching for a bilateral deal whereby Germany would accept stabilisers provided their impact in the cereals and oilseeds sector was weakened, and provision was made for a set-aside programme which would be partially Community-financed. The Dutch took the same line as I did, emphasising that the Commission's original stabilisers proposals were the bare minimum. The Commission have tabled a revised proposal on oilseeds which strengthens the provision for price cuts. Oilseeds, together with cereals and proteins, will be the major controversial commodities at Copenhagen.

7. At our suggestion the Presidency's text has so far said nothing about the Abatement. But the revised version, like Schlüter's letter to you, will undoubtedly contain the Commission's proposal, which is not of course acceptable to us. We went round this track again in the Conclave without any significant progress. The problem of who should pay for the abatement divides the other member states, and the Germans are still maintaining that they will not pay in future - though Genscher gave a slight hint of flexibility last night. Since the one



thing on which all eleven agree is that they do not like the abatement, we shall have to fight to retain Fontainebleau. But we always knew that, and your weekend message to Schlüter will have been helpful.

8. When you see Schlüter tomorrow I suspect you will find him more pessimistic about the chances of agreement at Copenhagen than he was when speaking to our Ambassador this morning - Copenhagen telno 404 (copy enclosed). There are indeed grounds for pessimism, after the failure of the Agriculture Council. Conceivably Schlüter will already be manoeuvring to avoid taking the blame for a failure. If so, he may well envisage blaming us. It will I think be important to repeat that, as your message said, you are ready to negotiate an overall agreement, provided it includes adequate measures to bring CAP spending under control. An agreement must be in line with the criteria agreed in Brussels in June.

9. You might also wish to bring home to Schlüter that, while failure to reach an agreement could damage the Community's credibility, much greater damage would follow a perceived failure to deal with the problem of rising surpluses, which tarnishes the Community's image in Europe and beyond. The argument over CAP reform is no longer just an internal argument: it is vital to the Community's credibility in international trade relations and has a crucial bearing on the political relationship with the United States. If the Danes weaken the stabilisers package they may buy the Germans but they will lose the British and Dutch. They will also lose time: but in the end on a strict stabiliser regime will have to be installed. The only question is whether the



Copenhagen summit is the one which reaches agreement, or brings it a step nearer, or whether it is remembered only for an unsuccessful attempt to fudge the difficult issues.

/ 10. I attach a note of points which you might wish to make to Schlüter on the main Copenhagen subjects.

11. On other issues, Schlüter is keen that the European Council should issue a substantial East/West statement in view of the imminent US/Soviet Summit. I see no need for a lengthy or comprehensive text. The essential aim should be to show Western solidarity with the US - particularly on INF - before the Summit. We and the French want to see a statement on Afghanistan issued, and you may wish to remind Schlüter of the importance of keeping up pressure on the Soviet Union on this issue. He may propose a statement on the Middle East. This would be useful if it took a strong line on the implementation of SCR 598 in order to end the Gulf War. It should call for work on an enforcement Resolution, and should reaffirm support for an International Conference on the Arab/Israel dispute. There should be no need for Heads of Government to discuss other regional issues (eg South Africa or Central America). Foreign Ministers can deal with them, if necessary, at our separate dinner.

11. Copies of this minute go to the Chancellor of the Exchequer, the Minister of Agriculture and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
30 November 1987

MEETING WITH MR SCHLUTER : POINTS TO MAKE

- UK has been working since June with aim of reaching agreement at Copenhagen.
- Recognise significant effort by Presidency to find common denominator. Congratulate you on technical efficiency with which you have ensured that the key issues are set out, on paper, in advance of Copenhagen. Absence of such necessary preparations a principal reason for problems of Brussels Council in June.
- Very unfortunate that Agriculture Council made so little progress on stabilisers. But clear from discussions at the weekend that some further progress has been made on some of the important issues, eg organisation of the Structural Funds and budget management.
- For UK, two critical points in June European Council Conclusions:
 - (a) "The Community must submit the use of its resources to effective and binding discipline. The European Council considers that the arrangements decided upon at Fontainebleau must be strengthened in the light of experience."
 - (b) "The European Council requests the Council to adopt the additional regulations which will enable the Commission, in the context of the management of the market, to keep the level of expenditure within the budget framework."
- See serious risk of failing to meet objectives laid down in June. In key area of cereals proposals put forward by Commission were minimum necessary. Maximum guaranteed quantity of 155 million tonnes for cereals held real prospect of constraining future growth. Maximum quantity of 165 million tonnes will not do so.

- French proposal to treat entire arable sector as one also means diluting effects of budget discipline when all our efforts should be devoted towards tightening it.
- Increase in maximum guaranteed quantity for cereals of 10 million tonnes as some suggest would increase surpluses for which there is no export market. Annual budget cost of excess would be 1,500 mecu.
- Recognise pressure on Presidency to come up with new proposals reflecting wish of others to weaken package. But this negotiation is not like the agricultural price-fixing where qualified majority applies, and we won't reach agreement by that route. We would fail the Community if we did.
- Will need to agree on detail of key commodities (and particularly cereals, oilseeds and proteins) at Copenhagen with firm commitments on other products and with all detail agreed before new Own Resources Decision finalised.

Sheepmeat [If raised]

- Agree on need for stabiliser for sheepmeat.
- UK prepared to accept more stringent price reductions than currently proposed.
- Sole objection is to discrimination against UK.
- Not true that UK gets extra benefit from variable premium since payments under the variable premium are subtracted by Commission in calculating the ewe premium.
- Cost of sheep regime predicted to fall in UK and rise elsewhere in Community.

- Would be prepared for strict guarantee threshold for all EC production and for special position of UK to be examined as part of sheepmeat regime review which is already under discussion.

Budget Discipline

- Essential that guideline should be binding. Only circumstances in which change in the guideline in-year could be contemplated would be in response to significant (above 10%) movement in dollar/ecu rate. This would mean that guideline could be reduced if dollar rose, as well as increased if it fell.
- If stocks to be disposed of off guideline, then rate of growth of guideline and base for future years must be decreased.
- Do not agree with Commission's proposals for a low threshold and a monetary reserve. Risk repetition of 1984, like an insurance policy where all the benefits are undermined by the small print.

Structural Funds

- The Presidency proposals represent useful progress on operation of the Structural Funds.
- Important to damp down expectations of unrealistic increases in expenditure. Funds have already grown by 47% in real terms since 1984.
- Possible to envisage increase in commitments of 35% in money terms by 1992 while keeping rate of growth within the maximum rate.
- Within this figure possible to secure much greater concentration on poorest countries. Detail can be settled in the next Comprehensive Regulation, not at Copenhagen.
- Does not make sense to have across the board increase in funds for all member states. Increase should be concentrated on needs

- As I made clear in my letter to you, the Commission's proposals of the poorest, notably the new members - Spain and Portugal.

Own Resources

- Any agreement to an increase in own resources must depend upon our being satisfied that binding and enforceable mechanisms to control Community expenditure have been agreed.

- We should certainly not agree to an interim increase for 1988; would remove all incentive to reach agreements on the really important issues of budget discipline and agricultural stabilisers.

- A fourth resource to reflect relative prosperity would be a small step in the right direction.

- Agree with you that various considerations which persuaded European Council in Fontainebleau to adopt an abatement mechanism are still valid.

- As I made clear in my letter to you, the Commission's proposals are not a basis for an agreement.

- Even with the Fontainebleau mechanism the UK, at about average Community prosperity, remains the second largest net contributor, with a net contribution which is increasing every year.

- If others want to try to reinvent the wheel up to them. But if that means a new mechanism which makes the UK's burden more onerous than it is under Fontainebleau then there will be no agreement at Copenhagen.

- At Fontainebleau we agreed a basis for measuring the UK's budgetary burden. That system of measurement already represented a compromise because it did not take account of the full burden of levies and duties. It did, however, take account of the fact that the UK is a significant net contributor, not just to the Common Agricultural Policy, but to other policies as well.

- If agriculture is brought under control then the size of the UK's budgetary burden will diminish and our abatement will diminish with it. That is the only acceptable form of degressivity.

Conclusion

- Like you, hope Copenhagen European Council will be remembered as one at which decisions are taken.

- Also agree with you that division within the Community damaging at crucial time in East-West relations. But nothing could be worse than an outcome seen by international community as failure by EC to get to grips with agriculture over-spending. This would exacerbate protectionist pressures in the US and damage relations with developing countries. What most undermines EC's credibility is not failure to agree but failure to come to grips with reality.

- Still possible to reach agreement at Copenhagen. But only if we hold to criteria we set ourselves in June.

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YOUR TELNO 250 : COPENHAGEN EUROPEAN COUNCIL : PRIME MINISTER'S REPLY
TO SCHLUTER

SUMMARY

1. PRIME MINISTER'S LETTER DELIVERED. SCHLUTER MAINTAINS THAT THE PRESIDENCY'S APPROACH IS FAIR AND BALANCED. HE ARGUES THAT WORLD ECONOMIC AND FOREIGN POLICY ARGUMENTS FOR COMPROMISE TO PERMIT SUCCESS AT COPENHAGEN OUTWEIGH INDIVIDUAL NATIONAL POSITIONS. SCHLUTER SEEMS A BIT DETACHED, AND PREOCCUPIED WITH THE POLITICAL CASE FOR COMPROMISE RATHER THAN THE NEED TO PUT THE COMMUNITY ON A SOUND FINANCIAL FOOTING.
2. I TOOK ACTION WITH THE DANISH PRIME MINISTER THIS MORNING, INTRODUCING THE PRIME MINISTER'S LETTER BY SAYING THAT MRS THATCHER SHARED HIS HOPES FOR A CLEAR OUTCOME TO THE COPENHAGEN MEETING BUT FELT THAT THE PRESIDENCY'S APPROACH ON THE CONTROL OF AGRICULTURAL EXPENDITURE AND ON THE BRITISH ABATEMENT WAS UNSATISFACTORY.
3. IN HIS COMMENTS, SCHLUTER CONCENTRATED ON GENERAL POLITICAL CONSIDERATIONS AND THE QUESTIONS OF FINANCIAL CONTROL AND AGRICULTURAL STABILISERS. HE DID NOT COMMENT SPECIFICALLY ON THE ABATEMENT PROBLEM. HE SAID THAT HIS PROBLEM AS PRESIDENT WAS TO DEVISE A FORMULA WHICH RECONCILED WIDELY VARYING NATIONAL STANDPOINTS. THESE RANGED FROM THAT OF THE FRG (WITH SOME FRENCH SUPPORT) TO THOSE OF THE BRITISH AND DUTCH. HE WOULD STUDY THE PRIME MINISTER'S LETTER. BUT HE STILL FELT THAT THE PRESIDENCY'S PROPOSALS WERE FAIRLY BALANCED. FOREIGN MINISTERS WERE STILL AT WORK IN BRUSSELS. THEY WOULD PROBABLY NOT REACH AGREEMENT. BUT THEIR WORK MIGHT STILL HAVE VALUE IN CLEARING THE GROUND BEFORE THE EUROPEAN COUNCIL.
4. I ASKED SCHLUTER WHETHER HE FELT, IN THE LIGHT OF HIS CONTACTS, THAT OTHERS SHARED HIS AND THE PRIME MINISTER'S WISH TO REACH A CLEAR CONCLUSION AT COPENHAGEN. HE SAID THAT, HAVING SEEN MOST HEADS OF STATE OR GOVERNMENT, HE BELIEVED THAT ALL WERE CONVINCED THAT CLEAR

DECISIONS AT COPENHAGEN WERE NECESSARY FOR ECONOMIC AND POLITICAL REASONS. HE SENSED THAT THERE WAS GREAT EAGERNESS TO FIND A COMPROMISE. HE FELT THAT ALL HIS COLLEAGUES BELIEVED THAT COPENHAGEN MUST SEND A CLEAR AND POSITIVE SIGNAL TO SET AGAINST CURRENT ECONOMIC UNCERTAINTIES. THEY WERE ALSO CONSCIOUS THAT THE EUROPEAN COUNCIL WOULD BE TAKING PLACE IMMEDIATELY BEFORE THE SUPER-POWER SUMMIT. THAT SUMMIT WOULD BE CONFIRMING DEVELOPMENTS OF THE GREATEST IMPORTANCE FOR EUROPEAN SECURITY. THERE WAS NO DIRECT LINK, BUT THERE WERE INDIRECT AND PSYCHOLOGICAL LINKS. FAILURE TO AGREE AT COPENHAGEN WOULD CONVEY A MOST UNFORTUNATE NEGATIVE IMPRESSION.

5. ALL WERE AGREED, SCHLUTER WENT ON, THAT MATTERS WOULD NOT GET EASIER IN SIX MONTH'S TIME. A FEW MONTHS AGO, IT HAD BEEN TEMPTING TO BELIEVE THAT THEY WOULD. BUT THE SHADOWS OF THE GERMAN LOCAL AND FRENCH PRESIDENTIAL ELECTIONS WOULD OVERHANG THE GERMAN PRESIDENCY. FAILURE TO AGREE AT COPENHAGEN WOULD LEAD TO A MONUMENTAL ROW WITH THE EUROPEAN PARLIAMENT. ALL THESE CONSIDERATIONS WERE IMPORTANT AND, FRANKLY, MORE IMPORTANT THAN THE SUMS OF MONEY CONSIDERED IN THE PRESIDENCY PAPER. THE TOTAL WAS A VERY SMALL PERCENTAGE OF GNP, INDIVIDUAL STABILISER ITEMS WERE 'BAGATELLES'.

6. I SAID THAT THE AMOUNTS AT STAKE UNDER EACH STABILISER MIGHT BE RELATIVELY SMALL, BUT THE PRINCIPLE OF ESTABLISHING EFFECTIVE FINANCIAL CONTROL AND LIMITS TO THE GROWTH OF AGRICULTURAL EXPENDITURE WAS OF CENTRAL SIGNIFICANCE. PEOPLE WOULD NOT UNDERSTAND A FAILURE TO MATCH NATIONAL BUDGETARY STRINGENCY AT THE COMMUNITY LEVEL. SCHLUTER SAID THAT IT WAS ALL A MATTER OF PROPORTION. IT WAS TRUE THAT IT WAS A COMMUNITY INTEREST TO GET AGRICULTURAL EXPENDITURE UNDER CONTROL. BUT IT WAS NOT A COMMUNITY INTEREST TO BRING ABOUT AGRICULTURAL DEPOPULATION, DRIVE FARMERS BANKRUPT OR BRING DOWN INDIVIDUAL MEMBER GOVERNMENTS OVER AGRICULTURAL ISSUES. THERE WAS NO DOUBT THAT MUCH AGRICULTURE IN THE COMMUNITY WAS UNECONOMIC. LEFT ALONE, MANY FARMERS WOULD GO BANKRUPT OVER THE NEXT TEN YEARS. THE PROBLEM WAS ONE OF BALANCE, BRINGING AGRICULTURAL EXPENDITURE GRADUALLY UNDER CONTROL WITHOUT DOING CRITICAL DAMAGE IN THE SHORT RUN. HE WAS CONVINCED THAT THE APPROACH SET OUT IN HIS LETTER AND THE PRESIDENCY PAPER REPRESENTED A FAIR AND BALANCED APPROACH TO THE PROBLEM.

7. I ASKED ABOUT INDIVIDUAL COMMODITIES. HIS MINISTER OF AGRICULTURE HAD GIVEN ME THE IMPRESSION ON 27 NOVEMBER THAT, IF ONLY AGREEMENT COULD BE REACHED ON CEREALS, OILSEEDS AND PROTEIN PRODUCTS, STABILISERS ON OTHER COMMODITIES COULD BE PUT INTO PLACE WITHOUT TOO MUCH DIFFICULTY. SCHLUTER COMMENTED THAT SHEEP MEAT TOO PRESENTED A

REAL PROBLEM : BRITAIN ENJOYED AN EXCESSIVELY FAVOURABLE POSITION ON IT.

8. SCHLUTER IS VISITING BONN AND ROME TOMORROW BEFORE HE COMES TO LONDON. I ASKED HIM ABOUT HIS IMPRESSIONS OF FRENCH SUPPORT FOR THE GERMANS. HE COMMENTED THAT ON CEREALS IN PARTICULAR THE FRENCH HAD MOVED A LONG WAY TOWARDS THE GERMANS.

9. I ASKED SCHLUTER ABOUT HIS OWN POSITION. HAD IT BEEN DIFFICULT TO RECONCILE DANISH AND PRESIDENCY COINSIDERATIONS? HE SAID IT HAD NOT. THE OUTCOME OF LAST YEAR'S REFERENDUM HAD MADE THINGS VERY MUCH SIMPLER FOR THE DANISH GOVERNMENT. THE SOCIAL DEMOCRATS WERE BEING REASONABLE. AND HE HAD GOT FULL MARKET COMMITTEE CLEARANCE FOR HIS HANDLING OF THE EUROPEAN COUNCIL. I REMINDED HIM OF HIS REFENCE TO BANKRUPT FARMERS. HE ACKNOWLEDGED THAT DANISH FARMERS WERE IN DIFFICULTIES, BUT THE DANES HAD NO PROBLEM ON THE SCALE OF THE GERMANS OR THE FRENCH. TALK OF A PARTIAL RENATIONALISATION OF AGRICULTURAL POLICY WAS A CHALLENGE TO THE DANES, BUT THEY COULD ACCOMMODATE THEMSELVES TO NATIONAL SUPPORT FOR COMMUNITY MEASURES ON SET-ASIDE FOR EXAMPLE.

COMMENT

10. SCHLUTER SEEMED ALMOST EXCESSIVELY RELAXED, AND IT WAS NOT APPARENT THAT HE WAS ON TOP OF THE DETAILS OF HIS BRIEF. IT WAS NOTICEABLE THAT HE DID NOT READ THE PRIME MINISTER'S LETTER WHILE I WAS PRESENT. I FORMED THE IMPRESSION THAT HE IS APPROACHING THE COUNCIL WITH A CERTAIN AMOUNT OF CONFIDENCE. HE SEEMS TO BELIEVE THAT WORLD ECONOMIC, EAST-WEST AND POLITICAL CONSIDERATIONS WILL HELP TO DELIVER SUCCESS AT COPENHAGEN. HE RECOGNISES THAT NATIONAL POSITIONS ON FINANCIAL DISCIPLINE AND AGRICULTURAL STABILISERS MAY STILL BE FAR APART, BUT JUDGES THAT ALL ARE HOLDING BACK THEIR CONCESSIONS FOR THE COUNCIL ITSELF. BUT EVEN IF THE EUROPEAN COUNCIL ENDS IN FAILURE (AND SCHLUTER MUST REALISE THAT THIS IS A VERY POSSIBLE OUTCOME) NO DANISH VITAL INTEREST WILL BE JEOPARDIZED. AS FOR VAGUENESS ON DETAIL HE PROBABLY FEELS THAT POLITICAL FACTORS WILL BE DECISIVE IN THE END AND THAT IT IS HIS JOB TO TRY TO KEEP THE FOCUS ON GENERAL POLITICAL, NOT DETAILED FINANCIAL, CONSIDERATIONS.

UNWIN

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30/11/87.

**COMMENTARY ON PRIME MINISTER SCHLUTER'S LETTER
TO OTHER EC HEADS OF GOVERNMENT OF 30 NOVEMBER**

References to speaking notes are to relevant
sections of main brief.

Copenhagen, 30 November 1987

Letter from Prime Minister Poul SCHLÜTER to his colleagues

I have thought it useful after the meeting of Foreign Affairs Ministers to set out the questions on which the Presidency intends to concentrate in our discussion of the Delors-package during the meeting of the European Council in Copenhagen Friday and Saturday. I have attached a short note setting out these questions.

The Presidency will as usual prepare in the light of our deliberations on the first day in the European Council a complete set of conclusions in the light of our deliberations and on the basis of the text presently on the table.

I am looking forward to seeing you in Copenhagen.

signed Poul SCHLÜTER

SN 4017/87

Budgetary discipline (page 1)

Analysis

Mr Schluter highlights two options. The first, based on the Commission's proposals, is for a guideline starting at 26.9 becu in 1987 (giving a guideline of 28.2 becu in 1988) and growing at the same rate as GNP up to 1992 (with existing stock disposal within the guideline).

Option B (our preferred option) is for a guideline base of 27 billion ecu for 1988, a growth rate equal to 60% GNP growth, with existing stocks financed outside the guideline. The saving under (b) compared with (a) would be over £1 billion by 1992.

Speaking Note opposite pages 3-5 of main brief.

Copenhagen, 30 November 1987

N O T E

Subject : **MAKING A SUCCESS OF THE SINGLE ACT**

- Main questions on which the Presidency intends to concentrate discussion during the European Council in Copenhagen (1)

BUDGETARY DISCIPLINE

Two main questions will be discussed:

- 1) The base for the agricultural guideline, its growth rate and depreciation of excessive agricultural stocks

Discussion has shown that these questions are interlinked. Two options are on the table:

- a) The option set out in the Presidency's draft conclusions (base - real needs for 1987, growth rate equal to GNP-growth and revision downwards of the guideline after 1992.)
- b) The option put forward during the Conclave (base 27.000 million ECU for 1988, growth rate equal to 60 % of GNP-growth and existing excess stocks outside the guideline.)

(1) A consolidated version of the Presidency draft conclusions circulated on 26 November and the specific textual changes set out in doc. 3954/87 distributed to the "conclave" and resulting from its discussion will be available shortly.

The introduction of a monetary reserve in the rules on exceptional circumstances (page 2)

Whereas the Presidency have proposed that the guideline should be adjusted following a change in the ecu/dollar rate above a 500 mecu threshold, the Commission propose that there should be a monetary reserve, initially funded at 1 billion ecu. If the effects of dollar depreciation exceeded 1 billion ecu the reserve would be drawn down: If the dollar appreciated it would be built up. The text does not reveal what would happen if the dollar/ecu reserve was fully drawn down and the dollar continued to fall. The implication is that the reserve would have to be replenished.

Speaking notes opposite pages 7-8 of main text.

2) The introduction of a monetary reserve in the rules on exceptional circumstances

The Commission has made more precise in the conclave the conditions for operation of the reserve which it proposed in the original package. (2) The European Council must decide whether to include this proposal or limit itself to a clause on exceptional circumstances as proposed by the Presidency text.

Agriculture (page 2)

The Presidency text draws attention to the failure of the Agriculture Council to reach agreement on stabilisers. It draws attention to the French approach (treating the whole arable sector as one for the purpose of stabilisers) and to the particular problem raised by Germany, (ie their insistence on set-aside as an essential component of any stabilisers package).

The Commission have already put forward a revised proposal on oilseeds and proteins on lines we can accept. We expect a proposal on cereals at the European Council. The Presidency will probably envisage a full discussion on detailed provisions for these three sectors (which account for 32% of agricultural expenditure): they may aim to have the remaining stabiliser proposals settled, on the basis set out in their main paper, on the nod.

AGRICULTURE

The Presidency remains of the opinion that success at Copenhagen largely depends on agreement being reached on the overall question of agricultural stabilizers.

The Presidency is convinced that this can be achieved if agreement is reached on the three main arable crops - cereals, oilseeds and proteins.

So far none of the proposals tabled has proved capable of achieving agreement on those products. This is true both for the Commission's proposals, the compromise proposed by the Presidency, and the approach proposed by France. Also the particular problem raised by the Federal Republic of Germany has so far not found a satisfactory solution.

Following the Commission's helpful proposal on certain oilseeds circulated during the "conclave" the Presidency will seek with the Commission to arrive at suitable texts for decision on all three arable products so that the European Council can dispose of clearly defined political options permitting a decision to be taken by it.

(2) A document setting out these precisions will be circulated

SN 4017/87

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.../...

Structural Funds (page 3)

The main Presidency text on Structural Funds is acceptable to us as it stands, though the key question of overall resources devoted to the Funds remains unresolved. The Presidency text highlights two additional points: (i) the proposal of southern member states to concentrate two-thirds of all the Structural Funds on backward regions of the Community. We are prepared to see 80% of the Regional Fund concentrated on the backward regions. But we do not agree that two-thirds of all the funds should be so concentrated, since this would seriously affect our take from the Social Fund (and could increase our net contribution by £60 million in 1992). The idea has been pushed by Commissioner Varfis: Delors does not support it, and has always argued, as we have, that the Social Fund should be governed by objective criteria.

Speaking note opposite page 14 in main text.

(ii) the desire of the northern member states, UK included, to concentrate growth of the Structural Funds on the four poorest countries of the Community, in particular Spain and Portugal.

Speaking note opposite page 16 of main text.

STRUCTURAL FUNDS

Taking account of the orientations which the European Council already laid down in Brussels on the objectives of the funds, on concentration of their actions and on the recourse to the programme method, the Presidency intends to concentrate the discussion on the overall financial amount and geographical concentration.

On this latter question two contradictory trends exist around the Presidency compromise and will have to be discussed :

- 1) The proposal of certain delegations to concentrate 2/3 of the Funds on the regions covered by Objective No 1.
- 2) The proposal of certain other delegations to foresee a special effort of concentration on the less prosperous Member States, with particular emphasis on the two new Members.

Own Resources (page 3)

The Presidency highlight three main questions: the size of the overall ceiling, the question of sub-ceilings, and the definition and role of the fourth resource. We believe that expenditure in 1988, and in every year at least until 1992, can be contained in a ceiling of 1.2% GNP. Mr Schluter's letter to Heads of Government of 26 November suggested that sub-ceilings (originally a Commission proposal) should be decided in the light of a decision on the overall ceiling. This makes sense. The Commission originally saw sub-ceilings as a means of attaining a high overall ceiling (1.4% GNP). If the overall ceiling is set at a much lower level (as we envisage) then sub-ceilings become less significant. They could prevent the European Parliament ratcheting up expenditure to the full ceiling in each year. We should not therefore discuss them before the overall ceiling has been set but, if a ceiling is set to our satisfaction, we could accept the Presidency suggestion. (Since they would have to be reflected in the own resources decision, sub-ceilings could only be agreed unanimously).

Speaking note on these issues and on fourth resource opposite pages 18-19 of main text.

OWN RESOURCES

The Presidency intends to concentrate the debate on this chapter in the European Council on :

- i) the size of the overall ceiling and in the light of this decision the question of subceilings ;
- ii) the definition and the role of the 4th resource.

Budgetary Imbalances (pages 3-4)

Whereas the main Presidency text has only a PM entry on imbalances the Presidency text raises three questions:

(a) that the UK's compensation should be reduced to reflect the UK's relative prosperity in a Community of Twelve. This fails to take account of the fact that Fontainebleau was devised on the assumption of a Community of 12, and that the UK's budget burden (before abatement) has since more than doubled. The text also raises the question of a reduction in the UK's compensation to take account of the effect on the UK's contribution of the introduction of a fourth resource. We would not accept a lower percentage rate of return or a degressive abatement. But if the own resources system were changed then it would be logical for the measurement of the budgetary burden to reflect the new system. This would still leave a marginal gain for the UK: the size of the gain would depend on the shape and scale of the GNP-related fourth resource.

The Presidency's second question reflects the Commission's admission that this proposed abatement mechanism would leave us over 1 billion ecu worse off over the 5 year period to 1992. But we believe we would in fact be closer to £700 million a year worse off.

Point (c) (the distribution key) refers to the Commission proposal that Greece, Ireland, Spain and Portugal should not contribute to the financing of the UK abatement and that Germany should only contribute one quarter of her normal share. Those member states who would have to contribute at their full share want all member states to finance the abatement. They are not prepared to see Germany relieved of three-quarters of her share. Under the Fontainebleau mechanism she is relieved of one-third.

Speaking notes opposite page 20 of main text.

BUDGETARY IMBALANCES

The Presidency intends to concentrate on the following questions :

- a) Should the UK compensation be reduced at the outset to reflect the United Kingdom's relative position within the Community of Twelve, in addition to the reduction to take account of the effect on the United Kingdom's contribution of the introduction of a fourth resource ?
- b) Can we agree that the result of any new compensatory mechanism should not lead to a financial result that deviates significantly from the result of the present mechanism taking into account what is decided under point a)?
- c) The distribution key.

Proposal for a monetary reserve

Add at page 7 between 1st and 2nd paragraph of point 12 :

"A monetary reserve of 1.000 MECU is established in the budget. In case of a variation of the ECU/\$ market rate resulting in a change in EAGGF expenditure exceeding the above mentioned franchise the reserve is debited or credited the excess amount. The transfer takes place on proposal by the Commission in September of a budget year".

NOTE FROM COMMISSION

Functioning of the monetary reserve.

1. The Commission's financial perspectives have been based on real requirements in 1987, where the average ECU/\$ rate has been around 0.90.
The PDB 1988 has been established on the basis of a ECU/\$ rate of 0.85, while the present rate is 0.80.
A 10 pct. variation in the ECU/\$ rate has a budgetary effect of around 800 MECU on an annual basis.
2. Point 12, page 7 in the Presidency's proposal for conclusions specifies the concept of exceptional circumstances as well as a franchise.
As regards the exceptional circumstance created by a change in ECU/\$ market rate it is proposed to create a monetary reserve of 1.000 MECU.
3. This reserve is placed on a special line and has to be transferred if required to the relevant chapter.
4. In case of a change in the ECU/\$ market rate resulting in a change in EAGGF expenditure beyond the franchise (1), the relevant EAGGF chapters in the budget are reduced or reinforced with the excess amount by crediting or debiting the monetary reserve.
This operation takes place in September of the budget year on the basis of the average of the ECU/\$ rate during the previous period of that year.

(1) 400 Mio ECU

NON-OBLIGATORY EXPENDITURE: ALTERNATIVE TEXT 1

(supported by UK, FRG, France, Netherlands at FAC)

Text to replace paragraph 15 of Presidency paper

The Council shall comply with the maximum rate provided for in Article 203(9) of the EEC Treaty throughout the budgetary procedure.

In order to achieve this:

- when establishing the draft budget, the Council shall keep the increase in expenditure other than that necessarily resulting from the Treaties or from acts adopted in accordance therewith to a level no higher than half the maximum rate provided for in Article 203(9).

- at the second reading, the Council shall adopt a position such that the maximum rate is not exceeded.

Paragraphs 1 and 2 of this point are without prejudice to the provisions of Article 203 of the EEC Treaty, particularly those of the last sub-paragraph of paragraph 9.

If in the course of budgetary procedure, the Council is unable to agree on amounts of non-compulsory appropriations on individual lines amended by the European Parliament which in aggregate would enable the maximum rate of increase to be respected, all the Parliament's amendments will be adjusted by a common percentage so as to bring the total increase in these appropriations within the maximum rate of increase.

**NON-OBLIGATORY EXPENDITURE: ALTERNATIVE TEXT 2: IF
AGREEMENT REACHED FOR GROWTH IN STRUCTURAL FUNDS TO
EXCEED MAXIMUM RATE**

Text to replace paragraph 15 of Presidency paper

The Council shall apply the 1984 budget discipline conclusions so as to adopt a reference framework total for non-compulsory expenditure no greater than the maximum rate of increase communicated by the Commission subject to the provision of additional appropriations sufficient to allow the Council's financial objective for the period 1988-92 with regard to the progression of the structural funds to be honoured.

The resulting rate of increase of NCE will be treated by the Council as a maximum during all the budget procedure. If, in the course of the budgetary procedure, the Council is unable to agree on amounts of non-compulsory appropriations on individual lines amended by the European Parliament which in aggregate would enable this maximum rate of increase to be respected, all the Parliament's amendments will be adjusted by a common percentage so as to bring the total increase in these appropriations within the maximum rate of increase.

Insert at start of paragraph 16.

Without prejudice to its decisions to strengthen budget discipline and the annual reference framework procedure the Council will ...

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

30 November 1987

*From the Secretary of State**Dear Uffe*

I thought that it would be useful to spell out on paper my concern at the link you drew this morning between the guideline figure for 1988 and later years on the one hand, and the Commission's proposal for an oils and fats tax on the other.

As I said in the Council, I believe that the written guideline reformulation which you presented this morning - a base of 27 becu in 1988, with a 60% GNP 'slope' and separate annual amounts in the budget (but outside the guideline) for depreciation of old stocks - is a positive and constructive contribution to our common effort to make a success of Copenhagen. But it seems to me logically unjustified and politically unrealistic to link the 27 becu number with adoption of an oils and fats tax, and to suggest that an addition to the guideline equal to its forecast 1988 yield would be required if the tax were not adopted.

Logically unjustified because, though you have reformulated the guideline base in terms of 1988, the origin of your calculations is the Commission's estimate of 26861 mecu for "real needs" in 1987: that figure of 26861 mecu included

/no

HE Mr Uffe Ellemann-Jensen

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(2)



no provision (ie no deduction from gross expenditure) in respect of an oils and fats tax. Politically unrealistic whether one argues that the oils and fats tax should be adopted or that there should be an equivalent loosening in the guideline. Adoption of the tax is strongly opposed by a number of governments, including the UK Government. But to suggest an equivalent addition to the guideline would make a mockery of the Community's efforts to make a reality of agricultural budget discipline. The figure of 1.3 becu was mentioned today as the potential 1988 revenue from the tax: to add such a sum to the guideline base would mean an increase of between 6.5 and 7 becu (in 1988 prices) in the level of spending consistent with the guideline over the period 1988 to 1992. This would drive a coach and horses through our efforts to bring CAP spending under effective control by the guideline/ stabilisers route.

In discussion this morning you mentioned the reference in the 1988 Preliminary Draft Budget (PDB) to the oils and fats tax. I cannot regard that PDB entry as a consideration relevant to our discussions about the guideline. It is no more than a Commission proposal for budget provision which the Budget Council has never addressed in principle.

It is not by an entry in the PDB that our debates about the oils and fats tax or the guideline can be settled. I hope that we shall be able to settle the guideline debate at Copenhagen; but I believe that raising the spectre of the oils and fats tax in that context would be a serious mistake. Hence my Shakespearean reference.

GEOFFREY HOWE

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END

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Spad

From: Sir G.Littler
Date: 1 December 1987

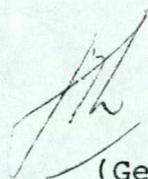
MR ALEX ALLAN

EUROPEAN COUNCIL

I gather that the Foreign Office felt that our offering on the world situation, etc, was not very good. I agree. (I cleared it myself hastily in the Chancellor's absence on Friday).

2. The awkwardness is that we do not want to launch this meeting into a discussion of these subjects!

3. You might like to show this to the Chancellor, however, with the attached slightly better 'speaking note' I have just drafted, and the suggestion that he promise to update the P.M. at any time if we have developments before the Council meets.



(Geoffrey Littler)

Opening Speaking Note

[It is far from clear what subjects will be addressed and our main interest is to avoid new EC declarations either on the world situation or on the EMS's future]

- On the world economic situation

We are going through a trying period of low confidence in markets in which uncertainty about United States policies and the future value of the dollar has played a big part. The UK and others have rightly welcomed the proposed action announced by the US to continue to reduce their budget deficit. [I welcome the action our German colleagues have announced this week and hope that] or [We now hope that the major surplus countries, Germany and] Japan will be able to take further action early in 1988 to improve the momentum in their economy. We need these policies. With them we also need to restore market confidence in cooperation among the major countries. But cannot take this further today and here: our Ministers of Finance and Economics made comments from their ECOFIN meeting last month - I do not think a further EC statement today would be helpful.

Developments within Europe

UK welcomed the useful measures agreed and endorsed at the informal ECOFIN meeting in September. And it is has been good to see practical development of cooperation in recent weeks on the lines which had been agreed. I am glad that priority is being given in future work to the achievement by all members of complete liberalisation of capital movements - plainly an important element in the attempt to complete the internal market by 1992.

Mr A CS Allan

From: RJ Bonney

Date: 1 December 1988

cc Mr Edwards

Mrs Imber

EC FINANCING : STABILISERS

1. I understand from Mr Laville that the Foreign Secretary may try to speak to the Chancellor and the Minister of Agriculture in the House this evening about the procedure for dealing with stabilisers for commodities other than cereals, oilseeds and proteins which are likely to be the main focus of the agricultural discussion at Copenhagen. The Chancellor may wish to glance at the attached note which Mr Laville

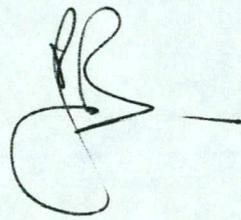
has prepared.

2. We are still considering the details of the latest stabiliser proposals (including their financial implications) with ITAFF. Our current view is that the latest proposals on cereals and oilseeds are the minimum we should be prepared to accept. The other products (except for milk) have a relatively small budgetary impact. If the European Council is able to take decisions on cereals and oilseeds which we would regard as acceptable, in practice the remaining commodities will have to be reinitiated for detailed decisions by the Agriculture Council by a formula on the lines of Mr Lavelle's paragraph 7. The

references to keeping expenditure within the agreed budget framework would clearly be essential in this context.

3. In practice the latest Presidency compromise is almost certain to form the basis for future discussion whenever the exact terms of the remit. Apart from IATF's objections to the separate maximum guaranteed quantity for sheep in GB, there is nothing in it which is wholly objectionable, although much which could be improved. The suggested deadline of 31 December 1987 is the Commission's current position, which we should certainly not undermine. In fact there is

every advantage in trying to
get decisions through before the
German's take over the Presidency
of the Agriculture Council in January



R J BONNEY

AGRICULTURAL STABILISERS OTHER THAN CEREALS, OILSEEDS AND PROTEINS

The Presidency expect discussion of agricultural commodities at Copenhagen to concentrate on cereals, oilseeds and proteins. The Presidency proposals annexed to their central document for the meeting contains proposals for the remaining commodities viz -

wine
fruit and vegetables
olive oil
cotton
sugar
milk
tobacco
sheepmeat

For the most part, there is no great difference between the Presidency and Commission proposals in respect of these commodities. In two cases, wine, and fruit and vegetables, there is general agreement on the need for a stabiliser but inadequate specification. This note considers the handling of decisions on these remaining commodities.

The main options

2. There are three main options for handling these commodities at Copenhagen:

- i. accepting them all as specified in the annex to the Presidency paper, subject to a declaration requiring that the gaps in the specification of stabilisers should be filled on a basis of "comparable rigour" with the decisions reached on the main commodities, by an identified date;
- ii. remittance back to agricultural Ministers for completion, on the basis of "comparable rigour" with the earlier decisions, but requiring the Commission to be satisfied

that the criterion of rigour has been met. Again a completion date would be specified.

iii. reference back to Agriculture Ministers on some more general basis, referring to agreement in principle to application of stabilisers.

3. There is also a tactical issue: whether it would be useful in the Prime Minister's opening statement to seize the initiative by calling for the adoption of one or other of the options specified above.

Comment

4. From a UK point of view, although the Presidency proposals are not in all cases ideal, we could accept them as the basis for an overall agreement in most cases. On option i., the most difficult domestic political issues arise in relation to the treatment of sheepmeat, notably the provision for a separate UK maximum guaranteed quantity.

5. The second option is closer to the approach proposed by the French and leaves open the very real possibility of weakening of the Presidency's proposals in traditional discussions in the Agriculture Council. Provision for the Commission to act as arbiter for the adequacy of the conclusions reached would be of some help in substance and presentation. It would not however prevent some readjustment of the Presidency's proposals, possibly to UK disadvantage eg in relation to sugar. More important, it would be necessary to ensure that the Commission did not reintroduce the idea that agreement to an oils and fats tax would be an essential part of the total package. The latter danger may be somewhat reduced by the references to an oils and fats tax in the latest Commission proposals for oilseeds. This should make it possible to nail the matter one way or another at the Copenhagen meeting itself.

6. The third option looks unacceptable.

7. If either option i. or ii. were adopted, a declaration which might be incorporated in the European Council conclusions might be on the lines:

"Existing stabilisation mechanisms will be reinforced and extended to all remaining production sectors with equivalent effect to those agreed for cereals, and proteins [in conformity with the proposals set out in the annex, with such additional quantification as necessary] with a view to enabling the Commission, in the context of management of the market for individual commodities, to keep the level of expenditure within the budget framework now agreed. Community legislation to implement the above decisions will be adopted before 31 December 1987."

The square brackets would be deleted in the case of option i.

Conclusion

8. In a situation where agreement was possible on cereals etc, it would seem not implausible that option i. above could be agreed. However, option ii., with a reference to the Commission's taking up the policing role would seem preferable to a breakdown, not least since it is not clear that the issue would become any easier to handle at a later stage. However, it seems less clear that as a tactical matter it would be advantageous for the Prime Minister to advocate such a course at the outset. It is for consideration whether the balance of advantage would be in early advocacy of something on the lines of option i.



Ch. Enro. Council briefing.

I enclose only the main briefs
(voluminous enough) - I have copies
of the background briefs etc. if you
would like to see them.

2. The briefs seem unexceptionable,
and there is no need for you to go
through them. But you will want to
be sure.

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From: Sir G.Littler
Date: 1 December 1987

MR ALEX ALLAN

EUROPEAN COUNCIL

I gather that the Foreign Office felt that our offering on the world situation, etc, was not very good. I agree. (I cleared myself hastily in the Chancellor's absence on Friday).

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(Geoffrey Littler)

Littler
→
ACSA
1/2

Opening Speaking Note

[It is far from clear what subjects will be addressed and our main interest is to avoid new EC declarations either on the world situation or on the EMS's future]

- On the world economic situation

We are going through a trying period of low confidence in markets in which uncertainty about United States policies and the future value of the dollar has played a big part. The UK and others have rightly welcomed the proposed action announced by the US to continue to reduce their budget deficit. [I welcome the action our German colleagues have announced this week and hope that] or [We now hope that the major surplus countries, Germany and] Japan will be able to take further action early in 1988 to improve the momentum in their economy. We need these policies. With them we also need to restore market confidence in cooperation among the major countries. But cannot take this further today and here: our Ministers of Finance and Economics made comments from their ECOFIN meeting last month - I do not think a further EC statement today would be helpful.

Developments within Europe

UK welcomed the useful measures agreed and endorsed at the informal ECOFIN meeting in September. And it is has been good to see practical development of cooperation in recent weeks on the lines which had been agreed. I am glad that priority is being given in future work to the achievement by all members of complete liberalisation of capital movements - plainly an important element in the attempt to complete the internal market by 1992.

FROM: A J C EDWARDS
DATE: 1 December 1987

Ch

CHANCELLOR

This arrived after boxes
had gone over. I
attach various background
papers you may want to
have to hand

cc Chief Secretary
Paymaster General
Sir P Middleton
Sir G Littler
Mr Donney
Mr Mercer
Mr Mortimer
Mr Donnelly
Mr Evans

EUROPEAN COUNCIL:

BRIEFING MEETING WITH THE PRIME MINISTER

You are due to attend the Prime Minister's small European Council briefing meeting tomorrow at 5.00pm (see Charles Powell's letter of 25 November attached), as well as an earlier bilateral meeting with Sir G Howe. Mr Lavelle tells me that he will be advising the Prime Minister to consider her strategy under four headings:

- i) stabilisers,
- ii) exceptional circumstances,
- iii) UK abatement, and
- iv) own resources ceiling, together with agricultural guideline and structural funds.

Stabilisers

2. We have said that without a satisfactory package of stringent stabilisers there can be no agreement at Copenhagen. This should continue to be our approach.

3. As a practical matter, however, it has to be recognised that

final, detailed agreement on all commodities will not be possible at Copenhagen. It is therefore necessary to consider what a satisfactory package of stringent stabilisers means. We suggest that, consistently with your letter of 16 Nov to the Prime Minister, our minimum position should be as follows:

Mr MacGregor

- On cereals (expenditure of 5-6 becu a year), we must secure:

i) a minimum guaranteed quantity not to exceed 155 million tonnes (each additional million tonnes costs 150 mecu a year);

ii) the limit on in-year price reductions to be at least 10 per cent next year followed by at least 15 per cent and 15 per cent in the two following years (much preferably 20 per cent), which could be achieved half as price cuts and half as increased co-responsibility levy (we should now accept the use of the levy as a stabiliser, despite MAFF's previous reservations);

or 20

iii) in-year price adjustments to be decided in October rather than September so as to ensure that proper account is taken of the year's harvest; and

iv) discretion for the Commission to shorten the intervention period as an additional stabiliser, which the Commission themselves regard as essential, although MAFF show some signs of giving it away).

- On oilseeds (expenditure has shot up to some 3½ becu this year), we should insist that the agreement should be not less stringent than the Commission's latest proposals, which envisage slightly higher maximum guaranteed quantities for rape and sunflower^{seeds} and price reductions at a rate of ½ per cent for each 1 per cent overshoot in production. Tactically, however, we should not easily be persuaded that this is tough enough. Otherwise it may get further weakened in negotiation.

- For other commodities, provided (and only provided) that agreement is reached on cereals and oilseeds as noted above, we might go along with a firm injunction to the Agriculture Council to tighten up the proposals in the latest Presidency paper so as to make them of equivalent stringency with the cereals and oilseeds stabilisers and to sort out the final details for all commodities by the end of December, with a view to enabling the Commission to contain expenditure within the budgetary guideline.

4. We should hold out for tightly drawn wording on other commodities since many of these remain in an unsatisfactory condition. In the most expensive regime, milk, for example, compensation for suspended quotas remains excessive at 10 mecu per 100kg (each ecu on the compensation rate costs 60 mecu a year). The wine, tobacco and fruit and vegetable proposals are all deficient in various ways. Mr MacGregor will be concerned about the one remaining discriminatory provision on sheepmeat. But this cannot be allowed to stand in the way of an otherwise satisfactory settlement.

Exceptional Circumstances

5. You have already sent the Prime Minister your views on exceptional circumstances. The main points are:

- We must play hard to get: otherwise we shall end up with an enormous loophole.
- To that end our basic position should remain that the correct solution is no exceptional circumstances.
- The most we should concede is a symmetrical provision limiting exceptional circumstances to changes in the ecu/dollar rate in excess of 10 per cent compared with a reference period, on the basis that each 1 per cent variation beyond 10 per cent would permit adjustments to expenditure of up to 80 mecu.

6. At the Conclave over the weekend the Commission argued strongly for their earlier proposal for a monetary reserve on which the Commission would draw if the dollar moved by more than 2 (or possibly 5) per cent against the ecu. It was not clear how the reserve would be funded or the proposal would fit with the ideas about exceptional circumstances. One possibility is that it might be an exceptional circumstances provision in all but name with far too low a threshold. Our approach on this should be to reject a monetary reserve unless the Commission or Presidency come up with some proposal which is far better than anything we have seen so far.

Abatement/Own Resources Nexus

7. You have minuted the Prime Minister on this subject, too. The main points are:

- In no circumstances should we agree to anything less favourable than Fontainbleau.
- We should reject the Commission's proposal for an agricultural corrective mechanism which would be virtually certain to leave us seriously short-changed.

- We should reject the Commission's proposal for an agricultural corrective mechanism which would be virtually certain to leave us seriously short-changed.
- We should reject other favourite themes such as degressivity, time-limitation and inclusion of the abatement on the expenditure side of the Budget.
- We should quietly encourage introduction of a fourth resource in a form as favourable as possible to the UK: the Presidency are likely to propose a version much less favourable to the UK than the Commission's original proposal (1.25 per cent VAT plus GNP own resource rather than 1 per cent VAT and diff tax), which would give us a gross benefit of only some 130-140 mecu as against 750 mecu.
- Although the others will be anxious to prevent the UK from benefiting even slightly from a change in the own resources structure, we could reasonably point out that 1.25 VAT plus a GNP fourth resource would remove most of the benefit to the UK compared with the existing VAT system. We should rule out any reduction in the abatement percentage. If pressed, however, we could doubtless agree to the fairly simple and intuitive change in the Fontainebleau system whereby our abatement would be based on the VAT + GNP (or diff tax)/expenditure gap (that is, the difference between our VAT plus GNP share and our actual share of the allocated Budget), not on a VAT/expenditure gap.
- It will be tremendously important to secure agreement that the abatement will be enshrined in the new own resources decision and not time-limited, so that on any future occasion we shall have the same negotiating advantage as this time.

that the abatement cannot be changed without our agreement.

Own Resources Ceiling

8. The Prime Minister will wish to discuss what is the maximum increase in the own resources ceiling which we might contemplate in the context of a generally acceptable package.

9. Our broad approach should be to go for the minimum figure which can realistically accommodate 1988 requirements (after some spreading of expenditure, for example on stocks disposals and IGA refunds, as necessary), and to keep this figure for the rest of the period to 1992. In other words, there should be no sub-ceilings. If we have any respectable form of budget discipline, sub-ceilings will be unnecessary.

10. The crucial questions are what the minimum levels we can achieve for agricultural expenditure and the structural funds (together with other non-obligatory expenditure) are. The two final sections of this brief discuss these questions. If we should think it necessary to provide more than the maximum rate of increase for non-obligatory expenditure, it will be important to secure that the agricultural guideline limit will grow more slowly than GNP in order that the ceiling can be respected. It will be a key objective to secure budget discipline arrangements such that any future ceiling can be respected.

11. As the attached table prepared by Mr Mortimer, updating our earlier "scoresheet" table, illustrates, the Community should be able to manage quite well with a 1.2 per cent GNP ceiling, abatement inclusive. The corresponding abatement-exclusive figure would be 1.1 per cent. 0.1 per cent on the ceiling is worth about 4.2 becu.

12. The tightest year is 1988, when we have ^{an} abnormally large UK abatement figure and, potentially at least, a double *dose* of IGA repayments and more than a full year's worth of own resources refunds. With the help of a certain amount of spreading of these expenditures, 1.2 per cent GNP should suffice.

13. Other member states and the Commission will naturally argue for a higher figure. The next credible stopping point would be 1.25 per cent. This however would be getting pretty close to the Commission's own expenditure figure of 1.3 per cent of GNP for 1992. The rest of the package would have to be exceptionally good to justify going this far.

Agricultural Guideline and Stocks

14. Our major objective in this area should be to end up with the lowest realistic figure for the agricultural expenditure limit over the next 5 years, with an agreed growth of the guideline limit below the growth of GNP (perhaps two-thirds or three-quarters of the growth of GNP). The latter will be especially important if there should be any question of exceeding the maximum rate for non-obligatory expenditure since otherwise member states will have a strong moral case for IGAs or further rises in the ceiling before 1992.

15. As regards stocks, the Prime Minister's idea of a national write-off did not run. Neither did the idea of a once-for-all write-off through the Community Budget, financed by a higher than otherwise IGA. The choice is likely to lie therefore between:

i) including stock disposals within the guideline limit, as proposed by the Commission, and

ii) a Presidency proposal, in response to UK pressure, whereby disposal of existing stocks would be financed outside the guideline (with expenditure of 1.2 ~~becu~~ in 1988 and 1.4 ~~becu~~ in each of the 4 following years), while the guideline limit ^{base} ~~itself~~ would be reduced by 1.2 ~~becu~~ and the slope would be 60 per cent of GNP growth rather than 100 per cent.

16. Option (ii) ~~was~~ looks to be a good buy from the UK's point of view. Our calculations suggest that it would save [1] ~~becu~~ of expenditure by 1992 compared with the guideline as proposed by

the Commission. The lower slope would be a strong selling point at home.

Structural Funds and Non-Obligatory Expenditure

17. The key issues here are:

- We should argue for continued observance of the maximum rate of increase in non-obligatory expenditure, as in the existing budget discipline agreement, with concentration of the Regional Development Fund in favour of Spain and Portugal.
- If we have to go beyond this, we should try first for the inexpensive option of a special programme of (say) 2 becu for Spain and Portugal within the strucutral funds (and within $1\frac{1}{2}$ times the maximum rate) before contemplating more expensive possibilities.
- We should try especially hard to avoid exceeding $1\frac{1}{2}$ times the maximum rate.
- If we do feel obliged to go as far as $1\frac{1}{2}$ times the maximum rate (or further), we should insist that this be financed within the own resources ceiling by having agricultural expenditure grow more slowly than GNP.

Copenhagen

18. Mr Mortimer and I will be at Copenhagen during the European Council to give what help we can.

AJCE

A J C EDWARDS

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EUROPEAN COUNCIL: ITALIAN VIEWS

SUMMARY

1. TODAY'S (1 DECEMBER) IL SOLE 24 ORE (LEADING FINANCIAL DAILY) CARRIES AN ARTICLE BY GORIA ENTITLED 'BEYOND COPENHAGEN' GIVING HIS VIEWS ON THE FORTHCOMING EUROPEAN COUNCIL. ITALY IS READY TO MAKE A FAIR CONTRIBUTION TO INCREASED RESOURCES FOR THE COMMUNITY BUT NOT TO REPLACE THE UK AS MAJOR NET CONTRIBUTOR. COPENHAGEN NEED NOT BE REGARDED AS EUROPE'S LAST CHANCE BUT IN THE CURRENT INTERNATIONAL ECONOMIC AND POLITICAL SITUATION, AGREEMENT BY THE COMMUNITY ON ITS INTERNAL PROBLEMS WOULD ENHANCE ITS STANDING.

DETAIL

2. GORIA BEGINS HIS ARTICLE BY LISTING THE ITEMS WHICH A COPENHAGEN 'PACKAGE' MUST INCLUDE: INCREASE IN OWN RESOURCES, BUDGETARY DISCIPLINE, CAP, INCREASE IN THE STRUCTURAL FUNDS, UK REBATE. HE NOTES THAT ALTHOUGH THERE HAS BEEN SOME PROGRESS ON PARTS OF THE DELORS PROPOSALS, DIFFERENCES ARE STILL SIGNIFICANT AND THERE WILL BE NO EASY SOLUTIONS AT COPENHAGEN. HE PRAISES THE DANISH PRESIDENCY FOR EXCELLENT PREPARATORY WORK: THEIR LATEST COMPROMISE TEXT IS A USEFUL BASIS FOR DISCUSSION.

3. GORIA SEES TWO MAIN SCHOOLS OF THOUGHT ON THE PROSPECTS FOR COPENHAGEN: ONE THAT A COMPROMISE MUST BE ACHIEVED TO AVOID PARALYSIS OF THE COMMUNITY EVEN IF THIS MEANS THE SOLUTIONS ARE FAR FROM PERFECT, THE OTHER THAT SHORT TERM SOLUTIONS PARTICULARLY ON OWN RESOURCES WOULD BE UNSATISFACTORY AND THAT IT WOULD BE BETTER TO POSTPONE DECISIONS TO HANOVER.

4. GORIA RECALLS THAT ITALY FROM THE BEGINNING HAS BEEN IN FAVOUR OF THE OBJECTIVES OF THE DELORS PLAN. ITALIAN

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CRITICISM OF THE FOURTH RESOURCE IS NOT DIRECTED AT THE COMMISSION'S DESIRED LEVEL OF TOTAL FUNDING (1.4% GNP IN 1992) WHICH ITALY SUPPORTS, BUT ON THE MECHANISM PROPOSED WHICH PARTICULARLY PENALISES ITALY. ON THE BASIS OF THE COMMISSION'S FOURTH RESOURCE AND ITS NEW METHOD OF CALCULATING THE UK REBATE, THERE WOULD BE THE 'PARADOXICAL' RESULT THAT ITALY WOULD REPLACE BRITAIN AS MAJOR NET CONTRIBUTOR. IN OPPOSING THIS OUTCOME ITALY HAS OFFERED CONSTRUCTIVE ALTERNATIVE SOLUTIONS WHICH HAVE FOUND CONSIDERABLE SUPPORT FROM OTHER MEMBERS. ALTHOUGH PREFERRING A SYSTEM BASED ON A VAT INCREASE TO 1.6% AS IN FONTAINEBLEAU, ITALY WOULD ACCEPT A GNP-LINKED FOURTH RESOURCE CALCULATED IN A DIFFERENT MANNER. 'WE ARE AWARE THAT WE MUST PAY MORE, PARTLY AS A RESULT OF THE RECENT REVALUATION OF OUR NATIONAL ACCOUNTS. BUT WE CANNOT ACCEPT THAT THE REFORM OF OWN RESOURCES SHOULD BE MAINLY AT ITALY'S EXPENSE'.

5. TURNING TO THE CAP, GORIA SAYS BRITAIN AND THE NETHERLANDS HAVE MADE IT CLEAR THAT AGREEMENT ON BUDGET DISCIPLINE, AND ABOVE ALL ON AGRICULTURAL SPENDING, IS A CONDITION FOR THEIR AGREEMENT TO ANY INCREASE IN COMMUNITY RESOURCES. IN EFFECT THIS MEANS THE ADOPTION OF A SYSTEM OF AUTOMATIC STABILISERS. AFTER DESCRIBING HOW THESE WOULD WORK, GORIA STATES THAT THERE IS AN URGENT NEED TO BRING SUPPLY AND DEMAND OF AGRICULTURAL PRODUCTS PROGRESSIVELY INTO LINE. PRODUCTION AND STORAGE OF SURPLUSES ARE INCREASINGLY BURDENSOME AND HARDER TO JUSTIFY, AS WELL AS CREATING DISTORTIONS ON THE INTERNATIONAL MARKET PARTICULARLY AFFECTING DEVELOPING COUNTRIES. BUT A SOLUTION IS DIFFICULT IN THE FACE OF DIVERSE INTERESTS AND THE PROBLEM OF FINDING APPROPRIATE MEASURES TO SUSTAIN FARM INCOMES. AFTER DESCRIBING THE GERMAN AND FRENCH POSITIONS GORIA CONTINUES 'FOR MY PART, I CONSIDER THE PRESIDENCY PROPOSALS TO BE REASONABLY FAIR AND TO FORM A VALID BASIS FOR COMPROMISE ON WHICH TO WORK AT COPENHAGEN, IF ONE ACCEPTS THE PRINCIPLE THAT ONLY THROUGH AGRICULTURAL STABILISERS, WHERE NECESSARY, CAN ONE ACHIEVE THE OBJECTIVE OF BRINGING SUPPLY AND DEMAND TOGETHER'. (IT IS CLEAR FROM EARLIER PASSAGES THAT GORIA DOES NOT BELIEVE STABILISERS ARE NECESSARY ON FRUIT AND VEGETABLES).

6. TURNING TO THE STRUCTURAL FUNDS, GORIA SAYS ITALY SUPPORTS THE COMMISSION PROPOSALS, NOT ONLY FOR DOUBLING THE FUNDS BUT ON THE 75% GNP CRITERION FOR BENEFITING FROM THE REGIONAL FUND SINCE THIS WOULD ALLOW INCLUSION OF THE MEZZOGIORNO. 'WE CANNOT ACCEPT THE FRENCH PROPOSAL TO CONCENTRATE ERDF ONLY ON THOSE COUNTRIES WITH AN AVERAGE PER CAPITA INCOME BELOW 75%'.

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7. RETURNING TO HIS INITIAL DESCRIPTION OF THE TWO SCHOOLS OF THOUGHT FOR COPENHAGEN, GORIA CONCLUDES BY SAYING THAT THE COUNCIL SHOULD NOT NECESSARILY BE PRESENTED AS THE LAST CHANCE FOR EUROPE. 'IT WOULD BE A SIGNIFICANT AND SATISFACTORY RESULT SIMPLY TO INDICATE THE COURSE WHICH THE COMMUNITY MUST FOLLOW IN THE NEAR FUTURE, ON THE BASIS OUTLINED FOR THE MEDIUM TERM BY THE DELORS PLAN'.

8. BUT THE IMMINENCE OF THE US/SOVIET SUMMIT AND CURRENT INTERNATIONAL FINANCIAL PROBLEM ARE REASONS WHY EUROPE SHOULD SIGNAL ITS CAPACITY TO RESOLVE ITS INTERNAL PROBLEMS AND ASSUME AN ACTIVE INTERNATIONAL ROLE. THERE ARE STILL MANY OBSTACLES BUT IT IS INEVITABLE THAT THE PROCESS OF EUROPEAN POLITICAL INTEGRATION SHOULD EVENTUALLY INCLUDE A DEFENCE DIMENSION WHILE SAFEGUARDING THE TRADITIONAL TIES OF NATO. ON ECONOMIC ISSUES A STRENGTHENING OF THE EMS WOULD CONTRIBUTE TO GREATER STABILITY ON EXCHANGES AND HELP ENSURE NON-INFLATIONARY GROWTH.

9. GORIA CONCLUDES WITH THE HOPE THAT THE COUNCIL WILL NOT ALLOW ITSELF TO BECOME BOGGED DOWN IN BUDGETARY, AGRICULTURAL OR STRUCTURAL PROBLEMS BUT REAFFIRM THE IMAGE OF A VITAL AND UNIFIED EUROPE.

10. WE ARE FAXING THE COMPLETE TEXT (IN ITALIAN) OF GORIA'S ARTICLE TO FCO AND UKREP BRUSSELS.

COMMENT

11. THIS IS AN UNUSUAL INITIATIVE BY GORIA. THE ARTICLE READS VERY MUCH AS A PERSONAL CONTRIBUTION AND IS NOTABLY MORE STATESMANLIKE THAN ANDREOTTI'S REMARKS IN BRUSSELS ALSO REPORTED IN TODAY'S PAPERS, 'WE HAVE NEVER ASKED THE COMMUNITY FOR MORE THAN WE DESERVE, BUT WE ARE NOT PREPARED TO BE SWINDLED'.

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DENMARK ON THE EVE OF THE EUROPEAN COUNCIL

SUMMARY

1. THE DANISH PRIME MINISTER AND FOREIGN MINISTER APPROACH THE EUROPEAN COUNCIL WITH NO IMMEDIATE DISTRACTIONS FROM COMMUNITY AFFAIRS. THEIR POLITICAL AND ECONOMIC SITUATION IS NOT EASY. ECONOMIC PROBLEMS MOUNT AND POLITICAL SQUABBLING CONTINUES. NEVERTHELESS, THEIR COALITION MINORITY GOVERNMENT SEEMS LIKELY TO SURVIVE EARLY PROBLEMS SUCH AS THE BUDGET AND CONTINUE WELL INTO NEXT YEAR, THOUGH THERE MAY BE DIFFICULTIES IN THE SPRING. NONE OF THIS SHOULD MUCH AFFECT THEM IN THEIR HANDLING OF THE EUROPEAN COUNCIL.

DETAIL

2. ALTHOUGH HE STILL DOES NOT SEEM ENGAGED IN THE DETAIL, WE ARE ASSURED BY HIS ADVISERS THAT SCHLUTER HAS BEEN PAYING CLOSE ATTENTION TO COMMUNITY AFFAIRS IN RECENT WEEKS. (BEFORE THEN, HE LEFT THINGS AS A MATTER OF POLICY, LARGELY IN THE HANDS OF ELLEMANN-JENSEN.) BUT THE DANISH DOMESTIC SCENE, WHICH IS INCREASINGLY TROUBLED, CANNOT BE FAR FROM HIS MIND.

3. THE SEPTEMBER ELECTIONS RETURNED A GOVERNMENT OF THE SAME COMPLEXION AS THE OLD, BUT SIGNIFICANTLY WEAKER IN THE FOLKETING. THE FACT THAT SCHLUTER MISJUDGED THINGS SEEMS TO HAVE AFFECTED HIS CONFIDENCE, AND SOME OF THE DAMAGE LINGERS. POLITICS SINCE THE ELECTION HAVE LARGELY BEEN A MATTER OF TRYING TO STITCH COMPROMISES TOGETHER. BUT THE ECONOMIC SITUATION, WHICH IS CENTRAL TO THE GOVERNMENT'S POLITICAL PROBLEMS, HAS NOT IMPROVED AND MAY EVEN HAVE DETERIORATED DURING THE AUTUMN.

4. THE CONTRADICTORY POLICIES OF AUSTERITY DRIVE AND OVER GENEROUS PAY SETTLEMENTS HAVE TAKEN THEIR TOLL OF BUSINESSES OF ALL SIZES. THE PRESS IS FULL OF REPORTS OF LAY-OFFS. A PACKAGE OF MEASURES TO HELP EXPORTS IS WIDELY HELD TO BE OF MARGINAL SIGNIFICANCE, AND THE FOREIGN MINISTRY HAS PRODUCED A REPORT FORECASTING THAT IT WILL TAKE

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BETWEEN SIX AND SEVEN YEARS TO PUT THE BALANCE OF PAYMENTS DEFICIT RIGHT. IN ITS LATEST HALF-YEARLY REPORT THE ECONOMIC COUNCIL FORECASTS THAT UNLESS ADDITIONAL ACTION IS TAKEN, UNEMPLOYMENT WILL RISE TO OVER 300,000 (11 PER CENT PLUS) IN THE 1990S AND THE BALANCE OF PAYMENTS DEFICIT AFTER FALLING TO 13 BILLION IN 1988, WILL INCREASE TO BETWEEN KR 17 AND 18 BILLION IN 1989 (THOUGH THIS IS STILL BELOW THE KR 21 BILLION ESTIMATED FOR 1987). SINCE MANY BELIEVE THAT IT WAS ECONOMIC DISAPPOINTMENT WHICH LED TO THE OUTCOME OF THE SEPTEMBER ELECTION, ALL THIS IS POLITICALLY WORRYING FOR THE GOVERNMENT.

5. ITS SHORT TERM PROBLEM IS TO PUT THE BUDGET THROUGH. THIS IS DUE TO BE DEBATED IN THE FOLKETING SOON AFTER THE EUROPEAN COUNCIL. NEGOTIATIONS WITH THE SOCIAL DEMOCRATS ARE ALREADY UNDERWAY. SCHLUTER IS TAKING THE LINE THAT THERE CAN BE NO MASSIVE INCREASE IN PUBLIC SPENDING, THREATENING THAT IF THE FOLKETING VOTES FOR THIS HE WILL GO TO THE COUNTRY. BUT IT SEEMS INEVITABLE THAT THE BUDGET, IF AND WHEN AGREED, WILL MAKE SOME PROVISION FOR INCREASED SPENDING ON ''SOCIAL RECONSTRUCTION'' IN ORDER TO HELP BRING THE SOCIAL DEMOCRATS ON SIDE. THAT WILL WEAKEN BUSINESS CONFIDENCE FURTHER. NEVERTHELESS, IT SEEMS LIKELY THAT THE GOVERNMENT WILL SURVIVE THE BUDGET ISSUE, IF ONLY BECAUSE THE NEW SOCIAL DEMOCRAT LEADERSHIP NEEDS TIME TO SETTLE DOWN AND DOES NOT WANT TO BE PICTURED AS FRACTIOUS IN ITS OPPOSITION. THEREAFTER, THE GOVERNMENT'S WAY AHEAD LOOKS RELATIVELY CLEAR UNTIL INITIAL NEGOTIATIONS ABOUT THE 1989 WAGE SETTLEMENTS BEGIN IN MAY.

6. ALL THIS LEAVES SCHLUTER AND ELLEMANN-JENSEN RELATIVELY FREE IN THEIR APPROACH TO THE EUROPEAN COUNCIL. THEY HAVE GOT GENERAL FOLKETING AGREEMENT TO THEIR APPROACH TO IT. A SUCCESS WOULD DO SOMETHING FOR THEIR SLIGHTLY TATTERED REPUTATION, THEY WOULD LOVE THE CHANCE TO POINT TO A SUCCESSFUL CONCLUSION TO A DANISH PRESIDENCY. CONVERSELY, EVEN A DRAMATIC FAILURE NEXT WEEKEND WOULD NOT DAMAGE THEM SERIOUSLY IN DOMESTIC TERMS. SO THE DANISH GOVERNMENT, DESPITE ITS MINORITY, COALITION STATUS, GOES INTO THE EUROPEAN COUNCIL WITH REASONABLY FREE HANDS AT HOME.

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DRAFT CONCLUSIONS FOR THE EUROPEAN COUNCIL

SUMMARY

1. NO UNPLEASANT SURPRISES IN THE DRAFT DISCUSSED AT THE CONCLAVE. THE MORE IMPORTANT ONES ARE IN THE ENCLOSURE TO SCHLUTER'S SECOND LETTER (FAXED TO WALL) WHICH CONTAINS THE ALTERNATIVE GUIDELINE (WITHOUT STOCKS), REPEATS DELORS IDEAS FOR A MONETARY RESERVE, HERALDS A PRESIDENCY EFFORT WITH THE COMMISSION TO PRODUCE NEW TEXTS ON CEREALS, OILS AND PROTEINS, AND SETS OUT QUESTIONS FOR THE COUNCIL ON STRUCTURAL FUNDS, OWN RESOURCES AND BUDGET IMBALANCES.

DETAIL

BUDGET DISCIPLINE

I) PAGE 6 HAS A NEW FOOTNOTE ON FEOGA BUDGET MANAGEMENT: QUOTE THE COMMISSION DECLARES THAT PRUDENT MANAGEMENT NECESSITATES THAT PAYMENT OF MONTHLY ADVANCES BY THE COMMISSION ONLY BE EXECUTED ON THE BASIS OF THE ABOVE INFORMATION AND TO THE EXTENT THAT, AS UNDER THE BUDGETARY PROCEDURE FOR OTHER COMPULSORY EXPENDITURE, THE AVAILABILITY OF CREDITS IS ESTABLISHED BY CHAPTER, IE IN FACT BY COMMON MARKET ORGANISATION.

WHERE CREDITS ARE NOT AVAILABLE, THE COMMISSION WILL PROPOSE CORRESPONDING TRANSFERS TO THE BUDGET AUTHORITY. UNQUOTE

II) PAGE 9 INCORPORATED THE DRAFT TABLED AT THE CONCLAVE CONFIRMING THAT THE PROCEDURES ON THE MAXIMUM RATE WILL CONTINUE TO APPLY FOR DNO. THIS, IN THE CONTEXT, COULD APPLY TO ALL DNO OR SIMPLY TO DNO OTHER THAN STRUCTURAL FUNDS, IMPS AND RESEARCH - PROBABLY THE LATTER.

STRUCTURAL FUNDS

(I) PAGE 12: ''BORDER REGIONS'' ARE ADDED TO THE AREAS COVERED BY OBJECTIVE NO 2:

(II) PAGE 13: THE CRITERIA FOR OBJECTIVE NO 2 ARE TO BE REVISED

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BY THE COUNCIL AFTER 3 (NOT 2) YEARS - BUT STILL BY QM RATHER THAN UNANIMITY:

(III) PAGE 14: ANY ERDF OPERATIONS OUTSIDE OBJECTIVES 1 AND 2 HAVE TO BE IN ACCORDANCE WITH CRITERIA LAID DOWN BY THE COUNCIL (AS WE PROPOSED):

(IV) PAGE 15: PORTUGUESE FOOTNOTE NOW APPEARS IN THE TEXT.

OWN RESOURCES AND BUDGET IMBALANCES
NO CHANGE.

AGRICULTURE

THE 17 PAGE REPORT IN THE CONCLAVE TEXT IS REPLACED BY:

(I) THE SIX POINTS WHICH THE PRESIDENCY CIRCULATED ON 30 NOVEMBER. THE ONLY CHANGES HERE ARE: A) THAT STABILISERS ARE TO BE 'REINFORCED AND EXTENDED TO OTHER PRODUCTION SECTORS AS SET OUT IN ANNEX' INSTEAD OF MERELY 'IN CONFORMITY WITH THE PRINCIPLES SET OUT IN ANNEX': AND THAT THEY WILL TAKE EFFECT FROM THE MARKETING YEAR 1988/9: B) THAT THE DEADLINE FOR COMMUNITY LEGISLATION (ORIGINALLY 31 MARCH) NOW READS 'COMMUNITY LEGISLATION TO IMPLEMENT THE AGRICULTURAL STABILIZATION MECHANISMS WILL BE ADOPTED IMMEDIATELY': C) THE COMMISSION ARE INVITED TO SUBMIT PROPOSALS ON SET-ASIDE FOR ADOPTION IN PARALLEL WITH THE STABILISERS:

(II) THE PAGES ON ARABLE CROPS APPEAR WITHOUT CHANGE AT ANNEX 1:

(III) THE PAGES ON USE OF LAND APPEAR AS ANNEX II:

(IV) THE TWO PAGES ON CEREALS ARE REPLACED BY A SIMPLE 'POUR MEMOIRE':

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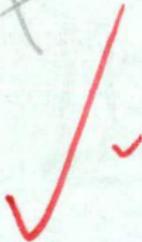
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You may like to see these
before your Envo. meeting with
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FRAME EXTERNAL/GENERAL

FCO TELNO 250 TO COPENHAGEN : THE COPENHAGEN EUROPEAN COUNCIL

1. I CALLED ON THE PRESIDENT OF THE COMMISSION TO DELIVER A COPY OF THE PRIME MINISTER'S REPLY TO SCHLUTER. DELORS WAS FRIENDLY, AND CALM THROUGHOUT APART FROM AN OUTBURST AGAINST THE DANISH PRESIDENCY WHICH HE DESCRIBED AS ''WEAK AND VICIOUS''.

2. DELORS READ THE PRIME MINISTER'S LETTER CAREFULLY. HE WELCOMED THE POTENTIAL FLEXIBILITY WE WERE DEMONSTRATING ON SET-ASIDE AND HE FIRMLY ENDORSED THE PRIMORDIAL IMPORTANCE WHICH WE WERE ATTACHING TO GETTING THE RIGHT DECISIONS ON AGRICULTURE. ON THE ABATEMENT HE SAID IT WAS CLEAR THAT WE WOULD NOT ACCEPT THE COMMISSION APPROACH. HE DID NOT WISH TO DISCUSS THE MATTER FURTHER WITH ME. HE HAD GOT THE MESSAGE.

3. DELORS THEN RETURNED TO THE AGRICULTURAL ELEMENTS OF THE COPENHAGEN PACKAGE. HE HOPED VERY MUCH THAT WE WOULD BE PREPARED TO SUPPORT THE COMMISSION'S AMENDED PROPOSAL ON OIL SEEDS. HE WOULD NOT BUDGE AN INCH BEYOND THAT AND WOULD NOT ACCEPT THE PRESIDENCY PROPOSAL. BUT HE DID THINK THAT ANDRIESSEN'S 30 NOVEMBER PROPOSAL WOULD ACHIEVE WHAT WAS NEEDED. I SAID WE WERE STUDYING IT CAREFULLY. DELORS HAD NOTHING TO SAY ON CEREALS. ON THE OTHER PRODUCTS HE EXPRESSED STRONG SYMPATHY WITH OUR DESIRE TO GET DECISIONS TAKEN AT COPENHAGEN, SO LONG AS THAT DID NOT IMPLY AN INTENTION TO PLUNGE THE EUROPEAN COUNCIL INTO DETAILED DISCUSSION OF INDIVIDUAL PRODUCTS. THE LATTER COURSE WOULD BE DISASTROUS AND WOULD LEAD TO NO RESULTS BUT A BOUNCE OF THE PRESIDENCY PACKAGE ON OTHER PRODUCTS MIGHT WORK.

4. COMING BACK THEN TO THE OVERALL IMPORTANCE OF AGRICULTURE IN THE COPENHAGEN PACKAGE, DELORS SAID THAT IN HIS VIEW OUR APPROACH OF GIVING THIS PRIMACY THROUGHOUT HAD BEEN THE RIGHT ONE AND WAS HIS OWN. HE WOULD TRY TO INSIST THAT DISCUSSION AT COPENHAGEN BEGIN ON THAT POINT. IF SATISFACTORY PROGRESS COULD NOT BE MADE ON IT, HE SAW LITTLE OBJECT IN TRYING TO PRESS OTHER ISSUES TO DECISIONS. I

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WELCOMED THIS APPROACH AND SAID THAT NOTHING WOULD BE MORE DAMAGING THAN TO NURTURE THE ILLUSION THAT A PACKAGE COULD BE AGREED AT COPENHAGEN ON THE OTHER POINTS WITH THE MAIN AGRICULTURAL DECISIONS BEING LEFT IN THE AIR. SUGGESTIONS SUCH AS THOSE GENSCHER WAS MAKING TO THE PRESS THAT WE WOULD DROP OUR INSISTENCE ON AGRICULTURAL REFORM IF WE GOT WHAT WE WANTED ON THE ABATEMENT WERE VERY WIDE OF THE MARK. DELORS SAID HE UNDERSTOOD THIS POINT WELL.

5. ON AGRICULTURAL BUDGET DISCIPLINE DELORS SAID HE SUPPORTED THE NEW APPROACH OF DEALING WITH EXISTING STOCKS OFF GUIDELINE (AND WITHOUT MENTION OF THE OILS AND FATS TAX). HE NOW REALISED THAT THIS WAS THE ONLY WAY TO AVOID A REAL TRAP IN 1992. HE THEN PUSHED HIS IDEAS ON THE MONETARY RESERVE WHILE RECOGNISING THAT THE LINE HE HAD TAKEN IN THE CONCLAVE YESTERDAY, IN PARTICULAR OVER THE FRANCHISE, HAS BEEN SURPRISING AND UNWISE. HE ARGUED THAT THE REAL CASE FOR THE MONETARY RESERVE WAS THAT IT AVOIDED UNCERTAINTY ABOUT WHERE THE RESOURCES WOULD COME FROM IF THE EXCEPTIONAL CIRCUMSTANCE PROVISION WERE TRIGGERED. WITHOUT IT THERE WOULD BE AN UNSEEMLY WRANGLE WHENEVER THAT HAPPENED, CONFUSION AND BAD DECISIONS. I SAID WE HAD NEVER ACCEPTED THE CASE FOR THE MONETARY RESERVE AND I DOUBTED IF WE WOULD NOW. BUT ONE THING WAS QUITE CERTAIN. UNLESS THE EXCEPTIONAL CIRCUMSTANCE PROVISION WAS TIGHTLY DRAWN AND UNLESS THERE WAS A SUBSTANTIAL FRANCHISE WHICH WOULD NOT IN ANY CIRCUMSTANCE BE COMPENSATED BY ADDITIONAL EXPENDITURE DISCUSSION WOULD GET NOTICE. THE 5 PERCENT FRANCHISE WHICH DELORS THEN MENTIONED WAS, I SAID, TOO SMALL. NOR WOULD WE ACCEPT THE ADDITIONAL FRENCH CRITERION FOR AN EXCEPTIONAL CIRCUMSTANCE RELATING TO VAGUE THREATS OF TRADE WARS. I GOT THE IMPRESSION THAT DELORS IS PREPARING TO DROP HIS SUPPORT FOR THE LATTER POINT AND THAT HE MAY BE WILLING TO JOIN IN A MOVE TO EXTEND THE FRANCHISE A BIT, BUT CERTAINLY NOT AS FAR AS OUR 15 PERCENT.

6. ON THE STRUCTURAL FUNDS DELORS SAID THAT HE HAD NO INTENTION OF BEING DRAWN INTO A BATTLE OVER THE DOUBLING PROPOSAL. HIS PROPOSAL WAS ON THE TABLE. IT WAS FOR THE MEMBER STATES TO SETTLE THE FIGURE THEY COULD AGREE. I SAID THAT WE HAD NOT APPRECIATED VARFIS' ESPOUSAL AT THE CONCLAVE OF THE DEMAND FOR 2/3 OF THE STRUCTURAL FUNDS TO GO TO THE BACKWARD REGIONS. THIS SEEMED TO US A DENIAL OF THE WHOLE COMMISSION APPROACH IN THAT IT WOULD INVOLVE SUBSTANTIAL REGIONALISATION OF THE SOCIAL AND AGRICULTURAL FUNDS. DELORS SAID HE AGREED WITH THIS CRITICISM. WE WOULD HEAR NO SUPPORT FROM HIM AT COPENHAGEN FOR THE 2/3 OBJECTIVE.

7. IN CONCLUSION DELORS SAID THAT HE WAS PARTICULARLY WORRIED

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ABOUT THE RELATIONSHIPS BETWEEN THE THREE LARGEST MEMBER STATES. HE FEARED THAT THE IRANIAN AFFAIR WOULD SOUR THE UK/FRANCE RELATIONSHIP. AND HE WAS IN DESPAIR ABOUT ANYONE GETTING THROUGH TO KOHL (HE SAID THAT WHEN HE HIMSELF HAD SEEN KOHL LAST WEEK IT HAD APPEARED TO COME AS A COMPLETE SURPRISE THAT THERE WAS A POSSIBLE BALANCED PACKAGE ON AGRICULTURE WITH ACCEPTANCE OF SET-ASIDE TO SUGAR THE PRICE REDUCTION PILL).

8. AT THE END OF OUR DISCUSSION I BRIEFED DELORS ON THE ANGLO-SPANISH TALKS ABOUT GIBRALTAR AIRPORT AND LEFT A PIECE OF PAPER WITH HIM. I SAID YOU HAD MADE A MAJOR EFFORT TO REACH AGREEMENT, DESPITE STRONG RETICENCE BY THE GIBRALTARIANS. WHAT WAS ON OFFER WAS A GOOD DEAL, WHICH WOULD OPEN THE WAY TO ADOPTION ON 7 DECEMBER OF THE CIVIL AVIATION PACKAGE. BUT THE SPANIARDS WERE STILL HESITATING AND TOMORROW'S ANGLO-SPANISH MINISTERIAL MEETING IN LONDON WOULD BE CRUCIAL. DELORS SAID HE WOULD READ OUR PIECE OF PAPER. HE MIGHT WELL THEN HAVE A WORD WITH GONZALEZ TO URGE ON HIM THE NEED TO OPEN THE WAY TO ADOPTION OF THE COMMUNITY PACKAGE.

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FROM THE PRESIDENCY

Making a success of the Single European Act
- Draft conclusions of the European Council

SN 3919/1/87

CHAPTER 1

BUDGETARY DISCIPLINE

AND

BUDGET MANAGEMENT

CHAPTER I : BUDGETARY DISCIPLINE AND BUDGET MANAGEMENT

INTRODUCTION (p 3)

Analysis

The introduction refers to the conclusions of Brussels European Council which said: "Parallel to the efforts being made by the member states in connection with their own budgets, the Community must submit the use of its resources to effective and binding discipline ... the arrangements decided upon at Fontainebleau must be strengthened in the light of experience ..."

It is important that anything agreed on budgetary discipline is legally-binding. **Para 19** has the effect of converting the whole of Chapter 1 into a legally-binding text. This is satisfactory to us. We therefore have no **points to make** on the introduction.

INTRODUCTION

1. Budgetary discipline shall be applied in conformity with the conclusions of the Brussels European Council (29/30 June 1987).

CEILINGS (p 3)

Objective - to postpone discussion until after European Council has agreed an overall ceiling

Analysis

The text proposes annual sub-ceilings for 1988-92 in addition to the overall OR ceiling. The original Commission proposal would have set the sub-ceilings as a sort of Jacob's ladder leading in steps to an overall ceiling of 1.3% GNP. In his letter to Heads of Government of 26 November (p 5: at A) Mr Schluter now proposes that the sub-ceilings should not be set until after the European Council has agreed the overall ceiling. Sub-ceilings would thus become a consequence of the overall ceilings. If the overall ceiling is low enough to be acceptable to us, sub-ceilings will be unnecessary because once the hump of expenditure in 1988 is overcome the level of EC expenditure should fall.

Others' Views

The Presidency have argued that sub-ceilings would strengthen budget discipline. All other member states are now likely to accept.

Points to Make

- We could not accept that sub-ceilings should be a Jacob's ladder leading to a ceiling of 1.4% GNP. We shall need to take a decision on the overall level of own resources when we have agreed other aspects of the negotiation. This, therefore, is an issue for the end of the negotiations not the beginning.

AGRICULTURAL EXPENDITURE/GUIDELINE (pp 3-5)

Objectives - emphasise rate of growth must be kept below rate of growth of GNP

- support off-guideline disposal of existing stocks with reduced guideline base
- to reach agreement on the basis of the proposal tabled at the Conclave (para 16 of Schluter's letter of 30 November at B) ie base of 27 becu in 1988, growth at 60% of GNP

Analysis

The Commission originally proposed that, on the basis of "real needs" in 1987 of 26.9 becu, the guideline should grow in line with GNP to 28.2 becu in 1988 and by the full amount of GNP growth in each year thereafter. The Presidency text still reflects that. Under the Presidency's new proposal, (p 1 of Schluter's letter of 30 December at B) to take existing stock disposal off-guideline, the guideline would grow at only 60% of GNP. The costs of stock disposal in 1988 would be deducted so as to reduce base figure to 27 becu for 1988. This would suit us well.

CEILINGS

3. The decision on the system of the Communities' own resources shall lay down both an overall own resources ceiling and annual ceilings for the period 1988-1992. It shall lay down a ceiling for commitment appropriations in 1992 and determine an orderly evolution for them, maintaining a strict relationship between commitment appropriations and payment appropriations ensuring their compatibility and enabling the ceilings for subsequent years expressed in payment appropriations to be kept to. The Commission for its part will only put forward proposals for commitment appropriations consistent with expenditure within the agreed ceilings and subceilings.

The Council for its part will also respect this principle.

The Communities' annual budgets for the financial years 1988 to 1992 shall be kept within those ceilings.

AGRICULTURAL EXPENDITURE

Agriculture guide-line

3. The annual growth rate of EAGGF Guarantee expenditure as defined below shall not exceed that of the Community GNP.
4. The expenditure to which this rule applies shall be that chargeable to Section III, Part B, Titles 1 and 2 (EAGGF Guarantee) of the budget, less amounts

Presidency also propose, and all others agree, that costs of depreciation of new stocks should be contained within the guideline.

Others' Views

There is a growing consensus for off-guideline stock disposal, shared by ourselves, the Commission, the Presidency, the Dutch and the French together with Spain and Portugal (who want stock disposal off-guideline and off-budget so that they do not have to pay for getting rid of stocks accumulated before they joined the Community). But no one else supports off-budget financing.

Our main allies on the need for tighter control of agriculture spending generally will be the Dutch. In addition, some southern states may also fear that growing CAP expenditure may make it hard for the Community to find increased spending in areas which benefit them, principally structural funds.

Presidency and Commission may argue on the off-guideline disposals option that 1988 base figure should be adjusted upwards to take account of non-adoption of the oils and fats tax (revenue from which would be 1.3 becu in 1988).

Points to Make

- Welcome and support Presidency proposal to take the disposal of existing stocks outside the guideline. They represent cost of the past, not the continuing cost of agricultural regimes. By same token agree that cost of depreciating new stocks should be covered by guideline. Therefore support proposal that guideline growth should be limited to 60% of GNP.

- The guideline is intended to represent the amount of agricultural expenditure the Community can afford. The Community can only achieve a better balance between agricultural expenditure on the one hand, and non-obligatory expenditure on the other, if the guideline works as a real limit on spending.

- This is not to call for a reduction in CAP spending. Overall CAP expenditure will continue to grow and to benefit from the buoyancy of Community GNP, to the growth of which the guideline will continue to be related.

Our Response

[If others say guideline should reflect non-adoption of oils and fats tax]: Refer to speaking note at C.

[If others call for oils and fats tax] Refer to speaking note at Ref D.

[If others argue for increases in guideline in line with Community GNP]

- This would prevent any fall in the proportion of Community spending on agriculture, and hence any increase in the proportion allocated to non-agricultural spending.

corresponding to the disposal of ACP sugar, food-aid refunds, sugar and isoglucose levy payments by producers, and any other revenue raised from the agricultural sector in the future.

For the financial years 1988 to 1992, the following expenditure shall also be financed from the above allocation:

- costs connected with the disposal and depreciation of existing agricultural stocks with a view to restoring a normal stock situation over the period up to 1992;⁽¹⁾
- systematic depreciation costs for newly formed stocks commencing at the time they are established.

The Council shall enter each year in its draft budget the necessary appropriations to finance the costs of stock depreciation. Furthermore, Council Regulation 1883/78 is to be modified so as to create a legal obligation to proceed to stock depreciation over the period in question so as to arrive at a normal stock situation by 1992.

The Commission undertakes to make use of the appropriations in question in the early months of the budget year.

(1) Excess stocks by sector will be defined in accordance with the definition in the Commission's present annual accounts

- Would mean that agricultural spending would grow up to 1½ times as fast in real terms as the existing guideline, had it been enforced, would have permitted. How would we reconcile the formula with Hague European Council conclusions "... a better control of total production must be ensured so that it is better adjusted to the market situation with the result that the share of public expenditure claimed by agriculture can be reduced" or Brussels (June) conclusions: "Budgetary discipline must be implemented in such a way that it does not conflict with the effort made by the Community to achieve a better balance as between the various categories of expenditure." If the rate of increase in CAP spending is to be the same as the rate of increase of overall resources, we shall not easily find that better balance.

STABILISERS (p 5)

Analysis

An innocuous text cross-referring to Chapter IV on stabilisers; but we can usefully reinforce it to ensure that stabilisers are effectively applied to reinforce the guideline.

Points to Make

- To make this paragraph operational, suggest add at end "to enable the Commission to manage the budget within the agreed guideline".

BUDGET MANAGEMENT (pp 5-6)

Objectives

- To resist any weakening of Presidency text. If the guideline is to be an effective constraint on agricultural expenditure, Commission must have the powers they need to operate it.

Analysis

The Presidency text is designed to ensure that the Commission have more information about agricultural expenditure in member states, and that they can operate the stabilisers effectively. Since the Foreign Ministers' Conclave, the text has been strengthened in order to ensure that payments cannot be made to member states unless funds are available in the budgetary chapter concerned.

The text as it now stands reflects the procedure agreed this year whereby, instead of submitting claims for payment 2 months ahead of expenditure, claims are made in the month in which expenditure occurs. We would have preferred a change to a full reimbursement mechanism. But this text represents a considerable improvement over previous practice. We can accept it, and if others do, need not intervene.

Others' Views

The present Presidency text is broadly satisfactory to most member states, although the French are uneasy about the additional Commission powers. It meets our requirements and those of the Dutch to improve the management of agricultural guarantee expenditure. The southern member states, who are generally opposed to improved budgetary management, have not expressed strong views on the text.

5. The reference basis for the definition of the annual allocations for EAGGF-Guarantee expenditure shall be established by reference to real requirements for 1987. This reference basis shall be reduced after 1992 to reflect the new stock situation.

6. The annual maximum allocation⁽¹⁾ for the EAGGF-Guarantee section for a given year shall be the real requirements of the 1987 budgetary year multiplied by the growth rate of GNP between 1987 and the year in question.

STABILIZERS

7. New agricultural stabilizers will be introduced according to the decisions contained under Chapter IV supplementing the existing agricultural stabilizers.

BUDGET MANAGEMENT

8. Budgetary management of the EAGGF-Guarantee expenditure shall be strengthened with a view to enabling the Commission to operate an efficient "early warning system" concerning the development of expenditure of the individual EAGGF expenditure chapters. Before the beginning of each budget year the Commission shall define expenditure profiles for each budget chapter based on a comparison of monthly expenditure with the profile of the expenditure over the three preceding years. The Commission shall submit monthly reports thereafter on the development of actual expenditure against profiles. Where the Commission finds, thanks to the early warning system, that the rate of development of real expenditure is exceeding the forecast profile, or risks doing so, it shall use the management measures at its disposal including those which it has under the stabilizing measures, to remedy the situation. If these measures are insufficient, the Commission shall examine the

(1) p.m. The stabilization mechanism for oils and fats.

Points to Make

[If necessary]

- If the guideline, and stabilisers, are to be effective the Commission need powers to operate stabilisers for each commodity, and to take such additional measures as may be required each year in order to ensure that the budget provision for each commodity is respected.

- The Presidency text should bring about a substantial improvement in the management of agricultural guarantee expenditure. It will enable Commission to monitor expenditure more effectively so as to be able to trigger corrective steps when necessary. As such it deserves our strong support.

functioning of the agricultural stabilizers in the relevant sector and, if necessary, shall present proposals to the Council calculated to strengthen their action. The Council shall act within a period of two months in order to remedy the situation.

9. So as to enable the Council and the Commission to put the above rules into application, measures shall be taken to accelerate the transmission and treatment of data supplied by the Member States on agricultural expenditure within each marketing organisation so as to ensure that the rate at which appropriations in each chapter are used is known with precision one month after expenditure has taken place. Present agriculture legislation will be adapted to ensure this. The special provisions concerning the financing of the CAP decided for 1987 (switch) shall continue to apply. Payment of Community advances are conditioned on Member States complying with their obligation to make available to the Commission the information set out above justifying Community payment. (1)

A realistic schedule shall be established for the clearance of EAGGF-accounts.

(1) The Commission declares that prudent management necessitates that payment of monthly advances by the Commission only be executed on the basis of the above information and to the extent that, as under the budgetary procedure for other compulsory expenditure, the availability of credits is established by chapter, i.e. in fact by common market organisation.

Where credits are not available, the Commission will propose corresponding transfers to the budget authority

PRICE FIXING (p 7)

Objectives

- We can accept the Presidency text.

Analysis

The text is designed to prevent the Commission from putting forward price proposals which would breach the agricultural guideline. Drafted by David Williamson, it also carries the implication that the Commission will not change its proposals in a way which would breach the guideline. This is very helpful because, although the annual price fixing decisions are taken by QM, if the Commission stand by their proposals the Council can only change them by unanimity. We should support Presidency text without drawing attention to this feature, which some have not spotted. The second sub-paragraph is a further protection against costly decisions being taken by the Agriculture Council.

Others' Views

There has been little discussion of this paragraph at the last two meetings of Foreign Ministers. But we should be ready to defend it in the unlikely event that it should come under attack.

Points to Make

- None.
- [If others criticise text] Proposal in the text that the Commission's price proposals shall be consistent with the guideline makes a modest but useful contribution to improved budget discipline. We support the text as it stands.
- It has been accepted by everyone in discussion until now. Believe we have enough difficult issues to tackle at our level without reopening those agreed by our Foreign Ministers.

EXCEPTIONAL CIRCUMSTANCES (pp 7-8)

Objectives

- To ensure that any reference to exceptional circumstances is limited to dollar/ecu movements above a threshold ["franchise"].
- To oppose a franchise expressed in figures; it should be in percentage terms.

Analysis

Our requirements are that any "exceptional circumstances" should be confined to changes in the dollar/ecu rate; that there should be a threshold of a 10% change in dollar/ecu rates before exceptional circumstances are triggered; that the mechanism should operate in both directions, with spending reduced when the \$ rises significantly; that only excesses over the threshold, not total excesses, should result in

PRICE-FIXING

10. The Commission's price proposals shall be consistent with the limits laid down by the agricultural reference framework.

If the Commission considers that the outcome of the Council's discussions on these price proposals is likely to exceed the costs put forward in its original proposal, the final decision shall be referred to a special meeting of the Council attended by the Ministers of Finance and the Ministers of Agriculture which shall have the sole power to adopt a decision.

11. The agricultural allocation shall be respected each year.

EXCEPTIONAL CIRCUMSTANCES

12. The level of EAGGF expenditure may be influenced by monetary factors. A change in the ECU/\$ market rate resulting in an increase of EAGGF expenditure exceeding the reference framework by 500 MECU in real terms is considered creating an exceptional circumstance.

A breach by a third country of its international undertakings having serious repercussions on the world market may also create an exceptional circumstance.

13. When exceptional circumstances are likely to reduce agricultural expenditure for a budgetary year in a significant way, the reference framework may be modified by the Council, acting by qualified majority on a Commission proposal, to take account of this situation.

EXCEPTIONAL CIRCUMSTANCES (continued)

increases/reductions in spending; and that the periods with reference to which variations in the dollar/ecu rate are measured should be carefully defined.

The Commission estimates that every 1% drop in the dollar/ecu rate costs 80 mecu. We therefore consider that the 500 mecu threshold proposed by the Presidency should be replaced by a 10% threshold (a) because 500 mecu = only 6.25% and (b) because a threshold expressed in mecu could become less of a hurdle if the costs of a 1% change in the dollar/ecu rate were to rise.

The reference at para 12 to exceptional circumstances being triggered by the actions of third countries is a French idea and clearly unacceptable. So too is the Commission's proposal for a monetary reserve, taken up in Schluter's letter of 30 November (at B), which includes two annexes showing how the reserve might work. Delors' idea is that exceptional circumstances would apply if other countries breach international obligations. The monetary reserve (which would start at 1 becu would cover the totality of any increase in expenditure which occurred when the \$/ecu rate was raised by more than 5%. We must make it clear that we cannot accept either of these proposals, and are only prepared to countenance exceptional circumstances which are tightly defined and strictly operated.

Others' Views

The Dutch are strong exponents of tightly-defined exceptional circumstances but have flirted with the monetary reserve, which the Germans now oppose. The French press their "third country" loophole (their concern is of course with the US). The Commission supported by Greece, Ireland and Denmark, Luxembourg, Belgium, Netherlands, Italy and Portugal favour the monetary reserve idea.

Points to Make

- The guideline must be an effective limit on expenditure. This means that there should be none of the loopholes which have allowed the guideline to be exceeded in every year since 1984.
- However, can see case for a mechanism which would raise or lower the guideline, in the event of major changes in the ecu/dollar market rate.
- Only major changes are relevant however. Such a mechanism would need a franchise. One could not be for ever tinkering with the guideline. And it would be illogical to set the franchise in ecu terms since its significance would then depend on changing assessments of the cost of dollar/ecu fluctuations. We should instead go for a percentage number. I propose 10%. And only changes above the franchise should be reflected in a change in the guideline. Otherwise the franchise becomes almost meaningless.
- Such a mechanism would need to be operated strictly, with appropriate technical arrangements for establishing the

Points to make - continued

measurement period and reference period for determining the dollar/ecu rate.

- Similarly, if the dollar were to rise, this should lead to genuine savings, not to increases in spending elsewhere. The mechanism must be symmetrical.

- It is disturbing to see in the text a reference to exceptional circumstances being triggered in the event of a breach by a third country of its international undertakings. How would that be defined, by whom decided? It would once more make guideline subject to change for political reasons. And I fear that there will be no precise Uruguay Round undertakings for us to monitor for some years yet.

- It would be wrong to agree to an exceptional circumstances regime which made the agricultural guideline, and budget discipline, a laughing stock. That would be to repeat our past mistakes. There must be no exceptional circumstances other than variations in the \$/ecu rates.

- Similarly, we cannot have a proposal on claw-back such as the last part of para 13, which refers to "barring aberrant developments". I cannot help feeling that "aberrant" developments would always be invoked. Who defines "aberrant"? In logic, we should, but that suggestion might well itself be seen as aberrant, given the difficulties we have had in defining "exceptional". I have a better idea - forget "aberrant". If there is a claw-back regime, it should work properly, not with a let-out clause.

Our Response

- [If others argue that more widely defined exceptional circumstances are essential] More widely defined exceptional circumstances would undermine fatally both the agricultural guideline and exceptional circumstances themselves. Any exceptional circumstances must be capable of being strictly defined according to objective criteria. Otherwise, every year will be exceptional. We must limit exceptional circumstances to changes in the dollar/ecu rate which are transparent and easily defined.

- [If others argue for a monetary reserve] Many member states oppose creation of a monetary reserve, (of the sort set out in the annexes to the President's letter of 30 November), because this would be incompatible with the whole notion of a strict guideline. There seems little point in our agreeing to measures to improve budget discipline, if we then set up a monetary reserve which weakens that discipline.

OTHER COMPULSORY EXPENDITURE (p8)

Analysis

Text at para 14 reflects the views of all member states and causes us no difficulties.

NON-COMPULSORY EXPENDITURE

Objectives

- To limit any commitment by the Council to an increase in non-compulsory expenditure to the minimum necessary to secure agreement on satisfactory commitments on overall expenditure control.
- Specifically, to oppose the Presidency text and press for an earlier text on the lines attached (Ref F).

Analysis

- The Presidency text (paras 15(a) and 16) represents a Council undertaking to respect the Treaty maximum rate only for the rump of non-obligatory expenditure which is not subject to multi-annual programmes. It effectively allows the structural funds, research and IMPs to grow faster than the maximum rate. It is supported by Greece, Italy, Spain, Portugal and Ireland.
- The alternative text at (Ref F) has been supported by ourselves, FRG, France and the Netherlands. It seeks to build on the 1984 Fontainebleau conclusions by ensuring that the Council does not adopt a position which will allow the maximum rate to be exceeded.
- The Presidency text (second para of (b)) is a nod in the direction of the 1984 budget discipline conclusions but it still excludes the bulk of non-obligatory spending from the maximum rate discipline.
- In practice, we shall not reach agreement on this text until after agreement has been reached on the rate of growth of the Structural Funds. If we eventually reach agreement involving an increase in the Structural Funds within a maximum of $1\frac{1}{2}$ x maximum rate, we shall wish to secure the kind of language at Ref G - which makes clear that the Council will only agree to exceed the maximum rate to the extent necessary to fulfil its commitments on the Funds.

Others' Views

- The southern states, and Ireland, who favour the Commission's proposals for a doubling in the size of the structural funds, hope that adoption of the Presidency text would weaken financial control over non-agricultural expenditure.

Points to Make

- The June European Council conclusions said, and I quote: "The European Council considers that the arrangements decided upon at Fontainebleau must be strengthened in the light of experience".
- The Fontainebleau European Council conclusions said that the Council would "comply with the maximum rate throughout the budget procedure as defined in Article 203 of the Treaty of Rome. At

When the agricultural allocation for a budgetary year is likely to be exceeded in a significant way because of exceptional circumstances, despite application of the measures referred to in paragraph 9, the reference framework for the year in question may be modified by a qualified majority, on a Commission proposal, to take account of this situation. This modification shall in no case result in an increase of the reference framework greater than an amount corresponding to the budgetary effects of the exceptional circumstances after deduction of the amount referred to in paragraph 12,1. Furthermore this modification shall not have the effect of reducing the annual allocation related to the multi-annual financial targets fixed by the Council regarding the Structural Funds, research and the IMP's.

Where the initial agriculture allocation is exceeded during a budgetary year the Council shall, during the following two financial years, ensure that, barring aberrant developments, agricultural expenditure is brought back within the limits imposed by this guideline. In so doing, the Council shall concentrate its activity primarily on the production sectors responsible for the failure to adhere to the guideline.

OTHER COMPULSORY EXPENDITURE

14. The Council shall adopt each year the reference framework for the other compulsory expenditure (commitment appropriations and payment appropriations) with due regard for the Community's legal obligations.

NON-COMPULSORY EXPENDITURE

15. The Council, for its part, shall apply the provisions of Article 203(9) of the Treaty in such a way that the following guidelines will be respected :

the first reading the Council will keep the increase in non-compulsory expenditure to a level no higher than the maximum rate. At the second reading, the Council will adopt a position such that the maximum rate is not exceeded."

- The Presidency's text is not, as drafted, consistent with these conclusions. It would not strengthen budget discipline. Instead, we should support the alternative text considered by the Foreign Affairs Council on 23/24 November. This did reflect what heads of Government agreed in Fontainebleau and Brussels.

Our Response

- [If Presidency argue that second para of (b) reaffirms 1984 budget discipline conclusions]: It would do so if it applied to the entire text but it appears to apply only to the relatively small proportion of non-obligatory spending covered by para 15(b).

- [If no consensus for re-introduction of alternative FAC text]: The Presidency text cannot be the basis of an agreement. But it is important that discussions should not become bogged down on this point at this stage. Suggest we come back to it after we have discussed the Structural Funds.

STRENGTHENING OF BUDGETARY MANAGEMENT (pp 9-10)

Objective

- Support the Presidency text in order to help tighten up budget management.

Analysis

- Paragraphs 17-19, reflect UK texts designed to tighten up budgetary management within the Community. They meet a number of our requirements, particularly on negative reserves (a form of deficit financing which we oppose).

Others' Views

- The Dutch, French and, to a lesser extent, Germans have supported us. The Italians and Greeks have been our most vocal opponents. The Presidency has come a long way towards meeting our wishes.

Point to Make

- [If others attack negative reserves] Welcome Presidency draft tightening up on important aspects of budget management. Clear definition of negative reserves, and limitation on their size, a valuable step forward. This text already represents the minimum changes necessary to ensure effective budget management.

- (a) progression of the NCE which have been the subject of a multiannual financing decision by the Council for the period 1988-1992 (Structural Funds, IMP, research) ensuring that such decisions will be honoured;
- (b) progression of NCE other than that referred to in (a) above equal to the maximum rate of increase communicated by the Commission.

The procedure laid down in Article 9 of the Council conclusions on budgetary discipline will continue to apply for these expenditures.

The application of these two guidelines will result in a rate of increase of NCE which the Council will consider as a maximum during all the budget procedure.

- 16. The Council will aim to agree with the European Parliament, after the European Council in Copenhagen, an understanding on the implementation of the Copenhagen Decisions covering the whole period up to 1992.

STRENGTHENING OF BUDGETARY MANAGEMENT

- 17. In the interests of better budgetary management, carryovers of differentiated appropriations shall no longer be automatic; certain carryovers justified by technical reasons may be decided by the Commission on the basis of specific criteria laid down in the financial regulation. (1)

The restoration of certain appropriations following decommitments shall only be possible by decision of the Commission on the basis of specific criteria laid down in the rules for implementation of the financial regulation; decommitted appropriations shall otherwise be automatically cancelled. (1)

(1) Cf. Annex to Annex I in doc. 9643/1/87

LEGAL INSTRUMENTS AT PARA 19 (p 10)

Analysis

Para 19 sets out the mechanism for converting the text at paras 1 to 18 of Chapter I into binding legal texts. As such, it meets our requirement that whatever is agreed at Copenhagen should have legal force. We have no points to make on this paragraph.

The strengthening of these principles of annuality cannot call into question the achievement of the objectives fixed for Communities policies.

18. The size of any future negative reserves in the budget shall be limited to 200 mio ECUS.

19. All the elements set out above are legally binding decisions on the general principles of budgetary discipline. Corresponding legal texts will be adopted to replace the 1984 decision and will remain in force for the duration of the Own Resources Decision. Moreover:

Point 2 will be incorporated in the Own Resources decision.

The "stabilisers" referred to in point 7 will be incorporated into the agricultural market organisations.

Points 9, 17 and 18 will be implemented by a revision of the existing financial regulation.

A general revision of the Financial Regulation will be carried out before the end of 1988.

CHAPTER II : THE STRUCTURAL FUNDS

OBJECTIVES

- To limit any commitment by the Council to an increase in the Structural Funds to the minimum necessary (within the maximum rate or at most 1½ times the maximum rate) to secure agreement on satisfactory commitments on overall expenditure control.
- To improve the negotiability of such an outcome by proposing that the additional resources should be directed principally at the poorer member states, if possible concentrating on Spain and Portugal.
- To protect as far as possible the present UK share of receipts from the Funds, within the overall aim of keeping our net contribution as low as possible.

OTHERS' OBJECTIVES

- At the Brussels European Council all other member states agreed to fix a "financial objective" for the Structural Funds to be reached in 1992.
- The Southern member states and Ireland consider the Commission's proposal for a 100% increase (in terms of commitments) as the minimum requirement, arguing that this is required to compensate for the benefits to the other member states of the completion of the internal market. They will also want to increase the level of concentration of the Funds on the poorest member states, arguing in particular that two-thirds of the total resources of the Funds should be concentrated on backward regions.
- France favours concentration on Spain and Portugal alone. Germany considers that it will be necessary to concentrate on the four poorest member states.
- While France, Germany and Netherlands want to constrain expenditure within the maximum rate they will be prepared to go beyond it to secure a settlement. At his recent meeting with the Prime Minister M Chirac proposed that the UK, France and Germany should agree a 40% increase. The Dutch and Germans have been considering the idea of allowing expenditure to exceed the maximum rate for one or two years only.

OPENING SPEAKING NOTE

- Despite certain difficulties, we are prepared to accept the Presidency's text on the Structural Funds in its entirety, subject to satisfactory formulation of the financial objective. We believe it represents a skilful balance between the different interests of member states and correctly leaves certain highly technical issues to be dealt with in the Framework Regulation. We therefore propose that we should agree the text as it stands, and concentrate on the key issue which has yet to be addressed: the level of funding.

CHAPTER II

STRUCTURAL FUNDS

OBJECTIVES (p 12)

ANALYSIS

The "five priority objectives" for the Structural Funds are broadly those endorsed by the June European Council. The UK will benefit in particular from Objectives Nos 2, 3 and 4. There is unlikely to be any substantive discussion.

POINT TO MAKE

- Agree Objectives as they stand.

METHOD FOR SELECTING REGIONS CONCERNED BY OBJECTIVES 1 & 2
(pp12-13)

Regions concerned by Objective 1

ANALYSIS

The UK can accept the proposed method of drawing up the list of Objective 1 regions. The Commission may try to insist that they, not the Council, should fix the list. This is not an important issue for us, since the criterion (75% of average per capita GDP) is sufficiently precise for the list to write itself. Germany, Belgium and Greece may argue against the third indent, which allows regions whose per capita GDP is close to 75% to be included. Spain will resist, since a number of Spanish regions are very close to the 75% level. We have some interest in moving these Spanish regions in to the backward region category, since it would reduce competition for UK regions in the Objective 2 list, but need not intervene on this point.

POINT TO MAKE

- Agree Presidency text.

OBJECTIVES

1. Community operations under the structural Funds, the European Investment Bank and the other financial instruments shall support the achievement of the general objectives set out in Articles 130 A and 130 C of the Treaty by contributing to the attainment of five priority objectives:
 - promoting the development and structural adjustment of the less-developed regions ("Objective No 1");
 - converting the regions, border regions, or part regions (including employment areas and urban communities) seriously affected by industrial decline ("Objective No 2");
 - combating long-term unemployment ("Objective No 3");
 - facilitating the occupational integration of young people ("Objective No 4");
 - with a view to reform of the common agricultural policy, speeding up the adjustment of agricultural structures and promoting the development of rural areas ("Objective No 5").

METHOD FOR SELECTING REGIONS CONCERNED BY OBJECTIVES 1 AND 2

Regions concerned by Objective No 1

2. The Council shall fix the list of the structurally less developed regions concerned by Objective No 1 in the comprehensive regulation.

The following regions shall be included in the list:

- Regions⁽¹⁾ whose per capita GDP is lower than 75 % of

(1) Administrative level NUTS II.

Regions concerned by Objective No 2 (p 13)

ANALYSIS

We can agree the text as it stands. Germany and Greece may argue that the Council and not the Commission should draw up the list of regions of industrial decline. Provided that the criteria are sufficiently precise, this is not an area of concern to us. At the conclave we secured an extension of the period before the criteria are reviewed from two to three years.

POINT TO MAKE

- Can agree to proposed text.

GEOGRAPHICAL CONCENTRATION (pp 13-15)

Role of the Funds (paragraph 4)

ANALYSIS

The Commission want to use the Funds as set out in the table (pl4). We want the Regional Fund to be used only for the first two Objectives (backward and industrially declining regions), the Social Fund to be used exclusively for the horizontal Objectives 3 and 4 (long term unemployment and youth training) and EAGGF Guidance to be used only for the agricultural objective (5). To accept an ERDF contribution to Objective 5 would reduce the available funds for declining industrial areas, where we need to secure the bulk of our receipts. We might be able to accept a very small ERDF contribution to a limited number of rural regions, provided the Highlands and Islands and mid-Wales were included. The Commission are known to be thinking along these lines with a list of 7 such regions, including the two in the UK.

The Presidency text gets round this difference of opinions by making provision whereby criteria for the use of the three Funds outside their principal objectives will be settled in the Framework Regulation. This is acceptable to us since the Framework Regulation requires unanimity.

POINT TO MAKE

- Can agree to proposed text.

the Community average, taking the figure for the three last years ;

- Northern Ireland and the French Overseas Departments ;
- other regions whose GDP per capita is close to that of regions mentioned in indent 1 and for which particular reasons exist for their inclusion on the list.

The list of regions shall be valid for five years. On expiry of the five years period the Council, acting by qualified majority on a Commission proposal, shall decide on a new list.

Regions concerned by Objective No 2

3. The Council shall fix in the comprehensive regulation the socio-economic criteria governing the choice of regions, border regions, employment areas and urban communities concerned by Objective No 2. The criteria may be revised by the Council acting by qualified majority on a proposal of the Commission after 3 years.

The Commission shall, under the advisory Committee procedure, draw up the list of such regions, border regions, or part regions (including employment areas and urban communities).

GEOGRAPHICAL CONCENTRATION

4. The structural Funds shall contribute, each according to the specific provisions governing its operations, to the attainment of Objectives Nos 1 to 5 on the basis of the breakdown given below :

Degree of concentration (paragraph 5)

ANALYSIS

The Presidency text attempts to balance the conflicting interests of Southern and Northern member states. The first indent calls for "significantly higher" receipts for backward regions. This is less than the 66% being demanded by the Southerners (the regions in question currently receive 57%), but is acceptable to us as the least we will get away with. Mr Schluter's letter of 20 November refers to the proposal to concentrate two-thirds of the Funds on the backward regions (those covered by Objective 1). We should fight hard to ensure that two thirds (66%) is not reinserted, since this could result in an increased UK contribution of £60 million in 1992 even if the maximum rate is not exceeded (see Table III of the Ready Reckoner). The second indent is based upon the Commission proposal. It is acceptable. The third indent is a compromise between Northern demands that 80% should be a ceiling and Southern demands that 80% should be a floor. All our ideas on concentrating the Structural Funds on the four poorest member states are based on 80% of the ERDF going to backward regions. The fourth indent is just a statement of what would almost certainly happen as a result of the first and second indents. The fifth indent is unobjectionable. At the Conclave the Foreign Secretary indicated we could accept this entire paragraph in the context of an overall settlement, despite the difficulties it posed for us.

POINT TO MAKE

- As indicated at the Conclave, we would be prepared, in the interests of reaching agreement, to accept paragraph 5 as it stands, despite the significant extra costs involved for the UK.

- Objective No 1 : ERDF, ESF, EAGGF Guidance Section,
- Objective No 2 : ERDF, ESF,
- Objective No 3 : ESF,
- Objective No 4 : ESF,
- Objective No 5 : EAGGF Guidance Section, ESF, ERDF.

Operations falling outside the primary missions of the ERDF (to promote Objectives 1 and 2), the ESF (to promote throughout the Community Objectives 3 and 4) and the EAGGF Guidance Section (to promote throughout the Community Objective 5) shall be guided by criteria to be laid down by the Council in the comprehensive regulation.

5. A major effort shall be made to concentrate budgetary resources on Objective No 1. The total of commitment appropriations assigned to regions concerned by Objective No 1 shall develop in such a way that these regions will receive Community contributions significantly higher than those currently received.

The annual increase in the commitment appropriations assigned to Objective No 1 shall be at least equivalent to the overall annual increase in the commitment appropriations for the Structural Funds.

The ERDF shall over the period 1988-92 devote 80 % of its appropriations to Objective No 1.

The share of contributions of the ESF and the EAGGF Guidance Section to regions covered by Objective No 1 cannot, on an annual basis, be lower than the average percentage in 1986-87 of commitment appropriations from those two Funds enjoyed by the regions concerned.

The Commission shall, in the annual reports which it submits under Article 15, demonstrate in particular what progress has been made towards achieving the Objectives

DIFFERENTIATION OF THE COMMUNITY CONTRIBUTION (p 15)

ANALYSIS

This relates to the modulation of grant rates ie the percentage contribution made by the Commission to any given project. The Presidency are thus supporting the Commission's proposal to set two bands for all three funds: 50-75% for backward regions, 25-50% for other regions.

At the Conclave we suggested that this essentially technical matter should be left for decision in the Framework Regulation. The Germans, Dutch, Irish and Portuguese all made detailed points.

In practice, provided we can be sure of the allocation of each fund by objective, modulated grant rates should not have any effect on our overall share of the funds, so this issue should not be a sticking point.

POINTS TO MAKE

- At the Conclave we suggested that this technical matter should be left for decision in the Framework Regulation. We have made clear we are prepared to accept some form of modulation as proposed by the Commission, but it is clear from the detailed points made in discussion at the Conclave that member states are not yet ready to take decisions on this issue.

- [If agreement has been reached on all other aspects of the Structural Funds except the level of funding] We are prepared to accept the Presidency formulation in the interests of reaching agreement.

BREAKDOWN OF THE APPROPRIATIONS AMONG MEMBER STATES (p 15)

ANALYSIS

The Presidency formulation exactly meets our needs. It is likely to be resisted by the Commission, who want to secure maximum freedom of manoeuvre for themselves in allocating the funds. They have proposed that 75% of the total allocated to backward regions should be shared out amongst member states, with no other quotas or indicative allocations. Most other member states are likely to support us on this issue.

POINTS TO MAKE

- UK fully supports Presidency proposal.

- [If Commission oppose] We have made real effort to meet others on Structural Funds text though much of it very difficult for us.

- Have now got very close to agreement on a number of difficult

set out above ; it may, to ensure progress in achieving these Objectives, make any appropriate proposals that it considers necessary.

DIFFERENTIATION OF THE COMMUNITY CONTRIBUTION

6. Community fund assistance under the different objectives set out in Article 1 of the Commission's proposal will be subject to the following limits :

- maximum 75 % of total cost and as a general rule minimum 50 % of public expenditure for measures applied in the regions defined for action under Objective No 1 ;
- maximum 50 % of total cost and as a general rule a minimum 25 % of public expenditure for measures applied in other regions.

The Commission will take full account of the requirements of the action in question, including the facility of the Member State concerned to provide its share of the necessary finance.

Preparatory studies and technical assistance measures will be subject to special rules to be fixed in the comprehensive regulation.

BREAK-DOWN OF THE APPROPRIATIONS AMONG MEMBER-STATES

7. The comprehensive regulation will contain provisions regarding indicative shares of commitment appropriations under the ERDF in order to facilitate the Member States' programming of operations falling under the ERDF.

aspects. Hope we can avoid reopening issues which would then lead to other parts of package being called into question.

LEVEL OF FUNDING (p 16)

ANALYSIS

The Presidency has still not come forward with a compromise on the level of funding. Instead they have left the 1992 figure blank. We would rather not formulate the financial objective in terms of an overall increase preferring instead an objective for the increase in the receipts in the four poorest member states, since those member states are more likely to accept a smaller overall increase in the size of the funds if they are assured of a significant increase themselves.

The Presidency text shows that the eventual financial objective for the Funds will be expressed in money terms, not as a percentage. Table I of the attached ready reckoner gives the equivalents.

POINTS TO MAKE

- The Community has long been committed to the growth of the Structural Funds. They have grown by over two-thirds in payments terms since 1984. We would expect them to go on growing. But it makes no logical or financial sense to devise a figure for future growth of the Funds which is unrelated to what the Community can afford, unrelated to GNP growth, and unrelated to the needs of the less prosperous member states who should be the principal beneficiaries from the Funds.

- We calculate that there is already scope for the Structural Funds to grow by about 35 per cent by 1992 [payments in money, not real, terms] without the maximum rate being exceeded, provided restraint is exercised in other areas of non-obligatory expenditure.

- We are already looking at how the Funds can best be devoted to the areas of greatest need. If any increase in the Funds is not spread evenly among all member states but is devoted to the less prosperous then the increase for those member states could be that much larger. That would involve some adjustment by others. The UK would be willing to play our part in that.

- The right way to proceed is to define a financial objective not for total growth, but for the individual receipts of the less prosperous member states, in particular Spain and Portugal, bearing in mind, of course, that the Parliament has the last word.

- An approach of this kind would allow a significant increase in the resources devoted to the neediest member states under the Funds, an increase for which we could reasonably set a financial objective while maintaining overall budgetary discipline. We calculate that if the richer member states are prepared to make sacrifices there is scope within the maximum rate for an increase of some 70% in money terms (payments) [45% in real terms] in the

LEVEL OF FUNDING

8. The commitment appropriations for the structural Funds taken together shall be increased in real terms between 1987 and 1992 from about 7.000 tomio.ECUS.

PROCEDURE

9. The Council shall adopt the comprehensive regulation in accordance with the principles set out above before 31st March 1988.

receipts of the four least prosperous member states, provided restraint is exercised in other non-obligatory expenditure.

- This would involve a real transfer of resources since the benefits of increased expenditure would not accrue to the wealthier member states. At the same time, it would represent a prudent use of our overall resources, something which must also be of concern to all of us.

RESPONSE TO OTHERS' ARGUMENTS

[In response to proposal that two-thirds of the Funds should be devoted to Objective 1 (backward) regions] Cannot agree to the prior allocation of a substantial part of all three Funds to backward regions. We accept that there is a case for this under the Regional Fund where we can agree that 80% of the total should go to backward regions. But we support the Commission approach of allocating the Social and Agricultural Funds according to objective criteria. They should tackle the problems of long-term unemployment, youth training and reforming agricultural structures wherever they occur. We believe the Presidency proposals set out in paragraph 5 of the note are generous to the poorer member states.

[In response to sustained pressure for an overall financial objective for the Funds] Do not understand the advantage of a global financial objective for the Funds. What is needed is more effective use of the Funds plus greater concentration on areas in greatest need. The UK would therefore support financial objectives for the increase in the Funds to be devoted to the less prosperous member states.

- An arbitrary percentage increase cannot be the basis for sensible financial planning. The maximum rate provides a measure of what the Community can afford. Within the maximum rate we need to consider how best we can address the problems of the poorest member states.

- UK agrees that the current balance of the budget is wrong. But the wrong way to achieve a balanced budget is simply to spend more in the area of Community spending where budget discipline has applied until now.

[In response to argument that cohesion is necessary balance to internal market]: Cohesion will be strengthened by the removal of internal barriers, and all member states should benefit from the single market. Nevertheless, as I have made clear, we recognise the problems of the less prosperous member states and have proposed that we should set a financial objective specifically to meet their needs.

- [If others argue for an increase of one and a half times the maximum rate]: We agreed at Fontainebleau in 1984 to aim to keep expenditure within the maximum rate. Our calculations suggest that this could allow real growth in non-obligatory expenditure of 15-20% by 1992. [If necessary] Although there is inevitable uncertainty about such numbers we think the Commission assumption of 10.6% growth in the maximum rate is on the low side.

FALLBACK OPTIONS BEYOND THE MAXIMUM RATE

[Note: we should only agree to an increase in the size of the Structural Funds which we do not think can be contained within the maximum rate if an otherwise satisfactory overall settlement of the whole future financing package is in sight].

- We have made clear the importance we attach to preserving, and indeed strengthening, the current budget discipline arrangements. To that end we were prepared to join with other Northern member states in accepting significant concentration of the Structural Funds in favour of the least prosperous member states. But Northern member states should not be urged to pay twice over, both on concentration and on Own Resources under the maximum rate, the maintenance of which several of us regard as important for budget discipline.

Option 1

- One solution might be a special provision for the two new member states [or the four least prosperous member states] of about 1.5 becu [up to 2 becu] at 1987 prices over five years. This would be in addition to the 35% increase in the Funds [15-20% real terms], for which we calculate there may be scope within the maximum rate.

Option 2

- An alternative might be a special programme along the lines of the Integrated Mediterranean Programmes (IMPs) for the two new member states of about 1.5 becu [2 becu] over 5 years.

Option 3

- In the interest of securing overall agreement we could accept an increase in the size of the funds which we are confident could be contained within an increase in total non-obligatory expenditure of 1½ times the maximum rate. We believe this will provide scope for a real increase of about 60% (money terms) (35/40% in real terms) by 1992. [NB. The French proposal of a 40% increase could be contained within 1½ times the maximum rate].

[In the unlikely event that it became necessary to concede some form of "doubling", it would be important to go for money terms. 100% in money terms by 1992 would be equivalent to 75% in real terms. 75% in money terms would be 50% in real terms. But we should have French and Dutch company in stopping well short of any form of "doubling".]

[If agreement reached on level of funds which would take non-obligatory spending above 1½ times maximum rate; see analysis opposite p 8]: We can only agree to an increase in the Structural Funds at this level provided we can all reach agreement in our discussions on budgetary discipline that all expenditure above the maximum rate is devoted to the Structural Funds. When we agreed to IMPs and to the R&D Framework Programme it was on the basis that the expenditure would be contained within the maximum rate, in accordance with the Fontainebleau conclusions. I can suggest language [Ref G].

CHAPTER III

SYSTEM OF OWN RESOURCES

CHAPTER III : SYSTEM OF OWN RESOURCES

LEVEL OF RESOURCES (p18)

Objective

- To secure agreement to a ceiling of no more than 1.2% of GNP (abatment inclusive) (equivalent to 1.1% of GNP abatment exclusive).

Analysis

The present ceiling on own resources is 1.4% VAT, worth about 1.02% GNP. COM 101 proposed an increase in own resources, rising to 1.4% GNP (2.2% VAT) after 1992 by a series of annual sub-ceilings.

Our own estimates indicate that a ceiling of 1.2% of GNP (abatment inclusive) should be sufficient to finance Community expenditure in 1988 and later years. The Commission have circulated a projection which suggests that Community expenditure including the retention of 10% own resources refunds and a monetary reserve of 1 becu could be financed within a ceiling of 1.21% of GNP in 1988. But without a monetary reserve - to which we are opposed - the ceiling would be only 1.18% of GNP. It should be possible to keep total spending within 1.2% of GNP.

After 1988, if budget discipline is effective, it should still be possible to keep within a fixed ceiling of 1.2% of GNP. Indeed, if the agricultural guideline grows at 60% of GNP and is effective, and with the phasing out of Spanish and Portuguese transitional refunds, total Community expenditure should fall as a percentage of GNP. On this basis there should be room for the structural funds to grow above the maximum rate.

The Presidency text also contains a reference to a 0.03% GNP "safety margin". We should oppose this.

Others' Views

All other member states agreed at the June European Council to an own resources ceiling based on GNP.

Ireland, Italy, Spain, Portugal Greece strongly favour a move to a 1.4% GNP own resources ceiling. Belgium, Luxembourg and Denmark have been equivocal. But France, FRG, and the Netherlands all oppose a 1.4% GNP own resources ceiling.

Points to Make

- We want a decision on the level of own resources which will realistically reflect the requirements of the Community.
- The own resources ceiling must reflect both real needs and the requirements of real budget discipline. I am one of those - and there are several here - who find the proposal to increase the ceiling to 1.4% of GNP unrealistic. I note that the figures the Commission themselves have circulated suggest that the real figure for expenditure, even on their own projections of how it

- might grow

Points to Make (continued)

might grow, would be less than 1.3% in 1992, let alone 1.4%.

- The important point is that finance must determine expenditure, not vice versa. It is for us to determine what ceiling on Community resources would be appropriate, given our common responsibility both to our national tax payers and for the Community's development.

- I am ready to agree to an increase in the present ceiling, provided that we also reach agreement on effective and binding measures which ensure that Community spending is firmly under control.

- If we decide to set the new ceiling on own resources in GNP terms, we shall build in considerable additional future buoyancy compared to the present VAT-related definition. In recent years Community GNP has been growing faster than the VAT base. By 1992 we shall, by this means alone, provide an extra 4-5 becu between 1988 and 1992 on Commission estimates.

- But I am ready to accept that. I agree to expressing the new ceiling in terms of GNP. I cannot, however, agree to 1.4%.

- Should be possible for Community to live within a ceiling of 1.2% of GNP. The Commission are only asking for a 1.2% GNP ceiling in 1988.

- The Commission's latest projection shows that in 1988 the budget will use up only 1.18% of GNP assuming the retention of own resource collection refunds. This underlines the fact that 1.2% should be ample.

- As for later years, with effective budget discipline, the agricultural guideline growing less fast than GNP, the phasing out of Spanish and Portuguese transitional refunds, and the increased buoyancy of a GNP-related definition, a ceiling of 1.2% GNP should last until at least 1992.

- I should be grateful if the Presidency could explain their rationale behind the 0.03 GNP "safety margin". Do not believe this to be necessary.

Our Response

[Calls for increase in own resources to 1.4% GNP].

- A level of own resources based on a 1.4% GNP ceiling is out of all proportion to Community spending now, and will be out of all proportion to Community spending in 1992. There has been no convincing justification put forward for such a very large increase.

[If no overall deal, but proposal to accept an interim increase in own resources].

- As we

LEVEL OF RESOURCES/Our Response (continued)

- As we made clear in Brussels, and have said on many occasions since then, it would be irresponsible and misleading to agree to a given level of own resources, whether it be 1.6% of VAT or 1.4% of GNP, if there is no budgetary structure in place to ensure that that limit is respected. I am not prepared to do so.
- I would prefer myself to settle our future financing problems now, rather than carrying them forward into yet another Presidency. But the key is agreement on proper spending controls; and without that we cannot set a new ceiling.
- If the Community cannot establish a budget within the existing ceiling then it will simply have to start 1988 on a provisional twelfths regime. Nothing new in that - it happened in 1985 and indeed at the beginning of 1987.

[For detailed briefing on the 1988 budget see Reference H]

ORIGIN OF OWN RESOURCES (pp18-19)

Objectives

- To acquiesce in any agreement on the Commission's proposal to limit VAT to 1% (or the Presidency proposal to limit it to 1.25%) and to introduce a new fourth resource, levied on the difference between the VAT base and GNP. All such schemes would over time ensure that all own resources more closely reflected relative prosperity, and would thus benefit us. But we should not press for such a scheme, for to do so would weaken our tactical position on the abatement.
- To maintain traditional own resources refunds.
- To accept, if this is the general wish, the Commission proposals that customs duties on products covered by the European Coal and Steel Community (ECSC) should in future become part of the Community's own resources.

Analysis

Because the UK share of Community GNP is about 2% below our share of the harmonised Community VAT base, the Commission's original proposal for a fourth own resource, the "diff tax", based on the difference between a member state's VAT and GNP, would significantly reduce the UK's net contribution to the Community. The extent of the improvement would depend on the size of the residual element of VAT. The Commission suggested 1%.

The Presidency proposes a VAT rate of 1.25% (less pain for Italy) and a fourth resource based directly on GNP. In both respects it is less advantageous to the UK than the Commission's proposal. It is also less logical: since VAT is already included in assessment of GNP, such a system represents an element of double counting.

Nonetheless

INTRODUCTION

1. The Own Resources Decision will be established in conformity with the conclusions of the European Council in Brussels (23/30 June 1987).

LEVEL OF RESOURCES

2. The overall ceiling on own resources will be fixed at [...] of the Community's total GNP; The total amount of own resources assigned to the Communities may not exceed for each year during the period 1988-1992 a given percentage of the Community's total GNP for that year. This percentage will be laid down in the Own Resources Decision and will correspond to the result of the guidelines established for growth in Community expenditure as laid down in Chapter I and a safety margin of 0,03 % of GNP aimed at coping with unforeseen expenditure.

The overall ceiling of [...] shall apply both to commitment appropriations and payment appropriations until this decision is amended. The development of commitment appropriations and payment appropriations shall correspond to the principles laid down in chapter I, para. 2. This shall involve an orderly progression in commitment appropriations resulting in a total allocation of commitment appropriations of less than [...] of GNP in 1992.

Before the end of 1991, the Commission shall present a report on the operation of the own resources system and the application of budgetary discipline.

ORIGIN OF OWN RESOURCES

3. Revenue from the following shall constitute own resources entered in the budget of the European Communities:

Nonetheless, any system which replaces part of what is now VAT financing by financing based on GNP will reduce the UK's gross contribution.

The Presidency text also proposes to replace the 10% own resources refunds with refunds based on average real costs. This would probably mean a small reduction in the refund to the UK with the current system. We could accept this, but should only do so if we are satisfied that the Dutch too can accept it. Our support for them on the TOR refunds issue has been helpful to our alliance on agriculture.

The paper also proposes, for the first time, the repayment of the costs of collecting ESC refunds. We have no reason to oppose this.

Others' Views

France, Belgium, Luxembourg, Ireland, Greece and Portugal support the Commission's proposal limiting VAT to 1% and introducing a new fourth resource based on the difference between VAT and GNP shares. But France has floated an alternative whereby VAT would begin at 1.25% and reduce by 0.1% a year with the fourth resource growing until the two rates were equal. Italy, Denmark and, less strongly, the Netherlands are opposed.

Italy is particularly against the proposed fourth resource because her share of Community GNP (estimated by the Commission at 17.8% at 1988) is much larger than her share of Community VAT (15.0). By contrast, the UK's share of GNP for 1988 is estimated by the Commission at 15% and our share of the VAT base at 18.1%.

FRG would prefer to have the fourth resource based directly on GDP, rather than on the difference between GNP and VAT shares. Spain supports the Commission proposal provided the fourth resource and VAT are modulated according GNP per capita.

Points to Make : Non-traditional Own Resources

- Agree that own resources should better reflect relative prosperity of member states. Simplest course would have been to move to a system based on member states' share of Community GNP, and replacing - rather than supplementing - the present system based on shares of VAT.

- But the Commission's proposal to create a fourth resource based on the difference between a member state's GNP and its VAT contribution, and with the VAT rate dropping to 1%, could represent a step in the right direction. The Presidency's proposal to use a VAT rate of 1.25% with a fourth resource based on percentage GNP would be a smaller step. We do not object, though I would point to a logical flaw, for the Presidency proposal introduces an element of double counting:- VAT is already a component of GNP.

- (a) agricultural levies and sugar and isoglucose duties;
- (b) CCF customs duties and custom duties on products coming under the ECSC Treaty;
- (c) the application of a rate of 1,25% to the assessment basis for value added tax which is determined in a uniform manner for Member States according to Community rules ;
- (d) the application of a rate to be determined under the budgetary procedure in the light of the total of all other revenue to an additional base representing the sum of the gross national product at market prices (1)

4. The Communities shall refund, to each Member State, a percentage of the amounts paid pursuant to paras. 2 a) and b) which shall correspond to the estimated real costs of collecting these amounts expressed as a Community average percentage; this percentage shall be fixed by the Council in the Own Resources Decision, on a Commission proposal.

5. The above provisions must be embodied in a legal decision ready for submission to the Parliaments of the Member States for ratification, which must be finally adopted by the Council before the end of the first quarter of 1988, in order for it to be finally approved (after ratification by the national Parliaments) before the end of 1988, with retroactive effect from 1st January 1988.

The Commission report referred to in point 1 above shall also assess what progress has been made towards taking greater account of the proportionality of contributions in accordance with the relative prosperity of Member States.

(1) The Commission will introduce a directive on the application of the rules governing the establishment of the gross national product at market prices guaranteeing the comparability and uniformity of national statistics used for the purpose as well as the verification of these statistics and providing for a procedure of revision

CORRECTING IMBALANCES (p 20 and the Schluter letter of
30 November)

Objective

- To maintain the Fontainebleau abatement mechanism, as an integral part of the own resources decisions.

Analysis

The Commission have tabled a proposal that the UK should receive a refund equivalent to 50% of its CAP burden (as opposed to 66% of its VAT/expenditure gap, as agreed at Fontainebleau in 1984). This proposal would, therefore, give us a lower rebate of a smaller part of our budgetary burden than the existing system.

At the FAC on 23-24 November and the Conclave on 29-30 November, there were few direct attacks on the concept of a UK abatement per se. Indeed, at the latter meeting the FRG showed signs of flexibility; whilst Delors commented at the FAC that it was right that the UK should have an abatement in view of the unique structure of her agriculture. He also commented that it was "idiotic" to suggest that structural changes taking place in the Community would in some way solve the problem of the UK's budgetary imbalance.

The Commission originally claimed that, when combined with the new diff tax, the abatement system which they propose would leave the UK "broadly as well off" in 1992 as Fontainebleau, although they admitted subsequently that we would be worse off in the years up to then by a total of about 1 billion ecu. Our calculations suggest that the overall cost of the Commissions tax structure and abatement proposals would be very much higher - 800-900 mecu in 1992 alone. If we added on the cost of the increase in the OR ceiling, the total additional cost in 1992 would be about 1.2 becu. (see figures at Reference).

The Commission abatement proposal was based on the assumption of revenue at 1% VAT and a 'diff' tax. The Presidency proposal is for revenue at 1.25% plus GNP shares. The higher the VAT element, the less we benefit from the fourth resource. To make up for this, the Presidency may propose raising the refund from 50% to 65% of the gap between our actual and GNP share of agricultural guarantee expenditure. This would leave us as badly off (£700m a year) as the Commission's proposals. Our arguments against the Commission scheme would therefore apply in full to this variant as well.

In his letter of 30 November (at B), Mr Schluter proposes to address three questions on the abatement:

- (a) should the abatement be reduced to reflect the UK's relative prosperity and the benefits of the fourth resource?;

(b) whether

CORRECTING IMBALANCES (p.m.)

- (b) whether the Council can agree that any new compensatory mechanism should not lead to a final result significantly different from Fontainebleau?;
- (c) how other member states are to contribute to the abatement?;

Others' Views

The FRG would like the abatement abolished. On occasion they have taken the line that if it continues they should have one as well. But they will probably argue at Copenhagen that if it continues, they should not contribute.

France, Italy, The Netherlands and Luxembourg argue that the UK abatement should be degressive and temporary, and that all member states should contribute to it.

Denmark, Belgium and Spain are relatively realistic on the issue. Portugal, Greece and Ireland, who adopt a relaxed attitude to budgetary discipline, have not expressed strong views.

Points to Make

- The UK abatement was agreed at Fontainebleau as a fair and equitable way of dealing with the inequitable budget burden on the UK. It reflected the outcome of negotiations extending over a number of years.
- The Fontainebleau agreement meant that, in 1984, the UK remained a substantial net contributor.
- Of course, since 1984 the UK economy has got quite a lot stronger. But look what has happened to our budget burden. Since 1984, our receipts from all elements of Community expenditure have declined sharply. The decline has been significantly greater than can be explained by enlargement. Our VAT/expenditure gap, the agreed measure of our burden, has more than doubled - from 1,379 million ecu in 1984 to 3,437 million ecu in 1987 before abatement. (See tables at Ref M).
- So, after abatement, the UK is still the second largest net contributor to the EC budget, despite being about average in Community prosperity. And the trend in our net contribution, after abatement is still steadily upward. Our net contribution after abatement is well over 1 billion ecu this year.
- So the conditions which led the Community to agree at Fontainebleau on the UK abatement have not changed, other than in the UK's disfavour.
- The conditions that justified it then, justify it now. Indeed they would justify an improved abatement. Countries far richer than the UK are substantial net beneficiaries from the Community: the UK is a net contributor, after abatement, of over 1 billion ecu a year.

- But I am not asking for an improved abatement scheme. It would however be unreasonable to expect me to accept a smaller abatement, despite the UK's larger burden.

- The proposals put forward by the Commission would leave us much worse off. Their proposed abatement mechanism, if applied to 1987 expenditure, would cut our abatement in half, and increase our net contribution from 1.2 to more than 2.4 billion ecu by 1992. By 1992, the Commission's new proposals would have cost us an extra 5 billion ecu.

- The Commission admit that their corrective mechanism plus their proposed fourth resource would leave the UK considerably worse off. They assess the increase in our net contributions from this factor alone, at around 1 becu over the period up to 1992. Our own calculations suggest that we would be 800-900 mecu worse off in 1992 alone.

- Our net contribution will rise because of the effects of enlargement. It will rise because of the effects of concentration. It will rise because of the increase in Own Resources. I accept all that.

- But what I cannot accept is that the UK's net contribution after abatement, which has increased since Fontainebleau, and is set to increase further, should be arbitrarily increased still further. Most member states are net beneficiaries, and many of them are richer than the UK.

- I am clear that the Fontainebleau abatement mechanism must continue to be an integral part of the Community's own resources system and should therefore continue to be incorporated in the own resources decision. Payment of the correction on the expenditure side of the budget would only invite interference by the European Parliament, as in the days before Fontainebleau.

Our Response

[If UK abatement attacked on grounds that we are not contributing to costs of cohesion, enlargement etc]

- It was clearly agreed at Fontainebleau that the new abatement system should apply to the Community of 12 and reflect Britain's position in a Community of 12. If Britain, the second largest net contributor, paying after abatement over 1 billion ecu a year is not making its contribution to cohesion etc then no doubt Belgium, Luxembourg, Netherlands and Denmark, all of whom have higher per capita prosperity and all of whom are net recipients from the budget, will be prepared to see their contributions radically increased.

- Under the Commission's proposals in this negotiation overall, the present net beneficiaries stand to gain handsomely: Greece, Spain, Italy, Ireland, Portugal all expect to do well from increases in the Structural Funds. It is the existing net contributors who will suffer. As the second largest net contributor we stand to get an inequitable share of the pain.

- Therefore

- Therefore the abatement has to be a major part of the overall deal.

(In response to Mr Lubbers) - I note that Netherlands has opposed abolition of the traditional own resources refund - worth a little over 100 mecu a year - despite being a beneficiary overall to the tune of 700 mecu a year. I understand the Dutch case, and am prepared to support it. But the UK, as a massive net contributor, is no less entitled to argue for the status quo in respect of our abatement. Cannot be expected to accept with equanimity an arbitrary increase in our net contribution of 1.2 becu a year.

[If FRG argues that British GNP is now high enough to justify a substantial net contribution]

- It is true that the success of the British economy will over time raise our position in the "European league table". But that position is still as it was at the time of Fontainebleau; and the UK is still below average in terms of Community income per head at market exchange rates.

[If it is argued that the Commission's abatement proposals leave the UK no worse off]

- We are aware of Commission claims that their proposed new corrective mechanism would leave the UK no worse off than the Fontainebleau system. As we have demonstrated in discussion this is not so. We do not believe that the Commission's projections can be regarded as a central view of likely developments. They assume:

- too high a UK share of receipts from the budget;
- too large a budget altogether; and
- too low a UK share of the fourth resource;

whilst in our view, being over optimistic about the prospects for reducing the share of agriculture in the budget. On more realistic projections it is clear that the Commission's proposals for the structure of own resources and the corrective mechanisms would leave the UK worse off by between 800 and 900 million ecu per year.

[If others argue that 4th Resource improves UK position]

- True that fourth resource as proposed by the Commission would improve our financial position. But in the form now proposed by the Presidency and with a starting point of 1.25% VAT that benefit to us would be reduced by over three-quarters. In any case the proposed corrective mechanism would leave us very much worse off. Taking account of both the fourth resource (Commission proposal) and the corrective mechanism, the UK would be some 800-900 mecu a year worse off by 1992 than with the continuation of the present financing arrangements but an increase in the VAT ceiling.

- The reduction in the benefit to us of the Presidency's proposal on the fourth resource makes it all the more essential to retain the Fontainebleau mechanism.

[If the arguments in favour of using the agricultural expenditure GNP share are pressed]

- No reason to take one sector of the budget in isolation. The UK's burden relates to the budget as a whole: so should the mechanism for relieving it.

[If agreement has been reached on a GNP/GDP-related fourth resource in a satisfactory form]

- We could accept a modification of the Fontainebleau mechanism, adapting it to the proposed new structure of own resources, if this were adopted. The abatement mechanism would then be based on the gap between our VAT/fourth resource share of Community expenditure and our share of Community receipts. In other words, our contributions, for the purposes of the abatement system, would be calculated on the basis of our share of total VAT and fourth resource payments rather than just VAT.

[If French or Presidency argue that our abatement should be degressive].

- Quite wrong that UK should be expected to have a smaller abatement in future years when our net contribution is likely to increase. If our budget imbalance were to fall then, under the Fontainebleau system, our correction would fall automatically as well.

CHAPTER IV

AGRICULTURE

CHAPTER IV: AGRICULTURE

This brief contains a checklist of points to make on the stabiliser proposals in Annex I of the Presidency paper, for use if there is detailed discussion. Full MAFF briefing is also provided (Ref O).

The text consists of an introductory section (p 22) with details of proposed stabilisation measures set out in one annex (p 23 to 30) and the principles of a set-aside scheme in a second annex (p 31 and 32).

Introductory section (p 22)

This consists of six points:

- Para 1: This calls for the specific Presidency proposals in Annex 1 to be adopted as set out, and to take effect from the 1988/89 marketing year.
- Para 2: Cereals....
This is intended to indicate that a revised Commission proposal is expected. Briefing will follow.
- Para 3: This states that a set-aside scheme will be introduced in accordance with the principles set out in Annex II. This is acceptable subject to detailed points on the Presidency text set out opposite page 31.
- Para 4: This holds out the possibility of production-neutral income aids being introduced as a supplementary measure. This conditional language is acceptable to us.
- Para 5: This invites the Commission to submit proposals for "preserving the equilibrium of the rural world". This is something which the Commission were already proposing to do. This is non-committal and acceptable to us.
- Para 6: This calls for the stabilisation measures in Annex 1 to be adopted immediately. We welcome the Presidency's sense of urgency, but must ensure that any items which are left for later decision have a date attached. The text also calls for a set-aside scheme and the cereals stabiliser to come into force at the same time; which we can accept.

1. Existing stabilization mechanisms will be reinforced and extended to other production sectors as set out in Annex I. They will take effect from the marketing year 1988/89. These measures should be accompanied by reinforced quality criteria.
2. Cereals,
3. Measures aimed at limiting supply directly by cessation of farming and encouragement of temporary abandonment of land (set aside) will be introduced in accordance with the principles set out in Annex II. The Commission is invited to submit specific proposals in order that they can be adopted in parallel with the stabilization proposals for cereals.
4. In view of the impact of such measures on farmers' income the measures can be accompanied by direct aids to income: these aids should have no effect on production levels, be of a temporary nature, and should have a Community framework.
5. Coordination between the different structural Funds and between the Community and the Member States will aim at preserving the equilibrium of the rural world. The Commission is invited to submit specific proposals to the Council as soon as possible.
6. Community legislation to implement the agricultural stabilization mechanisms will be adopted immediately. The measure under point 3 will enter into force at the same time as the stabilization measures for cereals.

STABILISATION MEASURES1. ARABLE CROPSGENERAL GUIDELINES (p 23)Objective

To stabilise expenditure on each commodity in the arable sector. To resist French proposals to the extent that they undermine this.

Analysis

This section is included as a concession to the French proposals that the arable sector should be treated as a whole. The French argue that, since farmers switch from one crop to another, stabiliser penalties should be limited to increases in yield, ignoring increases in area. The Presidency text notes that any shift to penalties limited to increases in productivity can only occur "when production is adjusted to market needs and budgetary costs are under control". The French also argue that the base for the maximum guaranteed quantities (MGQ) should be existing "normal" production, which would give higher MGQ figures for cereals and oilseeds than proposed by the Commission.

Other member states

The Germans, in particular, have shown interest in French ideas since they would weaken the effect of stabilisers in the arable sector. The Dutch will join us, and the Commission, in opposing.

Points to make

- The French proposals do not provide a basis for stabilising expenditure.
- We cannot ignore increases in production and expenditure due to increases in area. Expansion of area has accounted for most of the recent increase in production for oilseeds. Since 1982, area has risen from 1.4 to 3.5 million hectares, production from 3.5 million to nearly 10 million tonnes.
- Unless we take account of production increases due to area as well as yield, expenditure will continue to spiral.
- Cannot accept higher MGQs than those proposed by Commission.

STABILIZATION MEASURES

1. Arable crops

General guidelines

The Council agrees that the production of arable crops should be adjusted to the needs of the market.

Whereas the overall area under cultivation is more or less stable, production continues to increase largely due to increases in productivity.

As the crops are interchangeable the Council agrees that a coherent support policy for all crops consistent with budgetary discipline must be pursued, bearing in mind that budgetary costs vary as between different crops.

In order to stabilize production as well as to ensure budgetary discipline, the Council agrees to introduce set-aside measures to supplement the stabilizing measures and other market policy measures.

With a view to protecting agricultural incomes and taking due account of the budget the Council agrees on the objective that when the production is adjusted to market needs and budgetary costs are under control the stabilizing sanction should be in conformity with the increase in productivity.

In setting the guarantee thresholds for each 3-year period the Council will be guided by the principles set out above.

2. CEREALS: (p 24) No text provided by the Presidency. Briefing to follow.

3. OILSEEDS (p 24)

Objective

To secure an effective stabiliser to control soaring production and expenditure. This means removing the limit on price cuts (known as the butoir). We could accept Commission's revised proposal so long as there remains no limit on price cuts. We cannot accept French proposal to limit price cuts to yield increases. It would not control expenditure.

Analysis

The Presidency have weakened the Commission's original proposal that the limit on price cuts should be gradually phased out. The Commission have made several changes to their own proposal. The latest is that:

- MGQs should be raised for rapeseed (from 3.5 to 4m tonnes) and sunflower seed (from 1.7 to 1.9m tonnes) with soya remaining at 1.1m tonnes for a period of 3 years;
- no upper limit on price cuts;
- the price should be cut by 0.5% for each 1% overrun.

The Commission states that its proposal takes into account the financial effect of the introduction of an oils and fats tax. Sinister.

Other member states

The French proposals for the arable sector (see above) would raise the MGQs for all oilseeds above the revised Commission proposal and limit the price cuts to increase in yield. The Germans have supported this approach because of the smaller price cuts involved.

Points to make

- Oilseeds expenditure is running out of control. It increased tenfold between 1979 and 1986. This year it will cost 3.3 becu: a 65% increase on last year.
- Oilseeds are profitable crops. We should not pay more than is necessary.
- It is essential to remove the limit on price cuts. We can support the Commission's revised proposal. But this is the minimum required. It would still leave the Community paying over 2 becu annually to support oilseeds.
- The French proposals would not achieve stabilisation. In recent years, 80% of production increases have come from increases in area, not yield.
- [If necessary] I do not accept that there is a link between the need for stabilisation of the oilseeds sector and the introduction of an oils and fats tax. And I do not agree to the tax.

2. Cereals : p.m.

3. Oilseeds

Without prejudice to the follow-up to the Commission proposal on the stabilization mechanism for the prices of vegetable oils and fats, the following measures will be taken :

- a) the maximum guaranteed quantities already decided on by the Council for the various oilseeds will be fixed for three marketing years;
- b) in the event of an overrun, the penalties will be as follows : within a 15 % cut-off for the 1st and 20 % for the 2nd and 3rd marketing years, there will be a 1 % reduction in the target price for each 1 % production overrun;
- c) the Council asks the Commission to examine the possibility of introducing a standard rate of aid to replace the present aid, and to report back to it.

Page 24 continues overleaf

4. PROTEIN PRODUCTS

(p 24)

Objective

We want the limit on price cuts removed. If the limit is removed as the Commission propose, we could accept a price reduction of 0.5% (rather than 1%) for each 1% overshoot.

Analysis

The Commission has proposed an MGQ of 3.3m tonnes (present production) with no limit on price cuts if the MGQ is exceeded. It has recently proposed that the price cut should be 0.5% for each 1% overshoot. The Presidency proposal is weaker: same MGQ but setting limits of 15%, 20% and 20% for the three years.

Points to make

- Although this is a deficit sector, costs have been rising steadily.
- We support an MGQ of 3.3m tonnes for 3 years and can accept the Commission's revised proposal.
- The Presidency's proposal for limits on price cuts would prevent us achieving genuine stabilisation.

Continuation of page 24

4. Protein products

- a) A maximum guaranteed quantity of 3,3 million tonnes will be set for three marketing years.
- b) In the event of an overrun, the penalties will be as follows: within a 15 % cut-off for the 1st and 20 % for the 2nd and 3rd marketing years, there will be a 1 % reduction in the guide price for each 1 % production overrun.

5. OLIVE OIL (p 25)

Objective

To obtain agreement in principle to extend the stabiliser for olive oil to consumption aid.

Analysis

There is no new proposal from the Commission or the Presidency. At 1987 price-fixing a stabiliser for olive oil production aid was agreed (covering about half of olive oil expenditure). But consumption aid is uncontrolled, and likely to rise markedly as the regime comes to apply fully to Spain and Portugal.

Points to make

- The cost of the olive oil regime is rising rapidly. It doubled between 1986 and 1987 and likely to continue rising.
- We propose that the current MGQ system should be extended to cover consumption aid as well as production aid.

6. COTTON (p 25)

Objective

To obtain a commitment to strengthen the stabiliser.

Analysis

There is already a stabiliser mechanism in this sector but it is too weak. The quantities over the MGQ necessary to trigger price cuts are too big. They should be reduced from 15,000 tonnes to 12,500 tonnes for the mechanism to work properly.

Point to make

- We must tighten up the existing stabiliser for cotton so that it is properly effective.

7. SUGAR (p 25)

Objective

We support continuation of producer-financing quota system. Since we have a relatively low 'B' quota, we want to ensure that the special elimination levy is not shifted more onto 'A' quota production.

Analysis

The Presidency proposal is exactly the same as that of the Commission. They propose retention of present quota regime, with a special elimination levy (SEL) to achieve full producer-financing of surplus disposal.

Other member states

There is no dispute over the main elements of the regime. Most argument has been over the distribution of the SEL between 'A' and 'B' quotas.

Points to make (overleaf)

5. Olive oil

Existing stabilizers will be maintained.

6. Cotton

Existing stabilizers will be maintained.

7. Sugar

Acceptance of the Commission proposals on stabilizers
(see Volume I, 8761/87, pages 5 and 6).

Page 25 continues overleaf

7. SUGAR cont'd

Points to make

- We can accept the Commission proposal to restore full financial autonomy to sugar regime, through continuation of elimination levy.
- We support the Commission proposal that distribution of new levy should be in line with member states' existing shares of production levies. We oppose any shift of the burden to 'A' quota.

8. WINE (p 25)

Objective

To limit the cost of the wine regime by securing the reinstatement of limitation of replanting rights, and the abolition of Garantie de Bonne Fin (GDBF) distillation from September 1989. We could accept the exclusion of quality wine from limitation of replanting rights, and the abolition of GDBF over "a short period". The Obligatory Distillation scheme should be made less attractive.

Analysis

The Presidency have seriously weakened the Commission proposal by dropping the limitation of replanting rights, which was agreed in principle at Dublin European Council in 1984. They have proposed instead a modification of the existing abandonment scheme, which is unlikely to be effective. They have not explained how Obligatory Distillation is to be made "truly deterrent".

Other member states

Most wine producers oppose restriction of replanting rights (although Germany and Luxembourg could accept if they excluded quality wine). Producers are also hostile to GDBF proposals. non-producing states support tougher action.

Points to make

- This year's wine production surplus will be about 4½ billion litres. The wine regime will cost about 1.5 becu. We must take action to restrain surplus production.
- The Presidency have seriously weakened the Commission proposal.
- We continue to support compulsory limitation of vineyard replanting rights. This was agreed by the European Council in Dublin in 1984. There is no reason to renege now.
- Voluntary "grubbing up" schemes have not worked in the past. We are not convinced that this scheme will be any better.
- The phasing out of the expensive GDBF distillation is important too. It actually encourages production. We should end it by the beginning of the 1989/90 wine year.
- Obligatory Distillation should be made truly dissuasive.

Continuation of page 25

8. Wine

- a) The Council agrees to make the compulsory distillation price truly deterrent in order to encourage application of the scheme set out under (c) below and undertakes to act as soon as possible on the Commission proposals along these lines.

The Council requests the Commission to examine the question of scales in greater detail.

- b) The Council notes the Commission's intention to discontinue recourse to re-storage aid and gradually to reduce the volume of wine eligible for the special price support guarantee for long-term storage contract holders, with a view to phasing out the guarantee.
- c) Regarding the reduction of production potential, the Council will implement the conclusions of the Dublin European Council by :

9. FRUIT AND VEGETABLES (p 26)

Objective

This is not a target sector for us. We should prefer "in year" price reductions but we could accept the current proposal as part of an overall deal.

Analysis

The Commission proposed extension of stabilisers to all commodities in fresh and processed fruit and vegetables sectors, but did not suggest figures for withdrawal thresholds. The Presidency proposed numbers but has withdrawn them in the latest text, reverting to a commitment to introduce thresholds on a proposal from the Commission. But the new text specifies that prices should be adjusted in the year following that in which the threshold is exceeded, whereas the Commission proposal left open the possibility of "in-year" reductions. Overall expenditure in this sector is relatively stable at just over 1 becu.

Other member states

The producer states (Italy, Greece, Spain and Portugal) oppose the introduction of further restrictions now. Other northern states unlikely to press for tougher measures.

Points to make

- We agree that there should be withdrawal thresholds for all products.

- But we favour price cuts in same year as thresholds are exceeded. This should at least be retained as an option.

- introducing, in the framework of the voluntary abandonment arrangements, a direct link on the level of each producer between the reduction in wine-producing potential (by means of areas according to yields) and distillation measures ;
- this link will materialize as partial or total exemption from compulsory distillation depending on reduction in wine-producing potential, without reducing the total volume of compulsory distillation to be accomplished.

The Council, acting on a proposal from the Commission, will adopt arrangements for applying the principles set out above.

In parallel, the present arrangements for grubbing-up will be amended by eliminating the constraints which restrict their efficiency. To this effect :

- the arrangements will apply to all areas and will not lead to limitations on replanting rights on residual areas;
- the administrative provisions relating to the payment of premiums will be strengthened.

This set of measures will replace the proposal on restriction of replanting rights.

9. Fruit and vegetables

- a) The Council agrees that thresholds for quantities of fruit and vegetables eligible for intervention should be introduced; if the threshold is overrun, the basic and buying-in prices for the following marketing year will be reduced.

10. TOBACCO (p 27)

Objective

To restore the Commission's proposal for an MGQ of 350,000 tonnes, and resist pressure to go to 400,000.

Analysis

The Commission proposed an MGQ of 350,000 tonnes with separate thresholds for individual varieties. The Presidency have weakened this by raising MGQ to 385,000 tonnes. Although they have also increased the extent of possible price cuts, the revised MGQ, being close to current production, would only be effective if production rose. We are not producers or significant consumers of Community tobacco, so our only interest is in minimising its costs.

Other member states

Belgium, Denmark, Germany, the Netherlands, Ireland and Portugal support an MGQ of 350,000 tonnes. Greece, Spain, France and Italy want an MGQ of at least 400,000 tonnes.

Points to make

- Tobacco has the highest support costs per hectare of any CAP regime. The total cost for 1987 is approaching 900 mecu.
- We support the Commission proposal for an MGQ of 350,000 tonnes. A higher MGQ would be a sham: it would have little or no effect.

11. MILK (p 27)

Objective

To maintain quota system until 1991/92, and to ensure that the compensation rate for quota abatement is no higher than the Presidency propose.

Analysis

The Commission proposals on milk are part of a review of the whole regime. The Presidency have adopted the Commission proposal for extension of the quota system to 1991/92, but retain the 5% quota cuts as "suspension arrangements" rather than a permanent reduction.

The Presidency propose degressive compensation up to 1991/92, but no mention of payments beyond that. We have argued for a compensation rate of 6 ecu per 100 kg for 1989/90 and 1990/91 (and nothing beyond then) in order to counter-balance demands for higher figures.

Other member states (overleaf)

Decisions on the introduction of these thresholds will be taken by the Council on the basis of a proposal from the Commission, according to the situation on the markets concerned.

- b) The Council points out that stabilization mechanisms have already been decided on for a number of products, firstly for tomatoes and most recently for satsumas, mandarins, clementines and nectarines.
- c) Agreement on the Commission's policies on processed fruit and vegetables. (See Volume I, 8761/87 page 17).

10. Tobacco

- a) Within a maximum quantity of 385,000 tonnes fixed for a period of three marketing years, specific thresholds will be fixed for each of the varieties or groups of varieties listed in Annex IV to the annual regulation fixing prices and premiums; these thresholds would be determined on the basis of criteria proposed by the Commission in its communication concerning the implementation of agricultural stabilizers (see Volume I of 8761/87, pages 19 and 20).
- b) If these specific thresholds are overrun, penalties will be as follows: within the limit of a cut-off of 5 % for the 1st and 15 % for the 2nd and 3rd marketing years, the intervention price and the premiums will be reduced by 1 % for each 1 % production overrun.
- c) The Council asks the Commission to submit a study of the possible means of encouraging a contractual policy, accompanied, if appropriate, by suitable proposals.

11. Milk

- a) Extension of the quota system for a period of three years until 31 March 1992.

11. MILK (cont'd)

Other member states

Only Italy opposes continuation of quota system. Some member states would prefer a five rather than three year extension. Only Netherlands opposes continued compensation for the 5½% reduction, but Ireland, Germany, Luxembourg, France and Spain want it to continue at its current level.

Points to make

- We do not favour quotas but, as this is existing stabiliser mechanism, we strongly support the Commission and Presidency proposal to retain it until 1991/92, along with the intervention trigger introduced in 1986.

- We agree that the 5½% quota cut should be maintained. [As necessary] The level of compensation should be no more than 6 ecu per tonne for 1989/90 and 1990/91. After that, there should be no compensation at all.

12. SHEEPMEAT AND GOATMEAT

Objective

To remove the proposal for a separate threshold for Great Britain.

Analysis

The Commission proposed a sheepmeat stabiliser together with a review of the whole regime. The Presidency have adopted the stabiliser proposal, but suggest setting the guarantee threshold by ewe numbers (rather than total flock). They retain the Commission proposal for a separate GB threshold.

Other member states

France, Ireland and the Mediterranean states are not convinced of the need for a stabiliser. They claim that the Community should first deal with sheepmeat imports, and the Presidency proposal for a draft negotiating mandate with supplier countries reflects this.

We have received no support in our objections to a separate GB threshold. France, in particular, argues that it is justified because only we apply the variable premium.

Points to make (overleaf)

b) Consequently, restrictions in the intervention arrangements (1) concerning skimmed-milk powder and butter will be extended for the same period, i.e. until 31 March 1992. Article 4a of Regulation (EEC) No 857/84 will also remain in force for the same period.

c) The suspension arrangements (5,5 %) will remain in force until 31 March 1992, and compensation is fixed as follows:

- 10 ECU for 1987/1988
- 10 " " 1988/1989
- 8 " " 1989/1990
- 7 " " 1990/1991
- 6 " " 1991/1992.

d) The Commission will submit a report on the operation of the quota system to the Council before the end of the 1990/1991 marketing year.

12. Sheepmeat and goatmeat

a) A guarantee threshold corresponding to the number of ewes in the community in 1987 (2) will be fixed, and a specific guarantee threshold will be fixed for Great Britain (3), linked with the application of the variable premium arrangements.

b) If the threshold is overrun, the basic price will be reduced by 1 % for each 1 % overrun, with a corresponding reduction in the derived prices.

(1) See Council Regulations (EEC) No 773/87 and No 777/87.

(2) 44 000 000 ewes

(3) 18 000 000 ewes

12. SHEEPMEAT AND GOATMEAT (cont'd)

Points to make

- We fully accept the need for a sheepmeat stabiliser. It should be a single stabiliser for the Community as a whole.
- We are prepared to accept more stringent price reductions than currently proposed.
- Our only objection is to the discriminatory separate GB threshold, which will give our producers a lower basic price than those in the rest of the Community.
- It is not true that we get extra support from the variable premium system. These payments are subtracted from the annual ewe premium payable in GB.
- But we would be ready to accept that the variable premium, and thus the proposal for a separate threshold for Great Britain, should be examined as part of the wider review of the whole sheepmeat regime, which is now in progress.
- On the basis that the discriminatory element is thus put in suspense, we could accept the rest of the proposal. I suggest this is right way to proceed.

c) External aspect : The Council takes note of the following points, submitted by the Commission, which should be taken into consideration when drawing up the brief :

= for third countries :

- respecting import prices discipline
- effective restriction of import volumes
- commitments in particular on presentation, especially for refrigerated products.

= for the EEC :

- an additional reduction of the residual tariff (currently 10 %)
- commitments on the effects of our reforms of the system, for example budgetary stabilizers
- progressive increase in flexibility of the arrangements for sensitive areas.

The Council asks the Commission to submit, on that basis, draft terms of reference for negotiations with third countries as soon as possible.

d) The Council will re-examine the stabilization mechanism referred to above when adjusting the common organization of the market in this sector, and will also consider the external aspects and take market requirements into account.

At the same time, the Commission proposal to restrict the premium to a specified number of ewes will also be examined in this context.

STATEMENT FOR ENTRY IN THE MINUTES CONCERNING PORTUGAL (p 30)

The statement of the need to make allowance for the special problems of Portuguese agriculture is acceptable to us. The statement that the proposals to be submitted by the Commission should be "as provided for in the Act of Accession" is particularly welcome.

The Portuguese circulated a Note at the Conclave which seeks a clearer assurance of the ways in which account will be taken of her specific circumstances. In particular, it asks for additional modernisation aid (including a higher rate of EC contribution to existing measures); and a longer period for price harmonisation within the overall transitional period.

The Presidency text, does not take account of the Portuguese Note. If the Portuguese revert to their specific demands, we should seek to ensure that any concession to Portugal is not used as a precedent for others (as extra aid might be), and to minimise the cost. We could, therefore, concede a longer period of price transition (as is allowed for in the Accession Treaty) and argue that this makes a decision on additional aid unnecessary at this stage.

Points to make [if raised]

- We have every sympathy for the special circumstances of Portugal.
- It is difficult to decide here and now how these should be resolved. It is best, therefore, to stick to the Presidency text which is general and allows for all possibilities.

Fallback:

- We will not oppose extending the period of price adjustment if this is acceptable to others.
- But we feel it is premature to decide now on additional modernisation aid. It is best to reserve judgement on the need for more aid until we see the effect that existing programmes have on the size of the problem.

STATEMENT FOR ENTRY IN THE MINUTES
CONCERNING PORTUGAL

The Council recognizes the special nature of the problems of Portuguese agriculture, which was acknowledged in the Act of Accession, and agrees that the implementation of the stabilization mechanisms will have to make allowance for the special nature of those problems.

The Council requests the Commission to submit in due course proposals which take the special nature of those problems into consideration and ensure that applying the stabilization mechanisms does not give rise to difficulties in achieving the harmonious integration of Portuguese agriculture into the Community as a whole, as provided for in the Act of Accession.

USE OF LAND (p 31)Objective

To agree to a set-aside scheme in principle only; and only in order to secure a stabiliser package. It should be mandatory for member states but voluntary at the individual level, and with Community funding limited to 25%.

Analysis

This section is included at insistence of Germans, for whom agreement on set-aside is a pre-condition for a stabiliser package. The Presidency text, which builds upon a Commission memorandum tabled in the Agriculture Council on 16 November, goes further than we wish in points of detail such as variation in rates of aid between regions/categories of producers, and variable percentages of FEOGA funding. It refers specifically to the extensification scheme agreed this year, which would be an acceptable model. There is no detailed Commission text as yet.

Other member states

All member states can accept set-aside. The Dutch share our view that it must complement stabilisers. But there will be disagreement over details eg acceptable uses for set-aside land, rate of FEOGA funding.

Points to make

- We welcome the Presidency's observation that set-aside should be complementary to a policy of price stringency, firmly tied to implementation of fully effective stabilisers.
- Agree that we should build on existing extensification scheme which will apply in member states from April 1988. Financing should be on the same basis, ie no more than 25% borne by Community budget. No case for any higher support level: savings from set-aside will benefit member states as well as the Community budget because national cost of intervention will decline.
- We cannot hope to agree detail at this stage. There are points in the paper which will require detailed consideration before they can be agreed. We should agree the principle and main criteria and call on the Commission to make proposals for the Council to adopt in parallel with stabilisers, and not prejudice by committing ourselves on details now.

USE OF LAND

In addition to measures concerning prices, the Council agrees to adopt measures to limit supply by withdrawing agricultural land from production.

These measures will be based on the instruments already adopted by the Council (Regulation (EEC) No 1760/87) and proposed by the Commission (measures for the cessation of farming), which should be adopted without delay.

The characteristics of these set-aside measures are as follows :

- they will be devised as a complement to market policy measures;
- they will apply to all arable land;
- they will be compulsory for the Member States but optional for producers;
- the amount of aid granted for financing will vary depending on specific agronomic factors (for example : fallow land, forestation), alternative uses and budgetary constraints;
- the conditions for granting aid will be determined by the Member States but will stipulate the minimum duration (at least five years) and the minimum reduction in arable land (at least 20 %) for each holding;
- the level of Community participation in financing will vary in order to achieve a balance between the efforts that need to be made and regional budgetary possibilities;

- the control arrangements will be strengthened, in particular to avoid dual payments.

In parallel with the measures for the withdrawal of agricultural land from production, it is intended that, under conditions to be specified in the implementing Regulation, farmers participating in those measures will be exempted from the co-responsibility levy.

In that case, the farms in question would not, however, be eligible any longer for the aid to small-scale cereals producers. Account has been taken of the specific difficulties of small holdings, of the need to pursue the agreed aim of consistency and of the need to ensure that the most competitive producers participate. At the same time a minimum level is being set for compensatory payments in respect of these measures for the abandonment of land.

There will be the option of not applying this system in those regions or areas of the Community in which the natural conditions or the risk of depopulation argue against a reduction of production.

In parallel with its acceptance of the stabilization proposals for cereals, the Council undertakes to adopt the necessary measures on the basis of proposals which the Commission will submit to it taking account of the above guidelines.

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TO DESKBY 021500Z FCO
TELNO 409
OF 021335Z DECEMBER 87
AND TO IMMEDIATE UKREP BRUSSELS

FROM : CONFERENCE OFFICERS

EUROPEAN COUNCIL, COPENHAGEN, 3-5 DECEMBER : ARRIVAL ARRANGEMENTS AT
KASTRUP AIRPORT : 3 DECEMBER

1. 2000 HOURS VC10 ARRIVES :

HM AMBASSADOR WILL BOARD AIRCRAFT TO ESCORT PRIME MINISTER AND
SECRETARY OF STATE DOWN STEPS AND INTRODUCE AMBASSADOR JORGEN ADAMSEN
HEAD OF PROTOCOL, MR JORGEN BEHNKE DEPUTY HEAD OF PROTOCOL, MR HUBERT
SVOLDGAARD PROTOCOL OFFICER, EMBASSY DEFENCE ATTACHE, WAITING ON
TARMAC. SENIOR OFFICIALS DISEMBARK BY FRONT DOOR. REMAINDER OF PARTY
DISEMBARK BY CENTRE DOOR. PASSPORTS NOT REQUIRED. EMBASSY CAR (NUMBER
10) WILL BE AT FOOT OF CENTRE STEPS TO RECEIVE BOXES : BAGGAGE VAN
(NUMBER 16) BY AIRCRAFT HOLD.

2. MOTORCADE (POLICE WILL ONLY ALLOW MAXIMUM OF SIX CARS IN OFFICIAL
MOTORCADE UNDER POLICE ESCORT) DEPARTS FOR SHERATON HOTEL FOLLOWED BY
REMAINING CARS. BAGGAGE VAN WILL DEPART LATER FOR HOTEL WITH LUGGAGE.

3. AIRPORT CAR ALLOCATION AS FOLLOWS :

(PLEASE NOTE THAT CAR NUMBERS FOR OFFICIALS WILL ALTER IN GENERAL
USE).

N01 PRIME MINISTER
HM AMBASADOR
DETECTIVE (+ PM'S LUGGAGE)
(REMAINING DETECTIVES IN ACCOMPANYING POLICE CARS).

N02 SECRETARY OF STATE
MR GALSWORTHY
DETECTIVE (+ S/S LUGGAGE)

N03 MR POWELL
MR INGHAM

N04 SIR J FRETWELL
SIR D HANNAY

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N05 MR LAVELLE
MR J KERR

N06 MR MEYER
MR CARTER
MISS GALLAGHER
(END OF MOTORCADE)

N07 MR HADLEY
MR EDWARDS
MR MORTIMER

N10 MR D KERR
1 RMP
BOXES

N11 MISS LAMBERT
MISS MCGINTY
MISS NOBLE

LATER

N15 3 RMPs (TO REMAIN AT AIRPORT TO ASSIST WITH BAGGAGE)

N16 1 RMP
MR KEOGH
LUGGAGE

4. PASSES FOR CONFERENCE CENTRE, HOTEL ROOM KEYS, SUBSISTENCE, ADMIN NOTES, ETC MAY BE COLLECTED FROM ROOM 1401 (HOTEL UK DELEGATION OFFICE) ON THE 14TH FLOOR BY OFFICIALS IN THE PARTY IMMEDIATELY ON THEIR ARRIVAL AT SHERATON HOTEL. NO HOTEL REGISTRATION REQUIRED.

5. COULD THE NO 10 DUTY CLERK ENSURE THAT A COPY OF THIS TELEGRAM IS SEEN BY ALL VC10 PASSANGERS BEFORE ARRIVAL AT KASTRUP.

UNWIN

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CPE/LIS 353
2/12/87

CONFIDENTIEL

OBJET: EUROPEEN COUNCIL: DRAFT DECLARATION ON THE MIDDLE EAST

REF:CPE PRES COP 603

LE PORTUGAL REMERCIE LA PRESIDENCE DE SON PROJET DE DECLARATION SUR LE MOYEN-ORIENT AVEC LEQUEL IL MARQUE SON ACCORD DE PRINCIPE.

LE PORTUGAL AIMERAIT NEANMOINS FAIRE LES SUGGESTIONS SUIVANTES:

- 1) AU PARA 1, TREIZIEME LIGNE, APRES 'THIS RESOLUTION '
AJOUTER LA PHRASE: 'WHICH FULL ACCEPTANCE BY BOTH SIDES THEY
CONSIDER IMPERATIVE. THEREFORE....'
- 2) AU PARA 2 ILS NOUS SEMBLE APPROPRIE DE FAIRE UNE REFERENCE
E EXPLICITE A LA DECLARATION DU 23 DE FEVRIER, COM
ME PROPOSEE PAR LA BELGIQUE.
- 3) A NOTRE AVIS, IL SERAIT JUSTIFIEE DE FAIRE UNE REFERENCE AU
DEBLOCAGE DES RELATIONS DIPLOMATIQUES AVEC L'EGIPTE., A LA
SUITE DES DECISIONS PRISES A AMMAN.

FIN DE TEXTE
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INFO ROUTINE BRUSSELS, THE HAGUE, DUBLIN, PARIS, BONN, LUXEMBOURG
INFO ROUTINE ATHENS, LISBON, MADRID

FRAME ECONOMIC

ROME TELNO 670

EUROPEAN COUNCIL: ITALIAN VIEWS

SUMMARY

1. GORIA'S CLAIM THAT ITALY WOULD REPLACE UK AS A MAJOR NET CONTRIBUTOR IF COMMISSION'S REVENUE AND ABATEMENT PROPOSALS WERE IMPLEMENTED, SEEMS UNFOUNDED ON BASIS OF AVAILABLE FIGURES.

DETAIL

2. ON THE BASIS OF FIGURES OBTAINED IN STRICT CONFIDENCE FROM THE COMMISSION, AND WHICH CANNOT THEREFORE BE USED IN PUBLIC OR CONTACT WITH OTHER GOVERNMENTS, GORIA'S CLAIM THAT THE COMMISSION'S OWN RESOURCES AND ABATEMENT PROPOSAL WOULD RESULT IN ITALY REPLACING THE UK AS A MAJOR NET CONTRIBUTOR (PARAGRAPH 4 OF TUR) SEEMS COMPLETELY UNFOUNDED AND GOES FAR BEYOND EVEN THE EXCESSIVE RHETORIC USED ON THESE MATTERS BY CALAMIA IN COREPER.

3. THE COMMISSION HAVE ADMITTED IN A DOCUMENT CIRCULATED TO COREPER ON 3 NOVEMBER THAT THEIR PROPOSAL FOR A FOURTH RESOURCE BASED ON THE DIFFERENCE BETWEEN MEMBER STATES' VAT AND GNP BASES WOULD INCREASE ITALY'S GROSS REVENUE CONTRIBUTION BY OVER 500 MECU COMPARED TO THE EXISTING VAT SYSTEM IN 1988 AND BY ABOUT A BILLION ECU IN 1992. BUT OUR OWN CALCULATIONS (SUPPORTED BY INTERNAL COMMISSION FIGURES WHICH WE HAVE SEEN IN CONFIDENCE AND TO WHICH REFERENCE SHOULD NOT BE MADE) SUGGEST THAT ITALY WOULD PAY LESS TOWARDS THE ABATEMENT PROPOSED FOR THE UK BY THE COMMISSION THAN UNDER THE PRESENT SYSTEM, SO THE NET COST WOULD BE LESS THAN THE 500 MECU/1 BECU QUOTED ABOVE.

4. THE UNITED KINGDOM'S NET CONTRIBUTION TO THE BUDGET, BY CONTRAST IS CURRENTLY OVER 1 BILLION ECU A YEAR (SEE THE UK'S ESTIMATES CIRCULATED AT THE HEADS OF MINISTERS CONFERENCE IN

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NOVEMBER). THE MORAL WHICH GORIA SHOULD BE DRAWING IS THAT EVEN WITH THE COMMISSION'S PROPOSALS ITALY WOULD STILL NOT, IN COMPARISON WITH THE UNITED KINGDOM, BE BEARING THE SHARE IN THE FINANCIAL BURDENS OF THE COMMUNITY WHICH BEFITS HER MUCH VAUNTED PROSPERITY.

5. WE UNDERSTAND (IN STRICT CONFIDENCE) THAT COMMISSION OFFICIALS CLOSE TO THE ITALIANS (NOTABLY ROVASIO, ACTING DG OF DGXIX) ARE PREDICTING THAT GORIA WILL TAKE A HARD AND NATIONALISTIC LINE IN COPENHAGEN AS THE FUTURE FINANCING DOSSIER HAS NOW BECOME ONE AMONG MANY CAUGHT UP IN THE INTERNAL POLITICAL MANOEUVERING SURROUNDING THE SURVIVAL OF GORIA'S ADMINISTRATION. IN THESE CIRCUMSTANCES GORIA IS PREDICTED TO PREFER NO DEAL TO A BAD ONE FOR ITALY.

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EUROPEAN COUNCIL: PROGRESS IN BELGIAN ELECTORAL CAMPAIGN.

SUMMARY

1. BELGIAN MINISTERS FACE THEIR ELECTORS A WEEK AFTER THE EUROPEAN COUNCIL. BUT NEITHER THE ISSUES NOR THE LIKELY OUTCOME ARE YET CLEAR.

DETAIL

2. YOU MAY WISH TO HAVE THE FOLLOWING SNAPSHOT OF THE BELGIAN ELECTION CAMPAIGN (VOTING ON SUNDAY 13 DECEMBER) WITH PARTICULAR REFERENCE TO THE POSITIONS OF MARTENS AND TINDEMANS, WHOM YOU WILL SEE AT THE EUROPEAN COUNCIL. I DOUBT, HOWEVER, THAT EITHER OF THEM WILL BE VERY KEEN TO DISCUSS IT. THEY BOTH SHARE THE WIDESPREAD VIEW THAT THIS ELECTION IS UNNECESSARY, UNPREDICTABLE AND POTENTIALLY DESTABILISING. MARTENS MOREOVER REMEMBERS AND PROBABLY AGREES WITH THE COMMENT (HE TELLS ME) MRS THATCHER MADE THE LAST TIME HE TRIED TO EXPLAIN TO HER HIS DIFFICULTIES IN GOVERNING BELGIUM: 'IT SEEMS TO ME YOU'VE GOT THE WRONG SYSTEM.'

CAMPAIGN AND ISSUES

3. MARTENS'S GOVERNMENT FELL IN MID-OCTOBER OSTENSIBLY ON THE LINGUISTIC ISSUE (FOURONS AND ITS MAYOR HAPPART). THERE WAS NO SERIOUS CHALLENGE TO THEIR ECONOMIC POLICIES AND THE INDICATORS (GROWTH 1.2 PERCENT, INFLATION 1.7 PERCENT, UNEMPLOYMENT 12.5 PERCENT AND POSITIVE INVESTMENT INTENTIONS) WERE REASONABLY GOOD. THE UNDERLYING REASON FOR ITS FALL WAS THAT FLEMISH INTRANSIGENCE (WHICH MARTENS WAS UNABLE TO CONTAIN ON THE LINGUISTIC ISSUE HAD OPENED UP DIVISIONS BETWEEN THE FRANCOPHONE PARTIES IN THE COALITION, AND PARTICULARLY WITHIN THE CHRISTIAN DEMOCRATS (PSC), SOME OF WHOM NOW THINK THEY WOULD DO BETTER OUT OF AN ALLIANCE WITH THE SOCIALISTS THAN WITH THE LIBERALS. BUT IT IS UNLIKELY THAT AN ELECTION WILL MAKE ANY POSITIVE DIFFERENCE TO THE LINGUISTIC ISSUE, AND ONLY THE PSC AMONG THE MAJOR PARTIES HAS PUT IT AT THE TOP OF ITS PRIORITIES. THE OTHERS ARE CONCENTRATING ON ECONOMIC ISSUES. THE GOVERNMENT PARTIES FOCUS ON THEIR RECORD IN REDUCING INFLATION AND THE BUDGET DEFICIT AND ON THEIR PROGRAMME FOR EMPLOYMENT AND FISCAL REFORM. THE SOCIALISTS EMPHASISE THE NEED FOR A CHANGE AND MORE

SOCIAL POLICIES, THOUGH THE FRANCOPHONE SOCIALISTS (UNDER SPITAELS) ARE CAREFUL TO SAY THE ECONOMIC RECOVERY WILL NOT BE PUT AT RISK: AFTER SIX YEARS IN OPPOSITION (UNUSUALLY LONG FOR BELGIUM) THEY SNIFF THE REWARDS OF OFFICE AGAIN.

4. FOREIGN AFFAIRS HARDLY FEATURE: ALL CLAIM IMPECCABLE EUROCREDENTIALS, AND MARTENS POINTS TO THE INF AGREEMENT AS A VINDICATION OF HIS PREVIOUSLY UNPOPULAR ACCEPTANCE OF CRUISE MISSILES. HE WOULD LIKE ALSO TO CLAIM THAT A SUCCESSFUL OUTCOME TO COPENHAGEN WAS DUE TO PREPARATION BY THE BELGIAN PRESIDENCY, BUT COULD EASILY ADJUST TO ANOTHER RESULT.

5. DURING THE FIRST THREE WEEKS THE PARTIES, ILL PREPARED FOR A CAMPAIGN, WERE SELECTING THEIR OWN CANDIDATES RATHER THAN ENGAGING ONE ANOTHER. THE CAMPAIGN PROPER OPENED ONLY LAST WEEKEND, SINCE WHEN MARTENS HAS PURSUED IT EXCLUSIVELY IN HIS OWN CONSTITUENCY OF GHENT. TINDEMANS HAD TO SACRIFICE FIVE DAYS TO ACCOMPANY KING BAUDOIN TO AUSTRALIA AND NEW ZEALAND, BUT STOMPS ANTWERP WHEN HE IS NOT ON TV EXPLAINING EURO-ISSUES. BUT, PERHAPS BECAUSE NO SINGLE ISSUES HAVE YET EMERGED WHICH ROUSE NATIONWIDE INTEREST, THE IMPRESSION IS MORE LIKE A SERIES OF LOCAL ELECTIONS.

TRENDS

6. PUBLICATION OF POLLS IS BANNED DURING THE COURSE OF THE CAMPAIGN. BEFORE THE CAMPAIGN STARTED, THE SOCIALISTS WERE DOING EXTREMELY WELL IN WALLONIA AND GAINING GROUND ALSO IN FLANDERS. MORE RECENTLY PRIVATE POLLS PAID FOR JOINTLY BY THE CHRISTIAN DEMOCRAT AND SOCIALIST PARTIES SUGGEST THAT THE PRESENT COALITION PARTNERS WOULD HAVE MAJORITY IN ELECTIONS TO THE NATIONAL PARLIAMENT, BUT THAT THE PARTI SOCIALISTE (PS) WOULD REGAIN CONTROL OF THE WALLOON ASSEMBLY. THE POLLS CONTINUE TO SHOW A HIGH PERCENTAGE OF "DON'T KNOWS", HOVERING AROUND THE 30 PERCENT MARK.

POSSIBLE RESULTS

7. BELGIAN ELECTIONS PRODUCE NARROW RESULTS AT THE BEST OF TIMES AND NO-ONE IS YET READY TO PUT MUCH MONEY ON THIS ONE. THE FIRST POINT OF INTEREST ABOUT THE RESULT WILL BE WHETHER MARTENS CAN CONTINUE AS PRIME MINISTER. HE WOULD PRESUMABLY DO SO IF THE COALITION REMAINED UNCHANGED: HE MIGHT DO SO IF IT WAS ENLARGED TO BRING IN THE SOCIALISTS: HE ALMOST CERTAINLY WOULD NOT PRESIDE OVER ANOTHER CHRISTIAN DEMOCRAT PLUS SOCIALIST ALLIANCE, SUCH AS HE LED BRIEFLY AND UNSUCCESSFULLY IN 1980. TINDEMANS WOULD HAVE NO SUCH SCRUPLES, BUT IS NOT LIKELY TO BE ASKED: HE WOULD HOWEVER HAVE A 50-50 CHANCE OF RETAINING THE FOREIGN MINISTRY IN ANY OF THESE

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COMBINATIONS. MARTENS HAS INDICATED TO ME IN THE PAST THAT HE WOULD NOT MIND A PERIOD OUT OF OFFICE (HE IS ONLY 51) AND THERE IS SPECULATION THAT HE WOULD IN DUE COURSE BID FOR A EUROPEAN POST - PARLIAMENT SEEMS MORE NATURAL THAN COMMISSION. BUT HE IS NOW FIGHTING AN IMPORTANT CAMPAIGN, CENTRED LARGELY AROUND HIS OWN PERSONALITY AND POLICIES, WHICH COULD COST HIM THE SUPPORT OF HIS OWN PARTY IF HE LOST.

8. UNFORTUNATELY THERE IS ALSO THE REAL POSSIBILITY OF NO CLEAR OUTCOME AND MANY WEEKS OF SEARCH FOR A VIABLE COMBINATION, WITH ALL THE ATTENDANT RISKS OF GOVERNMENTAL PARALYSIS, WANING OF BUSINESS CONFIDENCE, PRESSURE ON THE FRANC, AND DRIFT. DEFINITELY NOT A GOOD SYSTEM, BUT THE ONLY ONE THEY'VE GOT UNTIL THEY CAN FIND A MAJORITY TO CHANGE IT.

PETRIE

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TO IMMEDIATE FCO

TELNO 420

OF 020724Z DECEMBER 87

INFO PRIORITY UKREP BRUSSELS

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GREECE: BACKGROUND FOR COPENHAGEN COUNCIL

1. THE MAIN GREEK AIM AT COPENHAGEN WILL BE TO SECURE AS LARGE AN INCREASE IN STRUCTURAL FUNDS AS POSSIBLE. THEY ARE LESS INTERESTED IN FINANCIAL DISCIPLINE. BUT PAPANDEOU IS BY TEMPERAMENT LESS CONFRONTATIONAL THAN PANGALOS. HIS STYLE IS TO POSE AS THE ELDER STATESMAN AND HIS TEMPTATION WILL BE TO PLAY TO HIS DOMESTIC GALLERY. HE WILL BE CONSCIOUS THAT HIS OWN PRESIDENCY LIES AHEAD. HE WILL SHELTER WHERE HE CAN BEHIND THE OTHER SOUTHERNERS, ALTHOUGH HE WILL SPEAK UP AGAINST SKEWING FUNDS TO SPAIN AND PORTUGAL IF THAT MEANS LESS FOR GREECE.

2. PAPANDEOU IS HAVING TROUBLE AT HOME. LAST WEEK HIS ECONOMY MINISTER, SIMITIS, RESIGNED. HE WAS THE ARCHITECT OF THE AUSTERITY PROGRAMME AND ONE OF THE FEW PASOK MINISTERS WHOSE INTEGRITY WAS RESPECTED. PAPANDEOU WAS NOT PREPARED TO CONFRONT HIS LEFT WING WITH THE MAINTENANCE OF AUSTERITY. HE DISMISSED SIMITIS SUDDENLY OVER WAGE INDEXATION, BUT THE ROW WENT DEEPER THAN THAT. THE PASOK LEFT WANTED TO GO FOR FREE SPENDING AND VOTES, WHILE SIMITIS WAS INSISTING THAT PUBLIC SECTOR DEFICITS HAD TO BE BROUGHT DOWN AND THAT INVESTMENT AND THE PRIVATE SECTOR NEEDED TO BE INCOURAGED. IT WAS A DAMAGING RESIGNATION. PAPANDEOU'S INCONSISTENCY HAS AGAIN BEEN EXPOSED AND HIS CREDIBILITY HAS SUFFERED. THERE IS MORE TALK NOW ABOUT THE POSSIBILITY OF ELECTIONS IN SPRING 1988. BUT PAPANDEOU HAS PROBABLY NOT YET DECIDED WHEN TO GO TO THE POLLS. HE MAY PREFER TO SPIN OUT THE NEGOTIATIONS ON THE US BASES, TO GET DOMESTIC MILEAGE AS A WORLD LEADER DURING THE EC PRESIDENCY AND TO CARRY ON TO THE END OF HIS TERM IN JUNE 1989. BUT HE IS NOW ON THE DEFENSIVE. THERE IS A SENSE OF DRIFT AND DISILLUSION IN THE AIR. HE MAY NOT BE ABLE TO LAST THE COURSE. HIS ECONOMIC POLICIES LOOK DISTINCTLY WOBBLY. THE EDUCATION SYSTEM IS IN A STATE OF CHAOS. STRIKES ARE MULTIPLYING. HIS PRIVATE LIFE HAS BROUGHT HIM INTO DISREPUTE. AND YET AND YET. HE REMAINS THE SUPREME MANIPULATOR OF GREEK POLITICS AND THE MASTER OF THE UNEXPECTED. ALTHOUGH MITSOTAKIS IS CALLING FOR EARLY ELECTIONS, IF THEY WERE HELD

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TOMORROW IT COULD GO EITHER WAY. NEW DEMOCRACY STILL LACKS PUNCH AS AN OPPOSITION AND MITSOTAKIS HAS NOT PERSUADED THE ELECTORATE THAT HE HAS EFFECTIVE ALTERNATIVE ANSWERS TO GREECE'S PROBLEMS.

3. ON THE EXTERNAL FRONT, PAPOULIAS PAID A USEFUL VISIT TO LONDON AND IS NOW IN ISRAEL, WITH THE TALK DE JURE RECOGNITION NEXT YEAR. PAPANDREOU'S PEACE INITIATIVES LOOK SMALL BEER IN THE PERSPECTIVE OF CURRENT EAST/WEST DEVELOPMENTS. GREECE HAS ENDED THE STATE OF WAR WITH ALBANIA. RELATIONS WITH TURKEY ARE CALMER AND THERE IS SPECULATION OF AN EARLY MEETING BETWEEN PAPANDREOU AND OZAL. THE NEGOTIATION OVER THE US BASES HAS JUST STARTED: IT LOOKS LIKE BEING A LONG AND DIFFICULT HAUL.

4. PAPANDREOU IS LOOKING FORWARD TO HIS BILATERAL WITH THE PRIME MINISTER. IT WILL BE A TIMELY OCCASION FOR THE PRIME MINISTER TO EXPLORE PAPANDREOU'S LATEST THINKING ON TORNADO AND FRIGATES. HE IS LIKELY TO INVITE MRS THATCHER TO VISIT GREECE.

5. PLEASE PASS TO POWELL, NO 10.

THOMAS

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CPE/ATH 374

02.12.87 15.58 L.T.

DIFFUSION RESTREINTE

OBJET: EUROPEAN COUNCIL DECLARATION ON THE NEAR AND MIDDLE EAST
REF.: CPE/BON 486, CPE/PRES/COP 603

GREECE THANKS THE PRESIDENCY FOR ITS DRAFT AND WOULD LIKE
TO OFFER THE FOLLOWING COMMENTS:

A. PARAGRAPH 1 IRAQ-IRAN CONFLICT.

WHEN REFERENCE IS MADE OF WAYS AND MEANS TO ENFORCE
IMPLEMENTATION OF RESOLUTION 598, ONE MUST NOT OVERLOOK THAT
AGREEMENT TO THIS EFFECT HAS TO BE GIVEN BY THE PERMANENT
MEMBERS OF THE SECURITY COUNCIL, AMONGST THEM THE SOVIET UNION
AND CHINA.

WE THEREFORE SUGGEST TO DELETE THE SECOND SENTENCE OF
PARAGRAPH 1 (FROM CONTINUED NON-COMPLIANCE TO IMPLEMENT-
ATION).

B. PARAGRAPH 3 LEBANON

THE UNDERLINING OF SYRIA'S ROLE AND RESPONSIBILITY IN
LEBANON COULD LEAD TO MISINTERPRETATION GIVEN THE AMBIGUITY
OF THE WORD 'RESPONSIBILITY'. ON THE OTHER HAND NO REFERENCE
IS MADE TO THE CONTINUING PRESENCE OF FOREIGN FORCES IN SOUTHERN
LEBANON WITHOUT THE CONSENT OF THE LEBANESE GOVERNMENT.

WE THEREFORE SUGGEST TO REPLACE THE PENULTIMATE SENTENCE
OF PARAGRAPH 3 TO READ: 'THEY EXPRESS THE HOPE THAT SYRIA
WOULD CONTRIBUTE IN FINDING SUCH A SOLUTION. THE TWELVE REITERATE
THE NEED FOR THE WITHDRAWAL OF ALL FOREIGN TROOPS EXCEPT THOSE
WHOSE PRESENCE IS AGREED TO BY THE LEBANESE GOVERNMENT'.

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C. IN OUR OPINION THE DECLARATION CAN ALSO CONTAIN A REFERENCE TO THE TWELVE'S WILLINGNESS IN PROMOTING THE POLITICAL DIALOGUE WITH THE ARAB COUNTRIES.

IN THIS RESPECT WE SUGGEST INCLUSION IN THE PRESIDENCY'S DRAFT OF THE LAST PARAGRAPH AS PER COREU CPE/PAR 480.-

ATH COREU
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TO DESKBY 021800Z FCO

TELNO 906

OF 021630Z DECEMBER 87

INFO DESKBY 030900Z COPENHAGEN, UKREP BRUSSELS

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COPENHAGEN EUROPEAN COUNCIL: THE VIEW FROM GERMANY

SUMMARY

1. THE MOST DIFFICULT EUROPEAN COUNCIL THE FEDERAL GOVERNMENT HAS EVER FACED WITH THE REQUIREMENTS OF EUROPEAN POLICY CUTTING DIRECTLY ACROSS THE INTERESTS OF A POWERFUL AND ARTICULATE SECTION OF THE COALITION'S ELECTORAL SUPPORT. LITTLE COURAGE BEING SHOWN IN FINDING A WAY FORWARD. KOHL'S INTENTIONS AT THE EUROPEAN COUNCIL UNKNOWN EVEN TO SENIOR OFFICIALS. ON MANY ISSUES HE IS UNLIKELY TO HAVE DECIDED HIS POSITION. HE WILL FEAR KIECHLE'S RESIGNATION. AN ELEMENT OF MICAWBERISM EVIDENT. HE WILL HOPE - WITHOUT COMPLETE CONFIDENCE - FOR HELP FROM THE FRENCH, ESPECIALLY OVER AGRICULTURE AND WILL BE PRONE TO DANCE TO A FRENCH TUNE TO GET THIS. NO SIGN SO FAR OF THE GERMAN PRESS BEING PREPARED FOR APPORTIONMENT OF RESPONSIBILITY FOR BREAKDOWN AT COPENHAGEN SHOULD THIS OCCUR. THEY ARE HOWEVER ALREADY DISPOSED TO PUT THE BLAME ON LONDON IRRESPECTIVE OF THE FACTS.

2. WITH A GROWING DEBATE ON THE GOVERNMENT'S HANDLING OF THE DOMESTIC ECONOMY, FOR WHICH IT IS GETTING ALMOST AS BAD A PRESS AT HOME AS ABROAD, KOHL DOES NOT COME TO COPENHAGEN LOOKING LIKE THE UNDISPUTED MASTER IN HIS OWN HOUSE. I HAVE NO DOUBT HE WANTS SUCCESS AND IS AWARE OF THE NEED FOR IT AS MUCH AS ANY OF HIS EUROPEAN COLLEAGUES. BUT I FEAR HE PRIVATELY EXPECTS FAILURE.

DETAIL

3. THE GERMANS KNOW THAT IT IS THEIR IMMOBILITY ON KEY AGRICULTURAL ISSUES WHICH STANDS AS THE SINGLE BIGGEST OBSTACLE TO AGREEMENT AT COPENHAGEN. THERE HAVE BEEN SIGNS OF POLICY EVOLUTION IN THE AGRICULTURE MINISTRY DURING THE AUTUMN AS THE IMPOSSIBILITY OF STANDING PAT HAS BECOME EVIDENT IN BRUSSELS. BUT THE DECISION TO PUSH THROUGH TO NEW AGRICULTURAL POLICIES, AND TO PREPARE THE FARMERS AND GERMAN PUBLIC OPINION FOR THIS, HAS NOT BEEN TAKEN. KOHL MUST FEAR KIECHLE'S RESIGNATION, WHICH NO DOUBT IS WHY HE IS TAKING HIM WITH HIM TO COPENHAGEN. CHANCELLERY OFFICIALS ARE CLEAR THAT

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KOHL BELIEVES IT IS POLITICALLY IMPOSSIBLE TO FORCE FARMERS OUT OF BUSINESS BY AUTOMATIC PRICE REDUCTIONS. THEY QUOTE HIM AS SAYING THAT NO POLITICIAN CAN EXPECT ANOTHER TO CUT HIS OWN THROAT ELECTORALLY. AN ACTION PROGRAMME TO PERSUADE FARMERS TO ACCEPT EARLY RETIREMENT, SET-ASIDE ETC. IS PREFERRED, BUT NONE OF OUR INTERLOCTORS IS PREPARED TO SAY HOW LONG THAT WOULD TAKE.

4. AS SEEN FROM HERE, THE FRENCH HAVE PLAYED THE GERMANS RATHER CLEVERLY OVER AGRICULTURE, HAVING ROUSED THE HOPE OF A FRANCO-GERMAN ALLIANCE WITHOUT PERMITTING COMPLETE CONFIDENCE IN IT TO EXIST. A USEFUL SITUATION FOR THE FRENCH OF ANXIOUS GERMAN WILLINGNESS TO PLEASE AS FAR AS POSSIBLE HAS THUS BEEN CREATED. I WOULD EXPECT KOHL TO TRY TO COORDINATE WITH THE FRENCH AT ALL STAGES AND SHELTER BEHIND THEM WHEN HE CAN.

5. THE GERMAN PRESS HAS SHOWN LITTLE DISPOSITION OVER THE LAST FEW MONTHS TO ENQUIRE CRITICALLY BEHIND THE FEDERAL GOVERNMENT'S POSITION, THOUGH THERE IS INCREASING, IF GRUDGING, ACCEPTANCE OF THE STRENGTH OF THE CASE FOR PRICE RESTRAINT. IF IT COMES TO A BREAKDOWN, THE PRESS HERE WILL BE ALL TOO WILLING TO SWALLOW AN ANTI-THATCHER LINE AT COPENHAGEN. TO BE FAIR, THERE HAS SO FAR BEEN NO SIGN OF THE FEDERAL SPOKESMAN PREPARING FOR THE POSSIBILITY OF FAILURE IN THIS WAY, BUT SHOULD THE NEED ARISE, IT IS AN OBVIOUS THEME FOR THE GERMAN DELEGATION TO FOSTER. THE MOST UNCOMFORTABLE FEATURE OF THE SCENE FOR THEM IS THE POSITION OF THAT GUARDIAN OF EUROPE, THE COMMISSION.

6. AT KOHL'S CHRISTMAS RECEPTION FOR AMBASSADORS TODAY I TALKED TO STAVENHAGEN AND FRAU ADAM-SCHWAETZER AS WELL AS RICHTHOFEN (POLITICAL DIRECTOR). THEY ALL TOOK THE SAME LINE: IF BRITAIN STOOD ON THE PRIME MINISTER'S LETTER TO SCHLUTER, THERE WOULD BE NO AGREEMENT IN COPENHAGEN: BUSINESS CONFIDENCE IN THE OBJECTIVE OF COMPLETING THE INTERNAL MARKET BY 1992 WOULD SLIP FURTHER: AND THERE WOULD BE A PAINFUL CONTRAST BETWEEN THE POWERLESSNESS OF EUROPE TO SOLVE ITS PROBLEMS AND THE SUCCESS OF THE SUPERPOWERS IN SOLVING THEIRS. LAUTENSCHLAGER, IN A CONVERSATION WHICH COULD HAVE BEEN A REPETITION OF OTHERS I HAVE HAD WITH HIS PREDECESSOR RUHFUS, ARGUED THAT THE EC IS A PLACE WHERE NOBODY SHOULD EXPECT TO GET 100 PER CENT OF WHAT HE WANTS, AND THAT IT IS THE DIRECTION OF THE MARCH THAT MATTERS, RATHER THAN WHAT DISTANCE IS COVERED AT ANY PARTICULAR SUMMIT. I DOUBT IF OFFICIALS HAVE A PRECISE IDEA OF HOW FAR KOHL WILL BE PREPARED TO GO AT COPENHAGEN.

7. ECONOMIC MANAGEMENT IS ANOTHER AREA OF GROWING DIFFICULTY FOR THE

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FEDERAL GOVERNMENT, AND ONE WHICH IS OCCUPYING THE HEADLINES AT THE MOMENT. CRITICISM THAT IT HAS FAILED TO ACT IN TIME OR SUFFICIENTLY TO STIMULATE GROWTH MAY BE TEMPORARILY ALLAYED BY THE MEASURES ANNOUNCED TODAY TO EXTEND CHEAP CREDITS, MAINLY TO SMALL AND MEDIUM SIZED BUSINESSES AND TO LOCAL AUTHORITIES (THE GEMEINDE). THESE MEASURES ARE LIKELY TO BE SEEN AS GIVING THE RIGHT SIGNAL POLITICALLY, BUT AS ECONOMICALLY FAIRLY INSIGNIFICANT AND NOT THE END OF THE STORY. IN ECONOMIC POLICY AS IN OTHER AREAS, THE CRY IS THAT THE COALITION LACKS DETERMINATION AND THE FEDERAL CHANCELLOR LEADERSHIP.

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TO IMMEDIATE FCO

TELNO 1242

OF 021801Z DECEMBER 87

INFO ROUTINE EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO
INFO SAVING CONSULS GENERAL IN FRANCE

THE FRENCH POLITICAL SCENE ON THE EVE OF THE EUROPEAN COUNCIL

SUMMARY

1. CHIRAC'S FORTUNES HAVE SUDDENLY IMPROVED WITH THE RELEASE OF TWO HOSTAGES, LAW AND ORDER SUCCESSES, AND SLIGHTLY MORE ENCOURAGING ECONOMIC INDICATORS. HE HOPES TO CAPITALISE ON DEVELOPMENTS WITH A PARLIAMENTARY VOTE OF CONFIDENCE DESIGNED TO HIGHLIGHT THE GOVERNMENT'S ACHIEVEMENTS, EMBARRASS BARRE, AND ENHANCE HIS AUTHORITY BEFORE COPENHAGEN. MITTERRAND IS NOT DIRECTLY AFFECTED, BUT PRIVATELY PLEASED THAT CHIRAC HAS RECOVERED SOME OF THE GROUND HE HAD LOST TO BARRE. HIS OWN INTENTIONS WILL REMAIN UNCERTAIN FOR SOME TIME YET. MEANWHILE, WITH THE ELECTION IN MIND, BOTH HE AND CHIRAC WILL TRY TO TAKE THE CREDIT IF COPENHAGEN IS A SUCCESS AND ESCAPE ANY BLAME IF IT IS NOT.

DETAIL

2. CHIRAC GOES TO COPENHAGEN AT A MOMENT WHEN HIS DOMESTIC POLITICAL FORTUNES HAVE SUDDENLY CHANGED FOR THE BETTER. THE RELEASE OF THE TWO FRENCH HOSTAGES, SUCCESS AGAINST A CORSICAN TERRORIST NETWORK, THE CAPTURE OF THE LAST ACTION DIRECTE LEADER, VICTORY FOR THE MAJORITY'S CANDIDATE IN A KEENLY FOUGHT LOCAL BY-ELECTION IN MARSEILLES, AND SOME SLIGHTLY MORE ENCOURAGING ECONOMIC INDICATORS (UNEMPLOYMENT AT 2.57 MILLION IS AT ITS LOWEST FOR A YEAR, AND GROWTH SHOULD REACH 2 PERCENT THIS YEAR RATHER THAN THE 1.5 PERCENT PREDICTED EARLIER) HAVE ALL CONSPIRED IN THE LAST FEW DAYS TO LIFT THE GLOOM THAT HAD SETTLED ON THE CHIRAC CAMP DURING OCTOBER/NOVEMBER. THE LATEST OPINION POLLS INDICATE THAT THESE SUCCESSES HAVE TRANSLATED QUICKLY INTO INCREASED POPULARITY, AND CHIRAC HAS APPARENTLY REGAINED AT LEAST SOME OF THE GROUND HE HAD LOST TO BARRE IN RECENT WEEKS.

3. CHIRAC HAS MOVED QUICKLY TO TRY TO CAPITALISE ON THIS CHANGE, CALLING A SNAP PARLIAMENTARY VOTE OF CONFIDENCE TOMORROW (THURSDAY 3 DECEMBER) TO UNDERLINE WHAT ARE BEING PRESENTED AS THE ACHIEVEMENTS OF A GOVERNMENT WHICH HAS CONFRONTED FRANCE'S PROBLEMS WITH TENACITY AND COURAGE. NO DOUBT THE VOTE WILL ENGENDER SOME USEFUL PUBLICITY

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AS FAR AS CHIRAC IS CONCERNED, BUT IT HAS ANOTHER, UNAVOWED, INTENTION WHICH IS TO EMBARRASS THE BARRISTES. AT A TIME WHEN BARRE'S CAMPAIGN HAS MOVED INTO HIGHER GEAR, AND HE AND HIS SUPPORTERS HAVE BECOME MORE OPENLY CRITICAL OF GOVERNMENT POLICY, THEY ARE BEING FORCED INTO A DISPLAY OF LOYALTY IN WHICH, IMPLICITLY, THEY ARE OBLIGED TO ACKNOWLEDGE CHIRAC'S PRE-EMINENCE WITHIN THE MAJORITY. THERE IS A FURTHER REASON TOO, AND ONE REMARKED ON TODAY BY COMMENTATORS: CHIRAC WANTS TO FIGHT FRANCE'S CORNER AT COPENHAGEN BUOYED UP BY A VOTE OF CONFIDENCE.

4. MITTERRAND HAS NOT BEEN DIRECTLY TOUCHED BY RECENT DEVELOPMENTS. PRIVATELY HOWEVER, HE MAY BE PLEASED AND RELIEVED THAT CHIRAC'S FORTUNES HAVE IMPROVED SOMEWHAT SINCE IT IS IN THE LEFT'S INTERESTS THAT THE RIGHT SHOULD REMAIN DIVIDED, AND THAT BARRE SHOULD NOT EMERGE AS THE CLEAR PRESIDENTIAL CHALLENGER. MITTERRAND'S OWN INTENTIONS ARE UNCERTAIN: A LARGE MAJORITY WITHIN THE SOCIALIST PARTY HOPE THAT HE WILL STAND AGAIN AND ARE INCREASINGLY ACTING ON THE ASSUMPTION THAT HE WILL. HOWEVER, HE HAS ALMOST CERTAINLY NOT YET MADE UP HIS MIND, AND IS UNLIKELY TO DO SO FOR SOME TIME YET.

5. WHATEVER HE DECIDES, EUROPE IS CERTAIN TO FIGURE PROMINENTLY AS A CAMPAIGN THEME OF BOTH THE LEFT AND RIGHT IN THE NEXT FEW MONTHS. MITTERRAND AND CHIRAC WILL THEREFORE BE KEEN TO CLAIM THE CREDIT FOR SUCCESS AT COPENHAGEN: CONVERSELY THEY WILL SEEK TO ESCAPE RESPONSIBILITY FOR FAILURE, EITHER BLAMING EACH OTHER OR, MORE PROBABLY, ONE OR SOME OF THE OTHER COUNCIL PARTICIPANTS.

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FM PARIS

TO DESKBY 021600Z FCO

TELNO 1239

OF 021514Z DECEMBER 87

INFO IMMEDIATE UKREP BRUSSELS, BONN

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EUROPEAN COUNCIL, COPENHAGEN: FUTURE FINANCING

SUMMARY

1. MITTERRAND AND CHIRAC WILL WANT AN AGREEMENT AT COPENHAGEN, PROVIDED OF COURSE THAT IT IS ON THEIR TERMS. IF NO AGREEMENT IS POSSIBLE THEY WILL OTHER THINGS BEING EQUAL, PREFER CONSTRUCTIVE DISAGREEMENT TO A MESS. NEITHER WILL WANT A PUBLIC DISPUTE WITH GERMANY. DESPITE DOMESTIC DIFFERENCES AT HOME, AS THE STRAINS OF COHABITATION BECOME CLEARER AS THE ELECTION APPROACHES, THEY ARE LIKELY TO SPEAK WITH ONE VOICE. THERE IS ANGLLO-FRENCH AGREEMENT ON KEY PRINCIPLES, INCLUDING THE NEED FOR CONTROL OF AGRICULTURAL EXPENDITURE AND EFFECTIVE STABILISERS, BUT A DIFFERENCE OF VIEW ON IMPORTANT DETAILS. THE FRENCH MAY, FOR EXAMPLE MAKE AGREEMENT ON THE LEVEL OF OWN RESOURCES A PRE-CONDITION FOR AGREEMENT ON STABILISERS, CREATING AN AWKWARD CIRCLE TO BREAK OUT OF. THEY MAY GO FOR A BROAD AGREEMENT, INCLUDING OWN RESOURCES, WITH DETAILS TO BE DECIDED LATER: THEIR DEFINITION OF THESE DETAILS WILL NOT NECESSARILY BE OURS.

DETAIL

2. BOTH MITTERRAND AND CHIRAC WILL WANT A POSITIVE OUTCOME TO THE DISCUSSIONS AT COPENHAGEN ON FUTURE FINANCING, THOUGH HAVE NO ILLUSIONS ABOUT THE DIFFICULTY OF REACHING ONE. NEITHER WILL WANT AN APPEARANCE OF DISARRAY IN THE COMMUNITY WHEN REAGAN AND GORBACHEV ARE ON THE POINT OF DECISIONS WHICH WILL PROFOUNDLY INFLUENCE EUROPE'S FUTURE, AND WHEN INSTABILITY ON STOCK AND CURRENCY MARKETS CONTINUES. THEY WILL NOT WANT THE KEY ISSUES ON FUTURE FINANCING TO SLIP INTO THE GERMANY PRESIDENCY, WHEN THE FRENCH THEMSELVES WILL BE HAMSTRUNG BY THE PRESIDENTIAL ELECTIONS, AND WITH DISCUSSION DOMINATED BY WAYWARD GERMAN AGRICULTURAL POLICY, WITH ITS FASCINATION WITH QUOTAS. NOR WOULD THEY RELISH NEGOTIATIONS UNDER THE SUCCEEDING GREEK PRESIDENCY. AND MITTERRAND (IF HE STANDS) AND CHIRAC WOULD PREFER TO AVOID A MESSY (IE PROVISIONAL TWELFTHS) COMMUNITY BUDGET SCENE DURING THE ELECTION CAMPAIGN ITSELF.

3. BUT ELECTORIAL FACTORS PUSH THE OTHER WAY TOO. NEITHER MITTERRAND

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NOR CHIRAC CAN AFFORD TO APPEAR LESS COMMUNAUTAIRE THAN THE OTHER, (WHICH MEANS THEY ARE LIKELY TO STICK TO A COMMON LINE AT COPENHAGEN, DESPITE THE GROWING TENSION BETWEEN THEM DOMESTICALLY). NEITHER, IN PARTICULAR, WILL WANT TO ALIENATE THE FARMERS. ALTHOUGH THEY HAVE COME QUITE A LONG WAY ON CONTROL OF AGRICULTURAL SPENDING (INCLUDING ACCEPTANCE OF THE PRINCIPLE OF STABILISERS), THEY WILL THEREFORE BE LESS LIKELY THAN WOULD OTHERWISE BE THE CASE TO PUSH FOR THE DEGREE OF DISCIPLINE WHICH, AS SUPPORT (BUDGET MINISTER) TOLD ME LAST NIGHT HE AND BALLANDUR AT LEAST ACCEPT AS NECESSARY.

4. THE GERMAN ANGLE WILL, AS ALWAYS, BE KEY. WITH THE 25TH ANNIVERSARY OF THE ELYSEE TREATY ONLY WEEKS AWAY, THE FRENCH WILL WISH TO AVOID PUBLIC FRANCO-GERMAN DIFFERENCIES, AND THERE HAS CLEARLY BEEN MUCH MANOEUVERING BEHIND THE SCENES TO REACH AN AXIS AROUND WHICH OTHERS CAN FORM. BUT IT IS CLEAR FROM YOUR TALK WITH RAIMOND IN THE MARGINS OF THE CONCLAVE, THAT DIFFERENCES REMAIN ON KEY AGRICULTURAL ISSUES. THE FRENCH ARE ANXIOUS TO FIND A SOLUTION ON STABILISERS WHICH IS PRESENTATIONALLY FEASIBLE FOR THE GERMANS, INCLUDING THEREFORE A SET ASIDE ELEMENT. DISCUSSIONS NO DOUBT CONTINUE. MEANWHILE, THE FRENCH WILL HOPE FOR A COMMISSION SHIFT IN THE DIRECTION OF THEIR ARABLE SECTOR COMPROMISE WHICH WILL MAKE IT EASIER FOR THE GERMANS TO COME INTO LINE. THEY WILL NOT HOWEVER, SEE KICCHLE'S ATTENDANCE AT COPENHAGEN, SHOULD IT HAPPEN AS INCREASING THE CHANCES OF GERMAN FLEXIBILITY. (NO DECISION YET ON WHETHER IN THOSE CIRCUMSTANCES GUILLAUME WOULD ATTEND).

5. THE FRENCH POSITION ON THE KEY QUESTIONS ON FUTURE FINANCING WILL BE WELL-KNOWN TO YOU BY NOW. OUR CONVERSATIONS SINCE THE CONCLAVE HAVE NOT REVEALED MUCH CHANGE. WE HAVE MUCH IN COMMON ON BROAD PRINCIPLE, BUT DIFFER ON IMPORTANT DETAILS. THE FRENCH CONTINUE TO SEE THE DIFFERENT ISSUES AS INEXTRICABLY LINKED, AND TO BE CONSIDERED THEREFORE AS A PACKAGE. BUT RODOCANACHI (MATIGNON) STRESSED THIS MORNING THAT - UNHELPEFULLY - THEY SEE AGREEMENT ON THE LEVEL OF OWN RESOURCES AS A PRE-CONDITION FOR AGREEMENT ON STABILISERS. THERE IS ALSO NOW TALK OF AGREEMENT AT COPENHAGEN ON BROAD PRINCIPLES - NOT INCLUDING AGREEMENT ON INCREASING OWN RESOURCES - BUT WITH DETAILS (UNSPECIFIED) TO BE DECIDED LATER BY THE BUDGET AND AGRICULTURE COUNCILS.

6. ON AGRICULTURE, THE FRENCH REMAIN COMMITTED TO THE PRINCIPLE OF STABILISERS, BUT ON THEIR TERMS: THEY BELIEVE THEIR COMPROMISE PROPOSAL PROVIDES THE ONLY CHANCE OF GETTING THE GERMANS IN LINE: AND IN THE LONG TERM COULD BE EQUALLY AS EFFECTIVE IN BUDGETARY TERMS AS THE COMMISSION'S PROPOSAL, WHICH THEY BELIEVE STANDS NO

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CHANCE OF RALLYING THE MAJORITY. THE FRENCH THEREFORE ASSUME THAT THE COMMISSION WILL HAVE TO MOVE IN THEIR DIRECTION. DESPITE THE DIFFICULTIES WHICH SEVERE PRICE CUTS WOULD POSE FOR THE GERMANS, THE FRENCH CAN MOVE SOME WAY ON OILSEED PRICES, POSSIBLY BEYOND THE 15 PERCENT MENTIONED IN THE AGRICULTURE COUNCIL.

7. THE FRENCH DO NOT INTEND TO BUDGE FROM A 1987 BASE FOR THE GUIDELINE, INDEXED AS NECESSARY TO MEET 1988 NEEDS AND ADJUSTED TO COVER ANY SHORTFALL ARISING IF THE OILS AND FATS TAX FAILS TO WIN A MAJORITY, FOR WHICH THE FRENCH APPEAR TO BE PREPARING THEMSELVES. THIS MEANS A 1988 FIGURE OF AROUND 29-30 BILLION ECU IF STOCK DISPOSAL IS FINANCED WITHIN GUIDELINE, WHICH THE FRENCH PREFER: LESS IF OUTSIDE. THEY RULE OUT NATIONAL FINANCING OF STOCK DISPOSAL. THEY REMAIN COMMITTED TO AN EXCEPTIONAL CIRCUMSTANCES CLAUSE TO COVER ESSENTIALLY MONETARY FACTORS, INCLUDING EMS REALIGNMENTS: BUT ACCEPT THAT THESE SHOULD BE VERY CLEARLY DEFINED IN TERMS OF BOTH EXTERNAL AND INTERNAL MONETARY CONDITIONS. THEY WISH TO RETAIN THE CAPACITY TO REACT, VIA THE EXCEPTIONAL CIRCUMSTANCES CLAUSE, TO CIRCUMSTANCES OUTSIDE THE EC'S CONTROL WHICH BEAR DIRECTLY UPON EC AGRICULTURAL EXPENDITURE, FOR INSTANCE US EXPORT SUBSIDY PROGRAMMES. THE GATT DIMENSION IS HIGHLY RELEVANT TO FRENCH THINKING HERE. THE STABILISER PACKAGE, IF AGREED, MUST BE GIVEN DUE CREDIT IN THE GATT NEGOTIATION: BUT IT WILL BE ESSENTIAL FOR THE FRENCH TO HAVE THE MEANS TO RETALIATE AGAINST SUBSIDY PROGRAMMES OF OTHER MAJOR AGRICULTURAL EXPORTERS AS NECESSARY VIA THE EXCEPTIONAL CIRCUMSTANCES CLAUSE: IN FRENCH EYES AN IMPORTANT DEFENCE AGAINST US COMPETITION FOR EXPORT MARKETS.

8. AS FOR OTHER ISSUES:

I) ON THE STRUCTURAL FUNDS, THE FRENCH LIKE US, CANNOT ACCEPT THE COMMISSION PROPOSALS FOR DOUBLING BY 1992. THEY WOULD PREFER AN INCREASE TO BE KEPT WITHIN THE MAXIMUM RATE, BUT WOULD PROBABLY BE PREPARED TO GO ABOVE IT IF THEY THOUGHT IT NECESSARY TO GET AGREEMENT ON A PACKAGE. CONSTANS (SCGI) SPOKE YESTERDAY OF A 33 PERCENT INCREASE IN REAL TERMS, CALCULATED AS BEING ONE AND A HALF TIME'S THE MAXIMUM RATE, IE ALLOWING FOR THE EUROPEAN PARLIAMENT'S MARGIN. BUT RODOCANACHI IS TALKING OF AN UPPER LIMIT OF 40 PERCENT.

II) THE FRENCH ACCEPT THAT THE BRITISH ABATEMENT MUST CONTINUE, BUT CANNOT ACCEPT IT AS A PERMANENT FEATURE OF THE SYSTEM. THEY THEREFORE WANT TO SEE IT REDUCED OVER TIME. THEY WILL NOT LEAD THE PACK ON THE ISSUE AT COPENHAGEN, BUT WILL BE LOOKING FOR SOME FLEXIBILITY.

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III) THE FRENCH TALK OF AN OVERALL OWN RESOURCES INCREASE OF 1.1 PERCENT BY 1992, BUT MAY BE PREPARED TO GO ABOVE THAT, SAY TO 1.2 PERCENT, IF NEEDED, THERE SEEMS LITTLE DIFFERENCE BETWEEN US ON STRUCTURE.

PLEASE ADVANCE PRIVATE SECRETARY, KERR, WALL (FCO) LAVELLE, HOLROYD BUDD (CAB OFF), HADLEY, MAFF, ROBERTS (DTI), EDWARDS (TSY)

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TO DESKBY 021600Z FCO

TELNO 4132

OF 021440Z DECEMBER 87

INFO IMMEDIATE COPENHAGEN

INFO PRIORITY OTHER EUROPEAN COMMUNITY POSTS, WASHINGTON

FRAME GENERAL

DELORS' PRE-COPENHAGEN PRESS CONFERENCE

SUMMARY

1. 50 MINUTE LECTURE ON IMPLEMENTING THE SINGLE ACT. LITTLE NEW TO SAY, NO NEW PROPOSALS. JUSTIFIED LINKING UK ABATEMENT TO AGRICULTURAL RECEIPTS. PERFORMANCE NOTABLE FOR ABSENCE OF DIRE FORECAST OR THREAT TO RESIGN IF FAILURE AT COPENHAGEN. MINIMISED DIVERGENCE AT BRUSSELS SUMMIT THOUGH CLEARLY STILL SENSITIVE OVER LONDON SUMMIT.

DETAIL

2. DELORS GAVE A STANDARD SPEECH AT HIS PRESS CONFERENCE THIS MORNING ON THE COPENHAGEN AGENDA. THERE WERE THREE DECISIVE ELEMENTS: COMPLETION OF THE INTERNAL MARKET, IMPLEMENTATION OF THE SINGLE ACT, AND ALLOCATION OF SUFFICIENT RESOURCES TO ACHIEVE BOTH. THE AIM WAS TO AVOID AN ARGUMENT OVER FINANCES EVERY TWO YEARS.

3. HE ALSO FOLLOWED A STANDARD LINE ON CAP REFORM. THIS SHOULD MAINTAIN THE RURAL BALANCE AND SMALL FARMER: ADJUST COMMUNITY OUTPUT BY A MIXTURE OF PRICE, QUOTA, AND PENALTY MECHANISMS: AND ENSURE PARALLEL ACTION BY THIRD COUNTRIES. EXPERIENCE SINCE FONTAINEBLEAU HAS PROVED THE NEED FOR EFFECTIVE BUDGET DISCIPLINE. BUT A MONETARY RESERVE WAS ESSENTIAL.

4. ON STABILISERS, HE SAID THERE WAS NO NEED FOR HEADS OF GOVERNMENT TO DISCUSS ALL THE COMMODITIES. IT WOULD BE SUFFICIENT FOR THEM TO TAKE BROAD DECISIONS AND GIVE GUIDELINES FOR IMPLEMENTATION. THE ISSUES SHOULD THEREFORE BE SIMPLIFIED SO THEY COULD GIVE FIRM INSTRUCTIONS THAT AGRICULTURAL BUDGET DISCIPLINE BE RESPECTED. IT WAS A QUESTION OF PRINCIPLES NOT MODALITIES. BUT HE EMPHASISED THAT WITHOUT SUCH DISCIPLINE NO ONE WOULD AGREE TO INCREASED OWN RESOURCES.

5. ON OWN RESOURCES, THE COMMISSION WAS NOT ASKING TOO MUCH. THE

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FOURTH RESOURCE WOULD MEAN MEMBER STATES PAID ACCORDING TO RELATIVE PROSPERITY.

6. THE PROPOSAL FOR THE UK ABATEMENT WAS DESIGNED 'TO APPEASE THE SPIRITS' FOR SEVERAL MORE YEARS. THE UK DESERVED SPECIAL ATTENTION. HE ACKNOWLEDGED THE STRUCTURAL DIFFERENCE BETWEEN BRITISH AND CONTINENTAL AGRICULTURE WHICH THE 'GREEN KEY' TO THE ABATEMENT WOULD SPECIFICALLY TAKE ACCOUNT OF. IT WAS TRUE THE UK WOULD RECEIVE 300 MECU LESS THAN UNDER FONTAINEBLEAU BUT THIS WAS ITS CONTRIBUTION TO ENLARGEMENT, RATHER THAN THE FULL 500 MECU IT SHOULD PAY. IN PASSING, HE NOTED BRITISH CLAIMS ABOUT INCREASED PROSPERITY AND QUERIED CONTINUED REJECTION OF ERM MEMBERSHIP.

7. DELORS WAS NON-COMMITAL ABOUT THE PROSPECTS AT COPENHAGEN AND REFUSED TO SPECULATE WHAT THE COMMISSION WOULD DO IN THE EVENT OF FAILURE. HE SIDETRACKED A QUESTION ON WHETHER THE UK WAS PRESSING TOO HARD ON DETAILED STABILISERS, MERELY NOTING THAT BRUSSELS HAD NOT BEEN 11-1. ONE MEMBER STATE HAD HAD RESERVES ON ONE OR TWO SPECIFIC CONCLUSIONS. THE COMMISSION HAD SINCE TRIED TO GATHER THE FLOCK TOGETHER. HE URGED THE AUDIENCE TO DE-DRAMATISE COPENHAGEN. ALL THE COMMISSION ASKED WAS THE OPPORTUNITY TO BE HEARD. MARTENS HAD ALLOWED HIM TO SPEAK ON ALL ISSUES AT BRUSSELS. THIS HAD NOT ALWAYS BEEN THE CASE IN THE PAST.

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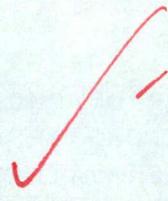
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FM UKREP BRUSSELS
TO DESKBY 030930Z FCO
TELNO 4138
OF 021900Z DECEMBER 87
INFO IMMEDIATE COPENHAGEN
INFO ROUTINE EUROPEAN COMMUNITY POSTS



FRAME ECONOMIC

FUTURE FINANCING: PREPARATIONS FOR COPENHAGEN EUROPEAN COUNCIL

SUMMARY

1. COMMISSION AGREE DELORS SHOULD STAND BY THE COMMISSION'S PROPOSALS BUT HELP A CONSENSUS IF ONE BEGINS TO EMERGE.

2. DELORS AND NATALI TO REPRESENT COMMISSION, BUT ANDRIESSEN, CHRISTOPHERSEN AND VARFIS TO BE AVAILABLE FOR CONSULTATION IF NECESSARY.

DETAIL

3. WE UNDERSTAND (IN CONFIDENCE) THAT THE COMMISSION HAD A BRIEF AND MAINLY PROCEDURAL DISCUSSION OF THE ISSUES FOR THE COPENHAGEN EUROPEAN COUNCIL OVER LUNCH TODAY. ON SUBSTANCE THEY AGREED THAT DLEORS SHOULD STICK TO THE COMMISSION'S PROPOSALS IN PRINCIPLE BUT HELP THE PRESIDENCY CONSOLIDATE A CONSENSUS IF ONE BEGAN TO EMERGE, LEAVING DELORS WITH A FAIRLY FREE HAND TO INTERPRET THIS AS HE FELT NECESSARY. THERE WAS RATHER MORE, BUT LESS CONCLUSIVE, DISCUSSION OF TACTICS: IN PARTICULAR HOW DELORS SHOULD PRESENT THE VARIOUS POSSIBLE OUTCOMES OF THE COUNCIL. THIS DISCUSSION WAS SAID TO HAVE HAD A SLIGHTLY SURREAL QUALITY.

4. CHRISTOPHERSEN MADE TWO SUBSTANTIVE POINTS: FIRSTLY THAT IN THE EVENT OF AN AGREEMENT, THE COMMISSION SHOULD AIM TO GET AS MUCH AS POSSIBLE SEWN UP BY 1 JANUARY RATHER THAN 31 MARCH. IT WAS IMPORTANT FOR STABILISERS TO BE IN PLACE BEFORE AGRICULTURE MINISTERS GOT STUCK INTO THE PRICE FIXING DISCUSSIONS, WITH WHICH THEY MIGHT OTHERWISE BECOME ENTANGLED AND DELAYED. SECONDLY, IT WAS ESSENTIAL FOR THE COMMISSION TO HAVE ADEQUATE IMPLEMENTING POWERS ON STABILISERS, AGAIN TO PREVENT AGRICULTURE MINISTERS DIVERTING THE COURSE OF BUDGETARY RECTITUDE.

5. A FRAUGHT DISCUSSION OF WHO SHOULD GO TO COPENHAGEN RESULTED IN AGREEMENT THAT NATALI WOULD ATTEND AS THE COMMISSION NUMBER 2,

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BUT ANDRIESSEN, CHRISTOPHERSEN AND VARFIS SHOULD BE AVAILABLE FOR CONSULTATION, EITHER BY PHONE OR BY TRAVELLING ON REQUEST TO COPENHAGEN. DELORS WAS APPARENTLY PARTICULARLY CONCERNED THAT ANDRIESSEN SHOULD BE AVAILABLE IF NECESSARY.

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TO IMMEDIATE FCO

TELNO 675

OF 021700Z DECEMBER 87

INFO IMMEDIATE UKREP BRUSSELS COPENHAGEN

INFO ROUTINE OTHER EC POSTS

FRAME ECONOMIC

MY TELNO 670

EUROPEAN COUNCIL: ITALIAN VIEWS

SUMMARY:

1. ITALIANS BELIEVE THAT THERE ARE TOO MANY DIVERGENCES STILL REMAINING FOR THE EUROPEAN COUNCIL TO TAKE FIRM DECISIONS. BUT HOPED THAT IT WILL GIVE CLEAR GUIDELINES FOR DECISIONS TO BE TAKEN AT SUBSEQUENT COUNCILS. THEY SEE AS KEY AREAS THE STRUCTURAL FUNDS, AND THE NATURE OF THE FOURTH RESOURCE.

DETAIL:

2. HEAD OF CHANCERY CALLED ON ANDREOTTI'S CHEF DE CABINET ON 2 DECEMBER TO DISCUSS ITALIAN VIEWS ON PROSPECTS FOR THE EUROPEAN COUNCIL. CAVALCHINI CONFIRMED THAT GORIA'S ARTICLE IN 'IL SOLE 24 ORE' OF 1 DECEMBER INDICATED ITALY'S GENERAL APPROACH TO THE COUNCIL. HOWEVER, WHEN WILLIAMS ASKED WHICH OF THE TWO MAIN SCHOOLS OF THOUGHT REFERRED TO BY GORIA (PARA 3 OF TUR) INCLUDED ITALY, CAVALCHINI SAID THAT THE ITALIANS THOUGHT THERE WERE TOO MANY OUTSTANDING PROBLEMS, AND TOO WIDE A GAP BETWEEN THE VARIOUS NATIONAL POSITIONS, FOR THE EUROPEAN COUNCIL TO REACH FIRM DECISIONS. IN ANY CASE THAT WAS THE RESPONSIBILITY OF THE SPECIFIC COUNCILS, ACCORDING TO THE EC INSTITUTIONAL STRUCTURE.

3. WILLIAMS EMPHASISED THE IMPORTANCE WE ATTACHED TO REACHING FIRM AGREEMENTS, IF NOT ADOPTED LEGAL INSTRUMENTS, ON AGRICULTURAL STABILISERS. CAVALCHINI AGREED THAT THIS WAS IMPORTANT. ITALY DID NOT AGREE WITH FRANCE'S APPROACH. IN FACT ITALY SUPPORTED THE PRESIDENCY PROPOSALS ON AGRICULTURAL MEASURES (EXCEPT FOR A PARTICULAR POINT ON WINE), WHICH HE HOPED THE EUROPEAN COUNCIL WOULD GENERALLY ENDORSE. HOWEVER, HE DID NOT BELIEVE THAT HEADS OF GOVERNMENT WOULD BE WILLING OR ABLE TO REACH MORE SPECIFIC AGREEMENTS ON THESE ISSUES.

4. CAVALCHINI SAID THAT THE TWO AREAS IN WHICH ITALY THOUGHT IT

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PARTICULARLY IMPORTANT FOR THE EUROPEAN COUNCIL TO GIVE A CLEAR DIRECTION FOR SUBSEQUENT WORK WERE AGREEMENT ON THE NATURE OF A FOURTH RESOURCE, AND STRUCTURAL FUNDS. ON THE FORMER HE CONFIRMED THAT ITALY COULD NOT ACCEPT THAT IT SHOULD TAKE OVER FROM THE UK AS THE MAJOR CONTRIBUTOR TO EC FINANCES. THIS WAS QUITE UNACCEPTABLE. WILLIAMS SAID THAT IF ITALY FELT SO STRONGLY ON THIS POINT, THEY WOULD UNDERSTAND WHY WE INSISTED THAT A SATISFACTORY UK ABATEMENT WAS A CRUCIAL ELEMENT FOR US IN ANY FINANCING ARRANGEMENTS. CAVALCHINI CONFIRMED THAT ITALY HAD SUGGESTED THE FINANCING PROPOSAL DESCRIBED IN PARA 5 OF MY TELNO 666 AS AN ATTEMPT AT A COMPROMISE ON WHICH THERE MIGHT BE SOME HOPE OF AGREEMENT.

5. ON STRUCTURAL FUNDS, CAVALCHINI SAID THAT ITALY COULD NOT ACCEPT THAT THE CURRENT PHILOSOPHY FOR DISBURSEMENT OF STRUCTURAL FUNDS SHOULD BE CHANGED. THIS RELATED TO REGIONAL NEEDS, NOT TO RELATIVE COUNTRY LEVELS OF GNP PER HEAD. IF THE CRITERIA FOR THESE FUNDS WAS TO BE CHANGED TO A COUNTRY BASIS, ITALY WOULD INSIST ON A GENERAL RE-EXAMINATION OF THE NATIONAL PATTERN OF EXPENDITURE UNDER ALL EXISTING EC FUNDS, PARTICULARLY CAP. IT WAS NONSENSE THAT SUCH WEALTHY COUNTRIES AS LUXEMBOURG, NETHERLANDS AND DENMARK SHOULD RECEIVE SO MUCH UNDER CAP INTERVENTION FUNDS. IF ONE WAS LOOKING AT THE NATIONAL DIVISION OF EC FUNDING.

COMMENT:

6. HAVING WEATHERED THE RECENT POLITICAL CRISIS, GORIA WILL BE APPROACHING THE EUROPEAN COUNCIL WITH HIS GOVERNMENT INTACT, BUT STILL WEAK. HE WILL NOT FEEL STRONGLY PLACED TO OFFER ANY SUBSTANTIAL CONCESSIONS WHICH MIGHT HURT ITALY'S INTERESTS. HE STILL GENERALLY FOLLOWS THE LEAD GIVEN BY ANDREOTTI IN FOREIGN POLICY ISSUES. HOWEVER, PERHAPS AS A RESULT OF HIS OWN BACKGROUND AT THE TREASURY, GORIA SEEMS TO HAVE ADOPTED A MORE HARD-HEADED ATTITUDE REGARDING EC FINANCE. WE WOULD THEREFORE AGREE WITH THE JUDGMENT IN THE LAST SENTENCE OF UKREP TELNO 4130 (JUST RECEIVED).

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INFO ROUTINE ATHENS, LISBON, MADRID

FRAME ECONOMIC

ROME TELNO 670

EUROPEAN COUNCIL: ITALIAN VIEWS

SUMMARY

1. GORIA'S CLAIM THAT ITALY WOULD REPLACE UK AS A MAJOR NET CONTRIBUTOR IF COMMISSION'S REVENUE AND ABATEMENT PROPOSALS WERE IMPLEMENTED, SEEMS UNFOUNDED ON BASIS OF AVAILABLE FIGURES.

DETAIL

2. ON THE BASIS OF FIGURES OBTAINED IN STRICT CONFIDENCE FROM THE COMMISSION, AND WHICH CANNOT THEREFORE BE USED IN PUBLIC OR CONTACT WITH OTHER GOVERNMENTS, GORIA'S CLAIM THAT THE COMMISSION'S OWN RESOURCES AND ABATEMENT PROPOSAL WOULD RESULT IN ITALY REPLACING THE UK AS A MAJOR NET CONTRIBUTOR (PARAGRAPH 4 OF TUR) SEEMS COMPLETELY UNFOUNDED AND GOES FAR BEYOND EVEN THE EXCESSIVE RHETORIC USED ON THESE MATTERS BY CALAMIA IN COREPER.

3. THE COMMISSION HAVE ADMITTED IN A DOCUMENT CIRCULATED TO COREPER ON 3 NOVEMBER THAT THEIR PROPOSAL FOR A FOURTH RESOURCE BASED ON THE DIFFERENCE BETWEEN MEMBER STATES' VAT AND GNP BASES WOULD INCREASE ITALY'S GROSS REVENUE CONTRIBUTION BY OVER 500 MECU COMPARED TO THE EXISTING VAT SYSTEM IN 1988 AND BY ABOUT A BILLION ECU IN 1992. BUT OUR OWN CALCULATIONS (SUPPORTED BY INTERNAL COMMISSION FIGURES WHICH WE HAVE SEEN IN CONFIDENCE AND TO WHICH REFERENCE SHOULD NOT BE MADE) SUGGEST THAT ITALY WOULD PAY LESS TOWARDS THE ABATEMENT PROPOSED FOR THE UK BY THE COMMISSION THAN UNDER THE PRESENT SYSTEM, SO THE NET COST WOULD BE LESS THAN THE 500 MECU/1 BECU QUOTED ABOVE.

4. THE UNITED KINGDOM'S NET CONTRIBUTION TO THE BUDGET, BY CONTRAST IS CURRENTLY OVER 1 BILLION ECU A YEAR (SEE THE UK'S ESTIMATES CIRCULATED AT THE HEADS OF MINISTERS CONFERENCE IN

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NOVEMBER). THE MORAL WHICH GORIA SHOULD BE DRAWING IS THAT EVEN WITH THE COMMISSION'S PROPOSALS ITALY WOULD STILL NOT, IN COMPARISON WITH THE UNITED KINGDOM, BE BEARING THE SHARE IN THE FINANCIAL BURDENS OF THE COMMUNITY WHICH BEFITS HER MUCH VAUNTED PROSPERITY.

5. WE UNDERSTAND (IN STRICT CONFIDENCE) THAT COMMISSION OFFICIALS CLOSE TO THE ITALIANS (NOTABLY ROVASIO, ACTING DG OF DGXIX) ARE PREDICTING THAT GORIA WILL TAKE A HARD AND NATIONALISTIC LINE IN COPENHAGEN AS THE FUTURE FINANCING DOSSIER HAS NOW BECOME ONE AMONG MANY CAUGHT UP IN THE INTERNAL POLITICAL MANOEUVERING SURROUNDING THE SURVIVAL OF GORIA'S ADMINISTRATION. IN THESE CIRCUMSTANCES GORIA IS PREDICTED TO PREFER NO DEAL TO A BAD ONE FOR ITALY.

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INFO ROUTINE EUROPEAN COMMUNITY POSTS

FRAME INDUSTRIAL/STRUCTURAL

COREPER (AMBASSADORS), 2 DECEMBER

PREPARATION FOR 8 DECEMBER INDUSTRY COUNCIL
(STEEL QUOTAS AND ACCOMPANYING MEASURES)

SUMMARY

1. NO SIGNIFICANT CHANGES ON QUOTAS, WITH A MAJORITY OF MEMBER STATES IN FAVOUR OF PROLONGATION FOR AT LEAST FLAT PRODUCTS AND HEAVY SECTIONS. GERMANY AND ITALY STILL REVIEWING THEIR POSITIONS.

2. ON RESIDER, LITTLE CHANGE IN POSITION BY MEMBER STATES. SOME ATTEMPT TO LINK ELIGIBLE AREAS TO AREAS OF INDUSTRIAL DECLINE IN REFORM OF STRUCTURAL FUNDS. NO MAJOR RESERVATIONS LIFTED.

3. COUNCIL TO BEGIN AT 1100 HOURS.

DETAIL

QUOTAS

4. FOR THE UK, I EXPRESSED MILD ASTONISHMENT THAT THE UK WAS SHOWN IN THE REPORT FROM THE ECSC GROUP (DOC 10014/87 - BY FAX TO DTI) AS THE ONLY MEMBER STATE WHICH STILL SUPPORTED THE CONCLUSIONS OF THE 21 SEPTEMBER INDUSTRY COUNCIL THAT RESTRUCTURING COMMITMENTS WERE AN ABSOLUTE PRECONDITION OF PROLONGING QUOTAS. ESPER LARSEN (PRESIDENCY) NOTED THAT TWO OTHER MEMBER STATES (NETHERLANDS AND DENMARK) WERE SHOWN AS SHARING THE UK'S VIEW THAT ALL QUOTAS SHOULD END ON 1 JANUARY AND THEREFORE PRESUMABLY STOOD BY THE 21 SEPTEMBER CONCLUSIONS. VAN BEUGE (NETHERLANDS) EXPLICITLY CONFIRMED THAT THIS WAS SO.

5. SCHEER (FRANCE) SAID THAT CONTRARY TO THE ECSC GROUP REPORT, FRANCE WANTED QUOTAS TO CONTINUE ONLY FOR CATEGORIES IA, IB, II AND III. CAMPBELL (IRELAND) MADE THE SAME POINT. WEYLAND (LUXEMBOURG) ARGUED THAT MUCH MORE TIME WAS NEEDED TO ASSESS THE INDUSTRY'S SITUATION, AND QUOTAS SHOULD THEREFORE BE MAINTAINED FOR ALL CURRENT CATEGORIES (THOUGH HE WOULD NOT DIE IN THE DITCH OVER IV AND VI).

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6. UNGERER (GERMANY) SAID THAT IT WAS CLEAR THAT MOVEMENT WOULD BE NEEDED IF THE COUNCIL WAS TO REACH AGREEMENT. BONN WAS STILL CONSIDERING THE WHOLE QUESTION OF QUOTAS. IN REPLY TO HIS SPECIFIC REQUESTS FOR EXPLANATIONS OF THE COMMISSION'S PROPOSALS, FAURE (COMMISSION) STATED THAT QUOTAS FOR CATEGORIES IA AND IB SHOULD END ON 30 JUNE BECAUSE THE INDUSTRY MAINTAINED THAT THERE WAS NO MANIFEST CRISIS, AND QUOTAS COULD THEREFORE NOT BE DEFENDED BEFORE THE COURT (WHERE THEY WERE ALREADY UNDER CHALLENGE): SIMILARLY, THE COMMISSION'S ANALYSIS IN 1985 SHOWED THAT THERE WAS NO CRISIS IN CATEGORIES IV AND VI, WHERE QUOTAS WERE ALSO BEING CHALLENGED BEFORE THE COURT. BUT SUPPLY COULD BE SEEN AS SIGNIFICANTLY GREATER THAN DEMAND IN CATEGORIES II AND III AND THERE WERE REAL PROSPECTS OF RESTRUCTURING.

7. SCHEER NOTED THAT THE COMMISSION'S PROPOSALS SAID NOTHING ABOUT STATE AID, EVEN THOUGH THE THREAT OF NEW SUBSIDIES WAS CLOSELY LINKED WITH THE ISSUE OF ENDING QUOTAS. I REMINDED THE COMMISSION OF THE UK'S REQUEST FOR A REPORT ON HOW FAR MEMBER STATES HAD OBSERVED THE COMMITMENTS ON RESTRUCTURING THEY HAD GIVEN IN 1985 IN EXCHANGE FOR CLEARANCE OF STATE AID. UNGERER POINTED TO THE WISE MEN'S CONCLUSIONS THAT THE PERSISTENCE OF STATE AID WAS CONTINUING TO DISTORT COMPETITION.

8. FAURE STATED THAT THE COMMISSION DID NOT ENDORSE ALL THE WISE MEN'S FINDINGS ON STATE AID: THEY HAD BEEN SWAYED BY PRODUCERS' MUTUAL ACCUSATIONS OF UNFAIR SUBSIDIES. SUTHERLAND WOULD DEFEND THE COMMISSION'S RECORD BEFORE THE COUNCIL AND ALSO GIVE AN ACCOUNT OF RESTRUCTURING PROGRESS. THE COMMISSION WERE NOT PROPOSING ANY CHANGES TO THE CODE, WHICH WOULD IN ANY CASE REQUIRE UNANIMITY, AS WOULD DECISIONS ON INDIVIDUAL DEROGATIONS FROM IT. ANSWERING A POINT FROM SCHEER, HE CONFIRMED THAT THE COMMISSION AGREED WITH THE WISE MEN THAT IT SHOULD NOT GIVE ITS APPROVAL UNDER ARTICLE 46 ESC TO ARRANGEMENTS BETWEEN PRODUCERS, WHICH COULD AMOUNT TO A CARTEL OF WHICH THE COMMISSION WOULD HAVE NO REAL KNOWLEDGE.

SOCIAL VOLET

9. NO CHANGE: 5 DELEGATIONS, INCLUDING THE UK, CONFIRMED TO OPPOSE A BUDGETARY TRANSFER.

RESIDER

GENERAL RESERVATIONS (PAGES 5 AND 6 OF 10014/07)

10. ESPER LARSEN STRESSED THE IMPORTANCE OF THE PROPOSED REGIONAL MEASURES IN RELATION TO THE QUOTAS PACKAGE AND HOPED THAT PROGRESS

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COULD BE MADE ON RESOLVING DIFFICULTIES THAT HAD ARISEN IN THE WORKING GROUP.

11. CALAMIA (ITALY) QUESTIONED THE USE OF ERDF RESOURCES IN DECLINING INDUSTRIAL SECTORS. HE SAID THIS SECTORIAL APPROACH WAS NOT CONSISTENT WITH THE REFORM OF THE STRUCTURAL FUNDS WHICH AIMED, UNDER OBJECTIVE 2, TO DIRECT RESOURCES TO AREAS OF INDUSTRIAL DECLINE. HE REPEATEDLY ASKED FOR THE DRAFT REGULATION TO INCLUDE A LIST OF THOSE REGIONS WHICH WOULD BE ELIGIBLE FOR AID. THE ITALIAN VIEWS WERE GENERALLY SUPPORTED BY WESTENDORP (SPAIN) AND LYBEROPOULOS (GREECE).

12. CURRIE (COMMISSION) SAID THAT THE PROPOSALS WERE NOT DIRECTED AT THE STEEL SECTOR BUT RATHER AT THE REGIONS AFFECTED BY CUTBACKS IN THE STEEL INDUSTRY. IN THIS RESPECT THE PROPOSALS WERE IN LINE WITH THE REFORM OF THE STRUCTURAL FUNDS. UNGERER (FRG) INDICATED THT RESIDER WAS NOT DESIGNED TO HELP THE STEEL INDUSTRY BUT RATHER THE RESTRUCTURING OF AREAS HIT BY A CRISIS IN THE INDUSTRY.

13. I POINTED OUT THAT IF APPROVAL OF RESIDER HAD TO WAIT UNTIL THE INDUSTRIAL DECLINE REGIONS WERE AGREED IN THE CONTEXT OF STRUCTURAL FUND REVIEW AND TRANSITIONAL PROVISIONS WERE MADE THE PACKAGE WOULD BE CONSIDERABLY DELAYED, PROBABLY WELL INTO 1988. SCHEER SUPPORTED THIS VIEW AND SAID IT WAS NECESSARY TO CONCENTRATE ON THE ERDF RULES CURRENTLY IN FORCE.

14. ON THE GENERAL RESERVATIONS SECTION OF THE WORKING GROUP REPORT (10014/87), PAGE 6, I SAID THAT THE MAIN UK RESERVATION WAS ON CRITERIA. THE STATEMENT ON PAGE 6 WAS TOO NARROW A REFERENCE.

LARGE UNDERTAKINGS (PAGE 6 OF 10014/87)

15. UNGERER SAID THAT FRG INTERPRETATION OF 'ESTABLISHMENT OF NEW ACTIVITIES' IN ARTICLE 2 OF THE DRAFT REGULATION, DID NOT RULE OUT THE INCLUSION OF LARGE FIRMS WITHIN RESIDER. IF THIS INTERPRETATION COULD BE AGREED FRG COULD WITHDRAW ITS PROPOSED AMENDMENT TO ARTICLE 2. SCHEER PLACED A RESERVE ON THE FRG REQUEST TO INCLUDE LARGE FIRMS. HE FELT THIS COULD LEAD TO SECTORIAL INTERVENTION. I ASKED THE COMMISSION FOR CLARIFICATION ON WHETHER THE SECOND PART OF THE FRG PROPOSED AMENDMENT MEANT A SUBSTANTIVE CHANGE IN THE IMPACT OF THE REGULATION. CURRIE INDICATED THAT THE DEVELOPMENT OF SME'S OFFERED THE BEST PROSPECT FOR RESTRUCTURING THE AREAS AFFECTED. HE AGREED TO CONSIDER THE FRG INTERPRETATION OF ARTICLE 2 AND TO CLARIFY THE PROPOSED AMENDMENT.

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CRITERIA (PAGE 7 OF 10014/87)

16. NONE OF THE MAJOR RESERVATIONS WERE REMOVED. CAMPBELL (IRELAND) SAID HE WOULD BE ABLE TO LIFT THE IRISH RESERVE IF OTHER DELEGATIONS COULD ACCEPT THE COUNCIL MINUTES STATEMENT (SEE 2(B) IN THE ANNEX TO THE REGULATION). LYBEROPOULOS LIFTED THE GREEK SCRUTINY RESERVE ON THIS STATEMENT. SCHEER AND WESTENDORP REPLACED THEIR SCRUTINY RESERVES WITH RESERVES ON CONTENT. THE UK SCRUTINY RESERVE WAS MAINTAINED.

17. LYBEROPOULOS ALSO LIFTED THE GREEK SCRUTINY RESERVE ON COUNCIL MINUTES STATEMENT 2(C) CONCERNING LUXEMBOURG. WESTENDORP REPLACED THE SPANISH SCRUTINY RESERVE WITH A RESERVE ON CONTENT. SCHEER PLACED A RESERVATION. UNGERER SAID HE COULD ACCEPT BOTH STATEMENT (B) AND (C) IF THE COMMISSION COULD CONFIRM THAT FUNDING FOR IRELAND AND LUXEMBOURG WOULD COME OUT OF THE RESIDER PACKAGE. CURRIE CONFIRMED THIS.

INTEREST RATES (PAGES 7 AND 8)

18. THE POSITION AS REFLECTED IN THE ECSC REPORT REMAINS UNCHANGED.

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FROM: A J C EDWARDS
DATE: 2 December 1987

CHANCELLOR

cc: Chief Secretary
Paymaster General
Sir P Middleton
Sir G Littler
Mr Bonney
Mr Mercer
Mr Mortimer
Mr Donnelly
Mr Evans
Mr Tyrie

EUROPEAN COUNCIL BRIEFING MEETING:

STOP PRESS ON OWN RESOURCES CEILING

In the course of studying the latest Commission proposals, Mr Mortimer has uncovered the important point that their latest figures for Community GNP have been revised upwards by 2.9 per cent. This mainly reflects the recent Italian GNP revisions.

2. The change means that any particular GNP ceiling will provide 2.9 per cent more own resources than our earlier figures assumed. This is equivalent to an extra 1.1 becu a year or thereabouts.

3. This latest development has an important bearing on the new own resources ceiling decision. Whereas on our figures 1.2 per cent GNP, abatement inclusive, previously looked very tight in 1988 because of the expenditure hump problem, it now looks fully adequate. Indeed the Commission themselves have not asked for more than 1.2 per cent GNP in 1988.

4. This in turn strongly reinforces the case for sticking on 1.2 per cent GNP and not contemplating anything higher. If we have an effective budget discipline for agricultural expenditure, there will be no need for a profile of rising ceilings after 1988.

AJCE

A J C EDWARDS