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PART C

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Begins: 3/12/87.
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PART C

Chancellor's (Lawson) Papers:

**EUROPEAN COUNCIL
COPENHAGEN DECEMBER 1987**

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PART C

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MY TELNO 1242: THE FRENCH POLITICAL SCENE ON THE EVE OF THE
EUROPEAN COUNCIL: CORRECTION

1. PARAGRAPH 3 OF TUR SHOULD HAVE BEEN PUNCTUATED AS FOLLOWS:-
(I) WHICH IS TO EMBARRASS THE BARRISTES. (NEW SENTENCE) AT
A TIME WHEN

(II) CHIRAC'S PRE-EMINENCE WITHIN THE MAJORITY. (NEW
SENTENCE) THERE IS A

2. ERRORS REGRETTÉD.

FERGUSSON

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FRAME HOUSE OF LORDS
LORD PRESIDENT OF THE COUNCIL,

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FROM: H C GOODMAN
DATE: 3 December 1987

MR EDWARDS

cc: PPS
Mr Peretz
Miss O'Mara
Mr Parkinson

EUROPEAN COUNCIL: ECU

I attach a short note for the Prime Minister.

H C Goodman
H C GOODMAN

ECUBackground

There is a possibility (Tel No 1217) that President Mitterand will raise the question of using the ecu as a common european currency at M Delors' pre-dinner drinks on 4 December. Ex-President Giscard has been pressing him to do this.

Line to Take

Totally unrealistic even to consider before 1992 - have not yet achieved full capital liberalisation; not all EC countries in ERM. In any case have always said development of ecu best left to private sector.



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3 December 1987

Dear Charles,

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER: BILATERAL WITH LUBBERS

The Prime Minister will be having a bilateral meeting with the Dutch Prime Minister on the evening of 3 December. The meeting results from a suggestion in the Prime Minister's message of 24 November, which was very well received at The Hague. The Dutch have been our closest allies throughout the EC future financing negotiations, and the Prime Minister will wish to concert tactics for maintaining a common front at the European Council.

The Foreign Secretary suggests that she might make the following points:

- pleased that we have been able to maintain a common front on wide range of issues;
- must continue to make clear that satisfactory decisions on agricultural stabilisers are a precondition of overall agreement, and therefore of any increase in own resources;
- best to put main emphasis on cereals, oilseeds and protein crops;
- we should insist on 155m tonnes maximum guaranteed quantity (MGQ) for cereals with price cuts limited to 10% in 1988/89, 15% in 1989/90 and at least 15% in 1990/91;
- on oilseeds we need tougher MGQs on rapeseed, sunflowerseed and soya and no limit on price cuts;
- on protein crops, similar arrangements as for oilseeds;

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- thus on all three crops we should hold out for the Commission's proposals, not the Presidency's. Andriessen has done well to stick to his guns: so must we;
- we must also resist any widely-drawn exceptional circumstances loophole on the agricultural guideline; the most we should agree to is provision for \$/ecu movements beyond a threshold of at least 10%;
- no question of allowing oils and fats tax to be resurrected: irrelevant to present guideline discussion;
- On Structural Funds doubling is not on, and Southern aspirations unrealistic. With French and Germans, we need to ensure that budget discipline is maintained. Maximum Rate provisions matter.
- Know your views on Abatement: you know mine - eg in my message, and my reply to Schlüter's letter. Facts are that:
 - UK VAT/expenditure gap has more than doubled since Fontainebleau;
 - that our net contribution after abatement exceeds 1 becu and is set to rise further;
 - that, as in 1984, our relative prosperity remains at about the EC average; and
 - that we cannot therefore accept a smaller abatement of a larger burden.

If time allows, the Foreign Secretary recommends the Prime Minister should also raise one non-Community issue. When in 1985 the Dutch agreed to the deployment of cruise missiles on their territory they gave notice of their intention to withdraw from their F-16 and Orion-carried nuclear depth bomb NATO roles. The Prime Minister may wish to urge Mr Lubbers to retain both roles now that the GLCMs are not being deployed on Dutch soil.

Copies of this letter go to Alex Allan (HMT), John Howe (MOD), Shirley Stagg (MAFF), and Trevor Woolley (Cabinet Office).

Yours ever

L. Parker
(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

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3 December 1987

Dear Charles,

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER: BILATERAL WITH KOHL

The Prime Minister is having a working breakfast with Chancellor Kohl on 4 December. Clearly the discussion should mainly be on European Council business, and our principal aim should be to stiffen Kohl's resolve on the budgetary questions. The Foreign Secretary suggests that the Prime Minister might make the following points:

General

- Important to settle the future financing issues now. Debate has dragged on long enough.
- Central requirement is to implement June Brussels decisions that Fontainebleau budget discipline "must be strengthened in light of experience", and that regulations to enable Commission "to keep the level of expenditure within the Budget framework" must be adopted.

Agriculture

- Understand FRG concern about effects on farming Community. Ready to accept set aside, as a complement to stabilisers, provided it is cost-effective, and reduces production;
- but not a substitute for stabilisers;
- most important task now is to agree stabilisers for cereals, oilseeds and protein crops, based on the Commission's proposals;
- that means for cereals a maximum guaranteed quantity (MGQ) of 155m tonnes and limits on price cuts for 1988/89 of 10%, 1989/90 of 15% and 1990/91 of 15%.
- for oilseeds strengthened MGQs on rapeseed, sunflower

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seed and soya and no limit on price cuts;

- similar arrangements on protein crops as for oilseeds;
- ready to agree to rebasing the agricultural guideline, with disposal of existing stocks off-guideline;
- but Guideline must not be undermined by widely-drawn exceptional circumstances: most one should accept is provision for \$/ecu movements with a 10% threshold;
- must not allow others to link oils and fats tax to guideline - it is irrelevant (and we must maintain strong opposition to the tax proposal);

Structural Funds

- Important to maintain French/German/UK alliance on the structural funds:
- Ready to envisage special help for Spain/Portugal, or four poorest;
- But doubling the Funds is not on. Even a 50% overall increase would be destructive of budgetary discipline.

Abatement

- Must warn that cannot accept worsening of Fontainebleau. Net contribution, after abatement, has risen to over 1 becu a year. Rise likely to continue - effects of enlargement, concentration, increase in own resources. Cannot accept an arbitrary further increase.
- Commission proposals for new corrective mechanism deal with only part of the problem. Even taking into account effects of fourth resource, they would double the UK net contribution by 1992, from 1.2 becu now to more than 2.4 becu then. Not a basis for a deal.

The only non-Community item which the Prime Minister might wish to raise is Franco/German defence co-operation, on which the views of the Foreign Secretary and the Defence Secretary were set out in their joint minute of 20 November. If Chancellor Kohl raises SNF, the Prime Minister may wish to emphasise that we are participating actively in work on the "comprehensive concept on arms control and disarmament", set in train at the Reykjavik North Atlantic Council, but SNF cannot be singled out from other nuclear issues. Post-INF, and with the possibility of a START agreement in mind, we need to look very carefully at how to meet the Alliance's

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overall requirements for nuclear deterrence. Only then, and when progress has been made in the conventional and chemical fields, should further nuclear arms control proposals be considered.

. Copies of this letter go to Alex Allan (HMT), John Howe (MOD), Shirley Stagg (MAFF) and Trevor Woolley (Cabinet Office).

Yours ever,
L Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

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EUROPEAN COUNCIL: COPENHAGEN
AFGHANISTAN DECLARATION

1. THE FOLLOWING TEXT ON AFGHANISTAN WAS AGREED BY THE EUROPEAN COUNCIL ON 5 DECEMBER.

2. BEGINS

THE EUROPEAN COUNCIL EXAMINED THE SITUATION IN AFGHANISTAN WHICH REMAINS AN IMPORTANT SOURCE OF INTERNATIONAL TENSION 8 YEARS AFTER THE INVASION BY SOVIET TROOPS. THE TWELVE PAY TRIBUTE TO THE AFGHAN PEOPLE'S SPIRIT OF INDEPENDENCE. THEY ALSO ACKNOWLEDGE THE COURAGE OF THE PEOPLE OF PAKISTAN, WHICH HAS SUFFERED SO MUCH AS A RESULT OF THIS CONFLICT, AND THE GENEROUS ASSISTANCE PROVIDED BY THAT COUNTRY TO MORE THAN 3 MILLION AFGHAN REFUGEES.

THE TWELVE SUPPORT THE PERSISTENT EFFORTS BY THE UN SECRETARY-GENERAL AND HIS PERSONAL REPRESENTATIVE TO FIND A NEGOTIATED SOLUTION WHICH WOULD PUT AN END TO THE TRAGIC HUMAN SUFFERING AND THE CONTINUING VIOLATIONS OF HUMAN RIGHTS IN AFGHANISTAN, ALLOW THE REFUGEES TO RETURN AND RESTORE AFGHANISTAN, AS A GENUINELY INDEPENDENT AND NON-ALIGNED COUNTRY. THE PRINCIPLES WHICH MUST UNDERLIE A SETTLEMENT HAVE ONCE MORE BEEN OVERWHELMINGLY ENDORSED AT THIS YEAR'S UN GENERAL ASSEMBLY.

THE TWELVE TAKE NOTE THAT SOVIET LEADERS HAVE ANNOUNCED THEIR INTENTION TO FIND A POLITICAL SOLUTION IN AFGHANISTAN. THEY BELIEVE THERE SHOULD NOW BE AN URGENT NEW IMPETUS IN THE PEACE NEGOTIATIONS AND CALL ON THE SOVIET UNION TO:

- WITHDRAW ALL ITS TROOPS BY A DATE IN 1988 ACCORDING TO A FIXED TIMETABLE SEMI COLON

- AGREE TO THE ESTABLISHMENT OF A TRANSITIONAL GOVERNMENT, WHOSE INDEPENDENCE COULD NOT BE CONTESTED, TO MAKE PREPARATIONS FOR A NEW CONSTITUTION AND A GENUINE ACT OF SELF-DETERMINATION SEMI COLON

- RECOGNIZE THAT THE PARTICIPATION OF THE AFGHAN RESISTANCE IS
ESSENTIAL TO A COMPREHENSIVE POLITICAL SETTLEMENT.

THE TWELVE REMAIN READY TO CONTRIBUTE CONSTRUCTIVELY TOWARDS THE
ACHIEVEMENT OF AN ACCEPTABLE SETTLEMENT, WHICH WOULD BRING ABOUT A
SIGNIFICANT IMPROVEMENT IN INTERNATIONAL RELATIONS.
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AND TO PRIORITY VALLETTA, VIENNA

EUROPEAN COUNCIL: COPENHAGEN
EAST/WEST DECLARATION

1. THE FOLLOWING TEXT ON EAST/WEST WAS AGREED BY THE EUROPEAN COUNCIL
ON 5 DECEMBER.

2. BEGINS

1. THE EUROPEAN COUNCIL WELCOMES THE IMPORTANT PROSPECTS OF AN
IMPROVEMENT IN EAST-WEST RELATIONS AND ACKNOWLEDGES THAT THE
FORTHCOMING SUMMIT IN WASHINGTON WILL MARK A SIGNIFICANT STEP FORWARD
IN THESE RELATIONS.

2. THE AGREEMENT ON GLOBAL ELIMINATION OF UNITED STATES AND SOVIET
LAND-BASED INTERMEDIATE RANGE NUCLEAR MISSILES WILL BE A MILESTONE,
ELIMINATING FOR THE FIRST TIME AN ENTIRE CLASS OF WEAPONS. THE TWELVE
HOPE THAT THIS AGREEMENT WILL ENTER INTO FORCE SOON.

THEY CONSIDER IT ESSENTIAL THAT THIS ACHIEVEMENT IN NUCLEAR ARMS
CONTROL SHOULD GIVE FURTHER IMPETUS TO SUBSTANTIVE PROGRESS IN THE
WHOLE RANGE OF PRESENT AND FUTURE BILATERAL US/SOVIET AND
MULTILATERAL NEGOTIATIONS ON ARMS CONTROL AND DISARMAMENT.

3. THE TWELVE WILL CONTINUE TO SEEK THROUGH THE CSCE PROCESS MORE
SECURE AND MORE COOPERATIVE RELATIONS BETWEEN THE PARTICIPATING
STATES. ALL THE UNDERTAKINGS MADE IN HELSINKI AND MADRID SHOULD BE
FULLY IMPLEMENTED.

RESPECT FOR HUMAN RIGHTS AND FREEDOMS IS A PREREQUISITE FOR
CONFIDENCE, UNDERSTANDING AND COOPERATION. THE TWELVE ARE DETERMINED
THAT THE VIENNA MEETING SHOULD BENEFIT ALL INDIVIDUALS IN THE 35
COUNTRIES INVOLVED.

THE TWELVE WISH TO BUILD UPON THE ACHIEVEMENTS OF THE STOCKHOLM

CONFERENCE (CDE) AND WILL CONTRIBUTE TO THE ELABORATION OF A FURTHER SET OF CONFIDENCE AND SECURITY BUILDING MEASURES. THEY WILL WORK RESOLUTELY TOWARDS A STABLE AND SECURE BALANCE OF CONVENTIONAL FORCES IN EUROPE AT A LOWER LEVEL.

4. IN ALL THIS, THE TWELVE WILL COOPERATE CLOSELY WITH OTHER COUNTRIES WHO SHARE THEIR IDEALS, VALUES AND OBJECTIVE.
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AND TO PRIORITY KHARTOUM, ALGIERS, MOGADISHU

EUROPEAN COUNCIL: COPENHAGEN

MIDDLE EAST DECLARATION

1. THE FOLLOWING TEXT ON THE MIDDLE EAST WAS AGREED BY THE EUROPEAN COUNCIL ON 5 DECEMBER.

2. BEGINS

1. THE EUROPEAN COUNCIL DEPLORES THE CONTINUING ABSENCE OF RESOLUTION OF THE CRISES IN THE MIDDLE EAST.

2. THE TWELVE REAFFIRM THEIR WILLINGNESS TO DEVELOP THEIR POLITICAL DIALOGUE WITH ALL STATES IN THE MIDDLE EAST. THEY ALSO WISH ECONOMIC COOPERATION TO PROGRESS AND IN PARTICULAR THE CURRENT NEGOTIATIONS ON AN AGREEMENT BETWEEN THE EUROPEAN COMMUNITY AND THE COUNTRIES OF THE GULF COOPERATION COUNCIL TO BE COMPLETED RAPIDLY.

3. THE EUROPEAN COUNCIL EXPRESSES ITS PROFOUND CONCERN ABOUT THE CONTINUATION OF THE WAR BETWEEN IRAQ AND IRAN AND REITERATES ITS FIRM AND WHOLE-HEARTED SUPPORT FOR SECURITY COUNCIL RESOLUTION 598 AS THE MEANS TO BRING AN END TO THIS ARMED CONFLICT. THE TWELVE CONTINUE TO GIVE THEIR UNRESERVED AND STRONG SUPPORT TO THE EFFORTS OF THE UNITED NATIONS SECURITY COUNCIL AND THE SECRETARY-GENERAL TO OBTAIN THE IMMEDIATE AND FULL IMPLEMENTATION OF THIS RESOLUTION. CONTINUE NON-COMPLIANCE WITH THIS MANDATORY RESOLUTION IS NOT ACCEPTABLE TO THE WORLD COMMUNITY AND THE APPROPRIATE ACTION SHOULD NOW BE TAKEN TO ENFORCE ITS IMPLEMENTATION BY MEANS OF A FOLLOW-UP RESOLUTION.

4. THE TWELVE CONFIRM THEIR DESIRE FOR A NEGOTIATED SOLUTION TO THE ARAB-ISRAELI CONFLICT WHICH WOULD BRING TO THE REGION A JUST, COMPREHENSIVE AND LASTING PEACE IN ACCORDANCE WITH THE PRINCIPLES SET OUT IN THE VENICE DECLARATION, AND REITERATE THEIR SUPPORT FOR AN INTERNATIONAL PEACE CONFERENCE UNDER THE AUSPICES OF THE UNITED

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NATIONS. THEY WELCOME THE ENDORSEMENT GIVEN TO SUCH A CONFERENCE BY THE ARAB LEAGUE SUMMIT IN AMMAN UNDER THE CHAIRMANSHIP OF KING HUSSEIN OF JORDAN. THEY CALL FOR RENEWED EFFORTS BY ALL CONCERNED TO REACH AGREEMENT ON ARRANGEMENTS FOR THE CONFERENCE TO BE HELD AS SOON AS POSSIBLE.

THE TWELVE REITERATE THEIR PREOCCUPATION ABOUT HUMAN RIGHTS AND LIVING CONDITIONS IN THE OCCUPIED TERRITORIES. WITHOUT PREJUDGING FUTURE POLITICAL SOLUTIONS THEY WILL CONTINUE TO CONTRIBUTE TO THE ECONOMIC AND SOCIAL DEVELOPMENT OF THOSE TERRITORIES.

5. THE EUROPEAN COUNCIL REMAINS DEEPLY CONCERNED ABOUT THE SITUATION IN LEBANON. IT CALLS FOR A PEACEFUL SOLUTION TO THE LEBANESE CRISIS WHICH SHOULD BE BASED ON THE INDEPENDENCE, UNITY, SOVEREIGNTY, TERRITORIAL INTEGRITY AND NATIONAL RECONCILIATION OF THAT COUNTRY. THE TWELVE REAFFIRM THEIR SUPPORT FOR UNIFIL AND CALL ON ALL CONCERNED TO SUPPORT THE FORCE AND TO ALLOW IT TO FULFILL ITS MANDATE UNOBSTRUCTED. THEY REITERATE THEIR CONDEMNATION OF THE CONTINUING DETENTION OF HOSTAGES AND VICTIMS OF KIDNAPPING IN LEBANON, AND CALL FOR THEIR IMMEDIATE RELEASE.

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FRAME GENERAL ECONOMIC

FROM UKREP BRUSSELS
EUROPEAN COUNCIL: COPENHAGEN: 4-5 DECEMBER 1987

SUMMARY

1. A BUILD-UP OF INTRACTABLE PROBLEMS - WITH THE FRENCH AND GERMANS ON CEREALS, THE SOUTHERNERS ON THZLSTRUCTURAL FUNDS AND THE ITALIANS ON THE FOURTH RESOURCE - MADE IT OBVIOUS AS THE SECOND DAY PROGRESSED THAT THERE WAS NO PROSPECT OF AGREEMENT AT THIS COUNCIL. BY AGREEMENT BETWEEN THE PRIME MINISTER, KOHL AND CHIRAC, READILY ENDORSED BY THE OTHERS, IT WAS DECIDED TO ADJOURN THE COUNCIL UNTIL 11/12 FEBRUARY.

2. ALL AGREED TO 'PLAY UP THE POSITIVE ASPECTS: IN PARTICULAR THE UNCONTENTIOUS ATMOSPHERE, THE AMOUNT OF PROGRESS MADE ESPECIALLY ON STABILISERS, AND THE FACT THAT THE VERY FULL PRESIDENCY TEXT IS ACCEPTED AS THE BASIS OF WORK OVER THE NEXT 9 WEEKS. BUT, ALTHOUGH IT WAS AGREED THAT THERE SHOULD BE NO RECRIMINATIONS, IT WAS CLEAR THAT RESPONSIBILITY RESTED PRIMARILY WITH THE GERMANS AND TO A LESSER EXTENT THE FRENCH. THE UK'S TACTICAL POSITION WAS SURPRISINGLY CONFORTABLE, THANKS IN PART TO FAIR AND COURAGEOUS CHAIRMANSHIP BY SCHLUTER.

3. STRONG INDICATIONS THAT OTHER MEMBER STATES ARE RECONCILED TO THE CONTINUATION OF THE UK ABATEMENT FUNERAL ARRANGEMENTS FOR THE OILS AND FATS TAX NOW WELL ADVANCED.

DETAIL

4. THE FIRST DAY WAS GIVEN OVER TO A THOROUGH DISCUSSION OF THE PRESIDENCY'S DRAFT CONCLUSIONS OF 1 DECEMBER. THIS PROVIDED THE BASIS FOR SOME SIGNIFICANT CHANGES IN THE CONCLUSIONS CIRCULATED BY THE PRESIDENCY EARLY ON 5 DECEMBER (BY BAG TO POSTS). THESE MADE IT CLEAR THAT THE PRESIDENCY WAS NOT ADOPTING THE EASY TACTIC OF CONCILIATING THE FRENCH AND THE GERMANS AND/OR THE SOUTHERNERS AND ISOLATING THE

UK. BUT THERE WERE SIMPLY TOO MANY SUBJECTS ON WHICH THE MAJOR MEMBER STATES WERE AT ODDS WITH EACH OTHER AS WELL AS WITH THE SOUTHERNERS.

5. AGRICULTURE

(I) STABILISERS

THE FRENCH, GERMANS AND IRISH PRESSED HARD TO INCREASE THE PRODUCTION LEVEL BEYOND WHICH PENALTIES APPLY FOR CEREALS AND TO REDUCE THE SCOPE FOR PRICE PENALTIES. OVERNIGHT, THE PRESIDENCY RAISED THE CEREALS MGQ FROM 155 TO 158M TONNES AND PROPOSED THAT PRICE CUTS SHOULD APPLY ONLY TO INCREASES DUE TO PRODUCTIVITY. THIS TEXT BECAME ONE OF THE CENTRE-PIECES OF THE COUNCIL, WITH OURSELVES AND LUBBERS (NETHERLANDS) PRESSING TO INCREASE THE SCOPE FOR PRICE CUTS AND TO ENSURE THAT EACH PERCENTAGE POINT OF OVERPRODUCTION LED TO A ONE PER CENT PENALTY. BY THE END OF THE COUNCIL, WE HAD A COMMISSION TEXT WHICH RETAINED 158M TONNES UP TO 1991 BUT WITH AUTOMATIC PENALTIES AND A CLEAR PROCEDURE FOR THE COMMISSION TO TAKE DECISIONS IF THE COUNCIL FAILED TO DO SO. THE COMMISSION'S PROPOSALS FOR OILSEEDS AND PROTEINS, FLOATED DURING THE CONCLEVE, ARE ALSO FIRMLY IN THE PRESIDENCY TEXT, ALONG WITH ALL THE OTHER STABILISER PROPOSALS INTACT.

(II) SET-ASIDE

THE GERMANS, WITH IRISH AND SOME SPANISH SUPPORT, TRIED TO INSIST ON A LASTING SET-ASIDE REGIME WITH 50 PERCENT COMMUNITY FINANCING. THE 5 DECEMBER TEXT GAVE THEM NO COMFORT ON THIS SCORE, BUT SUGGESTED THAT FARMERS TAKING PART IN THE SET-ASIDE PROGRAMME SHOULD BE EXONERATED FROM THE CORESPONSIBILITY LEVY. THIS ISSUE REMAINS TOTALLY UNRESOLVED AND WILL LOOM LARGE IN THE NEXT 2 MONTHS.

6. BUDGET DISCIPLINE

(I) AGRICULTURAL GUIDELINE

MOST MEMBER STATES CAME OUT IN FAVOUR OF HANDLING STOCKS OFF-GUIDELINE WITH A 27 BECU GUIDELINE, INCREASING AT 60 PERCENT OF THE GNP GROWTH RATE. FRANCE AND IRELAND WANTED THE FIGURE INCREASED IF THERE WAS NO OILS AND FATS TAX: BUT THE MAIN OPPOSITION TO THE PROPOSAL CAME FROM THE COMMISSION AND GERMANY, WHO WANTED THE STOCKS TO BE FINANCED WITHIN THE GUIDELINE. OVERNIGHT THE PRESIDENCY TOOK THIS PROPOSAL INTO THEIR TEXT, RAISING THE GUIDELINE TO 27.5 BECU BUT ACKNOWLEDGING THAT THE OILS AND FATS TAX WAS DEAD.

(II) EXCEPTIONAL CIRCUMSTANCES

THE FRENCH AND IRISH WERE ALONE IN WANTING TO COVER NON-MONETARY CIRCUMSTANCES. MOST MEMBER STATES ACCEPTED THAT THERE SHOULD BE A FRANCHISE. THE 5 DECEMBER TEXT RETAINS THE TWO MAIN DEFECTS OF THE ORIGINAL: BREACHES BY THIRD COUNTRIES OF INTERNATIONAL UNDERTAKINGS STILL QUALIFY AS AN EXCEPTIONAL CIRCUMSTANCE AND QUOTE ABERRANT DEVELOPMENTS UNQUOTE MAY MEAN THAT CLAWBACK IS NOT APPLIED.

(III) MONETARY RESERVE

THE COMMISSION CONTINUED THEIR PITCH FOR A MONETARY RESERVE SET AT 1 BECU, WITH A FRANCHISE OF 4 MECU, LINKED SOLELY TO THE DOLLAR/ECU RATE. THE PRESIDENCY TOOK ON BOARD A DUTCH SUGGESTION THAT THERE SHOULD BE NO BUDGETARY PROVISION BUT THAT MEMBER STATES SHOULD COMMIT THEMSELVES TO AGREE A SUPPLEMENTARY BUDGET OF UP TO 1,000 MECU WHEN THE THRESHOLD WAS CROSSED.

(IV) FEOGA ADVANCES

THE TEXT OF 5 DECEMBER EXTENDS THE DELAY IN ADVANCES FROM 2 TO 2 AND A HALF MONTHS. THIS PRODUCES A CASH FLOW BENEFIT OF 1,000 MECU, OSTENSIBLY TO MAKE UP FOR THE FACT THAT THERE WILL BE NO OILS AND FATS TAX. NO ONE CHALLENGED THIS.

7. STRUCTURAL FUNDS

(I) LEVEL OF FUNDING

BELGIUM, LUXEMBOURG AND THE SOUTHERNERS CAME OUT IN FAVOUR OF DOUBLING THE FUNDS, AGAINST A SHAKY ALLIANCE OF NORTHERN STATES, ALL TRYING TO CAMP ON DIFFERENT FIGURES: THE UK 35 PER CENT, NETHERLANDS 35 PERCENT PLUS. FRANCE 40 PERCENT, GERMANY 50 PERCENT. THE 5 DECEMBER TEXT PROPOSES AN INCREASE OF 4.4 BECU UP TO 1992 (INSTEAD OF 7 BECU) BUT A QUOTE PERSPECTIVE UNQUOTE THAT THEY WILL BE DOUBLED BY 1995.

(II) CONCENTRATION

ITALY AND THE COMMISSION PREDICTABLY RESISTED NORTHERN PROPOSALS THAT THE FUNDS SHOULD BE CONCENTRATED ON THE FOUR POOREST. EVERYONE AGREED THAT 80 PERCENT OF THE REGIONAL FUND SHOULD GO TO BACKWARD REGIONS, LEAVING 20 PERCENT FOR AREAS OF INDUSTRIAL DECLINE. MOST OF THE

SOUTHERNERS CONTINUED TO PRESS FOR 2/3 OF ALL OF THE FUNDS.

(III) THE MAXIMUM RATE

THE PRESIDENCY'S PRE-COUNCIL TEXT HAD AN UNSATISFACTORY AND AMBIGUOUS FORMULA FOR APPLYING THE MAXIMUM RATE TO THE STRUCTURAL FUNDS. ON THE FIRST DAY, CHIRAC INTRODUCED THE IDEA THAT THE FUNDS SHOULD INCREASE AT 1 AND HALF TIMES THE MAXIMUM RATE. THE UK AND NETHERLANDS SUPPORTED. THE 5 DECEMBER TEXT, HOWEVER, STILL RETAINS UNSATISFACTORY LANGUAGE WHICH WOULD PERMIT A HIGHER RATE OF INCREASE.

8. OWN RESOURCES

(I) CEILING

UNDER PRESSURE TO DECLARE THEIR HAND FOR THE FIRST TIME, ALL OPTED FOR 1.4 PER CENT OF GNP EXCEPT FRANCE AND THE NETHERLANDS (1.2 PER CENT), GERMANY (1.25/1.3 PER CENT) AND THE UK (WAIT AND SEE). THE 5 DECEMBER PRESIDENCY TEXT PROPOSED A CEILING OF 1.3 PER CENT GNP (EQUIVALENT TO NEARLY 1.4 PER CENT SINCE IT ASSUMED THAT THE UK ABATEMENT WOULD BE FINANCED OUTSIDE THE CEILING). THERE WAS NO FURTHER DISCUSSION ON THE SECOND DAY.

(II) FOURTH RESOURCE

THE DISCUSSION ON THE FIRST DAY REVEALED A WIDE RANGE OF PREFERENCES. BELGIUM, THE NETHERLANDS AND ITALY (AND PRESUMABLY DENMARK) FAVOURED A GNP BASED RESOURCE. MOST OF THE REST FAVOURED THE DIFF TAX BUT WITH VARIOUS LEVELS OF VAT. OVERNIGHT, THE PRESIDENCY CHANGED THEIR TUNE FROM 1.25 PER CENT VAT AND A GNP BASED FOURTH RESOURCE, TO 1.4 PER CENT VAT (REDUCING TO 1 PER CENT BY 1992) AND THE DIFF TAX. A LONG DISCUSSION ON THE SECOND DAY CENTRED ON GORIA'S (ITALY) ENTRENCHED HOSTILITY TO ANY FORM OF DIFF TAX. TO KEEP HIS IDEA ALIVE, DELORS PROPOSED AN INTERIM ARRANGEMENT FOR 1988 (1.25 PER CENT VAT PLUS GNP) WHILE THE COMMISSION PRODUCED A STUDY (PRESUMABLY DESIGNED TO UNDERMINE ITALY'S TECHNICAL OBJECTIONS TO THE DIFF TAX.)

9. BUDGET IMBALANCES

THERE WAS NO TEXT BEFORE THE EUROPEAN COUNCIL, BUT THE PRESIDENCY TRIED BRIEFLY TO SMOKE OUT ATTITUDES AT THE END OF THE FIRST DAY. GERMANY, SPAIN AND IRELAND REFUSED TO COMMENT UNTIL THEY HAD SEEN THE SHAPE OF THE FINAL PACKAGE. PORTUGAL AND BELGIUM FAVOURED THE COMMISSION'S PROPOSAL. FRANCE AND GERMANY WANTED ANY ABATEMENT TO DIMINISH OR END BY 1992. ITALY ARGUED, WITH A STRAIGHT FACE, THAT THE UK ABATEMENT WAS CAUSED BY AGRICULTURAL IMBALANCES AND THAT MEMBER STATES WITH AGRICULTURAL SURPLUSES SHOULD THEREFORE PAY FOR IT. THE 5 DECEMBER TEXT PROPOSED THE FONTAINEBLEAU SYSTEM, WITH THE 66 PER CENT FIGURE MODIFIED TO TAKE ACCOUNT OF THE UK'S BENEFITS FROM THE FOURTH

RESOURCE. WE MADE IT CLEAR TO THE PRESIDENCY IN PRIVATE THAT, ALTHOUGH WE ACCEPTED THE CASE FOR MODIFYING THE MECHANISM TO REMOVE ANY UNCOVENANTED BENEFITS, THE ADJUSTMENT SHOULD NOT INVOLVE TINKERING WITH THE 66 PER CENT FIGURE. THE PRESIDENCY'S PROPOSALS ALSO CONTAINED UNSATISFACTORY LANGUAGE ON THE DURATION OF THE NEW MECHANISM AND ON ARRANGEMENTS FOR A REVIEW IN 1991.

10. FINAL STAGE

AFTER A LONG AND UNPRODUCTIVE EXCHANGE ON THE FOURTH RESOURCE AND THE STRUCTURAL FUNDS, SCHLUTER ANNOUNCED A ONE HOUR BREAK IN MID-AFTERNOON. DURING THE BREAK KOHL SUGGESTED TO CHIRAC AND THE PRIME MINISTER THAT, SINCE AGREEMENT WAS NOT IN SIGHT, THE COUNCIL SHOULD BE ADJOURNED AND RECALLED IN MID-FEBRUARY. THIS WAS AGREED BY OTHER DELEGATIONS AND SCHLUTER THEN CONCENTRATED ON BRINGING THE COUNCIL TO A DECOROUS AND POSITIVE END. A LAST MINUTE EFFORT BY DELORS TO SALVAGE HIS PROPOSALS WAS DOOMED WHEN HE TRIED TO BOUNCE THE COUNCIL INTO AN INCREASE IN OWN RESOURCES TO 1.3 PER CENT GNP AND TO A VIRTUAL DOUBLING OF THE STRUCTURAL FUNDS (1.2 BECU A YEAR FOR 1988/92). DELORS' PAPER WAS POLITELY SET ASIDE AND MEMBERS OF THE COUNCIL AGREED TO PRESENT THEIR WORK IN A POSITIVE AND FORWARD LOOKING WAY, WITH ONLY MITTERRAND STRIKING A MELANCHOLY NOTE.

11. OTHER SUBJECTS

THERE WAS SOME HESITATION ABOUT THE CREDIBILITY, AT A TIME WHEN THE COMMUNITY COULD NOT RESOLVE ITS INTERNAL DISAGREEMENT, OF ISSUING THE STATEMENTS AGREED BY FOREIGN MINISTERS ON EAST/WEST RELATIONS, MIDDLE EAST AND AFGHANISTAN. BUT IT WAS DECIDED THAT, ON THE EVE OF THE REAGAN/GORBACHEV SUMMIT IT WOULD BE MORE DAMAGING TO BE SILENT. ALL THREE TEXTS WERE THEREFORE ISSUED WITHOUT DISCUSSION IN THE COUNCIL. THE FRENCH PRESENTATION ON DEMOGRAPHY NEVER SURFACED SEMI COLON BUT SCHLUTER USED THE COUNCIL TO LAUNCH A QUOTE EUROPEAN CODE AGAINST CANCER. UNQUOTE

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TO DESKRY 070830Z FCO

TELNO 419

OF 052100Z DECEMBER 87

AND TO PRIORITY EC POSTS, UKREP BRUSSELS, WASHINGTON

FRAME GENERAL ECONOMIC

FROM UKREP BRUSSELS

EUROPEAN COUNCIL: COPENHAGEN: 4-5 DECEMBER 1987

SUMMARY

1. A BUILD-UP OF INTRACTABLE PROBLEMS - WITH THE FRENCH AND GERMANS ON CEREALS, THE SOUTHERNERS ON THZLSTRUCTURAL FUNDS AND THE ITALIANS ON THE FOURTH RESOURCE - MADE IT OBVIOUS AS THE SECOND DAY PROGRESSED THAT THERE WAS NO PROSPECT OF AGREEMENT AT THIS COUNCIL. BY AGREEMENT BETWEEN THE PRIME MINISTER, KOHL AND CHIRAC, READILY ENDORSED BY THE OTHERS, IT WAS DECIDED TO ADJOURN THE COUNCIL UNTIL 11/12 FEBRUARY.

2. ALL AGREED TO PLAY UP THE POSITIVE ASPECTS: IN PARTICULAR THE UNCONTENTIOUS ATMOSPHERE, THE AMOUNT OF PROGRESS MADE ESPECIALLY ON STABILISERS, AND THE FACT THAT THE VERY FULL PRESIDENCY TEXT IS ACCEPTED AS THE BASIS OF WORK OVER THE NEXT 9 WEEKS. BUT, ALTHOUGH IT WAS AGREED THAT THERE SHOULD BE NO RECRIMINATIONS, IT WAS CLEAR THAT RESPONSIBILITY RESTED PRIMARILY WITH THE GERMANS AND TO A LESSER EXTENT THE FRENCH. THE UK'S TACTICAL POSITION WAS SURPRISINGLY CONFORTABLE, THANKS IN PART TO FAIR AND COURAGEOUS CHAIRMANSHIP BY SCHLUTER.

3. STRONG INDICATIONS THAT OTHER MEMBER STATES ARE RECONCILED TO THE CONTINUATION OF THE UK ABATEMENT FUNERAL ARRANGEMENTS FOR THE OILS AND FATS TAX NOW WELL ADVANCED.

DETAIL

4. THE FIRST DAY WAS GIVEN OVER TO A THOROUGH DISCUSSION OF THE PRESIDENCY'S DRAFT CONCLUSIONS OF 1 DECEMBER. THIS PROVIDED THE BASIS FOR SOME SIGNIFICANT CHANGES IN THE CONCLUSIONS CIRCULATED BY THE PRESIDENCY EARLY ON 5 DECEMBER (BY BAG TO POSTS). THESE MADE IT CLEAR THAT THE PRESIDENCY WAS NOT ADOPTING THE EASY TACTIC OF CONCILIATING THE FRENCH AND THE GERMANS AND/OR THE SOUTHERNERS AND ISOLATING THE

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UK. BUT THERE WERE SIMPLY TOO MANY SUBJECTS ON WHICH THE MAJOR MEMBER STATES WERE AT ODDS WITH EACH OTHER AS WELL AS WITH THE SOUTHERNERS.

5. AGRICULTURE

(I) STABILISERS

THE FRENCH, GERMANS AND IRISH PRESSED HARD TO INCREASE THE PRODUCTION LEVEL BEYOND WHICH PENALTIES APPLY FOR CEREALS AND TO REDUCE THE SCOPE FOR PRICE PENALTIES. OVERNIGHT, THE PRESIDENCY RAISED THE CEREALS MGQ FROM 155 TO 158M TONNES AND PROPOSED THAT PRICE CUTS SHOULD APPLY ONLY TO INCREASES DUE TO PRODUCTIVITY. THIS TEXT BECAME ONE OF THE CENTRE-PIECES OF THE COUNCIL, WITH OURSELVES AND LUBBERS (NETHERLANDS) PRESSING TO INCREASE THE SCOPE FOR PRICE CUTS AND TO ENSURE THAT EACH PERCENTAGE POINT OF OVERPRODUCTION LED TO A ONE PER CENT PENALTY. BY THE END OF THE COUNCIL, WE HAD A COMMISSION TEXT WHICH RETAINED 158M TONNES UP TO 1991 BUT WITH AUTOMATIC PENALTIES AND A CLEAR PROCEDURE FOR THE COMMISSION TO TAKE DECISIONS IF THE COUNCIL FAILED TO DO SO. THE COMMISSION'S PROPOSALS FOR OILSEEDS AND PROTEINS, FLOATED DURING THE CONCLEVE, ARE ALSO FIRMLY IN THE PRESIDENCY TEXT, ALONG WITH ALL THE OTHER STABILISER PROPOSALS INTACT.

(II) SET-ASIDE

THE GERMANS, WITH IRISH AND SOME SPANISH SUPPORT, TRIED TO INSIST ON A LASTING SET-ASIDE REGIME WITH 50 PERCENT COMMUNITY FINANCING. THE 5 DECEMBER TEXT GAVE THEM NO COMFORT ON THIS SCORE, BUT SUGGESTED THAT FARMERS TAKING PART IN THE SET-ASIDE PROGRAMME SHOULD BE EXONERATED FROM THE CORESPONSIBILITY LEVY. THIS ISSUE REMAINS TOTALLY UNRESOLVED AND WILL LOOM LARGE IN THE NEXT 2 MONTHS.

6. BUDGET DISCIPLINE

(I) AGRICULTURAL GUIDELINE

MOST MEMBER STATES CAME OUT IN FAVOUR OF HANDLING STOCKS OFF-GUIDELINE WITH A 27 BECU GUIDELINE, INCREASING AT 60 PERCENT OF THE GNP GROWTH RATE. FRANCE AND IRELAND WANTED THE FIGURE INCREASED IF THERE WAS NO OILS AND FATS TAX: BUT THE MAIN OPPOSITION TO THE PROPOSAL CAME FROM THE COMMISSION AND GERMANY, WHO WANTED THE STOCKS TO BE FINANCED WITHIN THE GUIDELINE. OVERNIGHT THE PRESIDENCY TOOK THIS PROPOSAL INTO THEIR TEXT, RAISING THE GUIDELINE TO 27.5 BECU BUT ACKNOWLEDGING THAT THE OILS AND FATS TAX WAS DEAD.

(II) EXCEPTIONAL CIRCUMSTANCES

THE FRENCH AND IRISH WERE ALONE IN WANTING TO COVER NON-MONETARY CIRCUMSTANCES. MOST MEMBER STATES ACCEPTED THAT THERE SHOULD BE A FRANCHISE. THE 5 DECEMBER TEXT RETAINS THE TWO MAIN DEFECTS OF THE ORIGINAL: BREACHES BY THIRD COUNTRIES OF INTERNATIONAL UNDERTAKINGS STILL QUALIFY AS AN EXCEPTIONAL CIRCUMSTANCE AND QUOTE ABERRANT DEVELOPMENTS UNQUOTE MAY MEAN THAT CLAWBACK IS NOT APPLIED.

(III) MONETARY RESERVE

THE COMMISSION CONTINUED THEIR PITCH FOR A MONETARY RESERVE SET AT 1 BECU, WITH A FRANCHISE OF 4 MECU, LINKED SOLELY TO THE DOLLAR/ECU RATE. THE PRESIDENCY TOOK ON BOARD A DUTCH SUGGESTION THAT THERE SHOULD BE NO BUDGETARY PROVISION BUT THAT MEMBER STATES SHOULD COMMIT THEMSELVES TO AGREE A SUPPLEMENTARY BUDGET OF UP TO 1,000 MECU WHEN THE THRESHOLD WAS CROSSED.

(IV) FEOGA ADVANCES

THE TEXT OF 5 DECEMBER EXTENDS THE DELAY IN ADVANCES FROM 2 TO 2 AND A HALF MONTHS. THIS PRODUCES A CASH FLOW BENEFIT OF 1,000 MECU, OSTENSIBLY TO MAKE UP FOR THE FACT THAT THERE WILL BE NO OILS AND FATS TAX. NO ONE CHALLENGED THIS.

7. STRUCTURAL FUNDS**(I) LEVEL OF FUNDING**

BELGIUM, LUXEMBOURG AND THE SOUTHERNERS CAME OUT IN FAVOUR OF DOUBLING THE FUNDS, AGAINST A SHAKY ALLIANCE OF NORTHERN STATES, ALL TRYING TO CAMP ON DIFFERENT FIGURES: THE UK 35 PER CENT, NETHERLANDS 35 PERCENT PLUS. FRANCE 40 PERCENT, GERMANY 50 PERCENT. THE 5 DECEMBER TEXT PROPOSES AN INCREASE OF 4.4 BECU UP TO 1992 (INSTEAD OF 7 BECU) BUT A QUOTE PERSPECTIVE UNQUOTE THAT THEY WILL BE DOUBLED BY 1995.

(II) CONCENTRATION

ITALY AND THE COMMISSION PREDICTABLY RESISTED NORTHERN PROPOSALS THAT THE FUNDS SHOULD BE CONCENTRATED ON THE FOUR POOREST. EVERYONE AGREED THAT 80 PERCENT OF THE REGIONAL FUND SHOULD GO TO BACKWARD REGIONS, LEAVING 20 PERCENT FOR AREAS OF INDUSTRIAL DECLINE. MOST OF THE

SOUTHERNERS CONTINUED TO PRESS FOR 2/3 OF ALL OF THE FUNDS.

(III) THE MAXIMUM RATE

THE PRESIDENCY'S PRE-COUNCIL TEXT HAD AN UNSATISFACTORY AND AMBIGUOUS FORMULA FOR APPLYING THE MAXIMUM RATE TO THE STRUCTURAL FUNDS. ON THE FIRST DAY, CHIRAC INTRODUCED THE IDEA THAT THE FUNDS SHOULD INCREASE AT 1 AND HALF TIMES THE MAXIMUM RATE. THE UK AND NETHERLANDS SUPPORTED. THE 5 DECEMBER TEXT, HOWEVER, STILL RETAINS UNSATISFACTORY LANGUAGE WHICH WOULD PERMIT A HIGHER RATE OF INCREASE.

8. OWN RESOURCES

(I) CEILING

UNDER PRESSURE TO DECLARE THEIR HAND FOR THE FIRST TIME, ALL OPTED FOR 1.4 PER CENT OF GNP EXCEPT FRANCE AND THE NETHERLANDS (1.2 PER CENT), GERMANY (1.25/1.3 PER CENT) AND THE UK (WAIT AND SEE). THE 5 DECEMBER PRESIDENCY TEXT PROPOSED A CEILING OF 1.3 PER CENT GNP (EQUIVALENT TO NEARLY 1.4 PER CENT SINCE IT ASSUMED THAT THE UK ABATEMENT WOULD BE FINANCED OUTSIDE THE CEILING). THERE WAS NO FURTHER DISCUSSION ON THE SECOND DAY.

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FM COPENHAGEN

TO IMMEDIATE FCO

TELNO 418

OF 052005Z DECEMBER 87

AND TO PRIORITY EC POSTS, MOSCOW, WASHINGTON, UKDEL NATO
AND TO PRIORITY UKMIS NEW YORK, STRASBOURG, TOKYO, TEHRAN, BAGHDAD
AND TO PRIORITY RIYADH, KUWAIT, BAHRAIN, DOHA, DUBAI, ABU DHABI
AND TO PRIORITY MUSCAT, ADEN, SANAA, DAMASCUS, CAIRO, TUNIS
AND TO PRIORITY AMMAN, BEIRUT, TEL AVIV, JERUSALEM, RABAT
AND TO PRIORITY KHARTOUM, ALGIERS, MOGADISHU

EUROPEAN COUNCIL: COPENHAGEN

MIDDLE EAST DECLARATION

1. THE FOLLOWING TEXT ON THE MIDDLE EAST WAS AGREED BY THE EUROPEAN COUNCIL ON 5 DECEMBER.

2. BEGINS

1. THE EUROPEAN COUNCIL DEPLORES THE CONTINUING ABSENCE OF RESOLUTION OF THE CRISES IN THE MIDDLE EAST.

2. THE TWELVE REAFFIRM THEIR WILLINGNESS TO DEVELOP THEIR POLITICAL DIALOGUE WITH ALL STATES IN THE MIDDLE EAST. THEY ALSO WISH ECONOMIC COOPERATION TO PROGRESS AND IN PARTICULAR THE CURRENT NEGOTIATIONS ON AN AGREEMENT BETWEEN THE EUROPEAN COMMUNITY AND THE COUNTRIES OF THE GULF COOPERATION COUNCIL TO BE COMPLETED RAPIDLY.

3. THE EUROPEAN COUNCIL EXPRESSES ITS PROFOUND CONCERN ABOUT THE CONTINUATION OF THE WAR BETWEEN IRAQ AND IRAN AND REITERATES ITS FIRM AND WHOLE-HEARTED SUPPORT FOR SECURITY COUNCIL RESOLUTION 598 AS THE MEANS TO BRING AN END TO THIS ARMED CONFLICT. THE TWELVE CONTINUE TO GIVE THEIR UNRESERVED AND STRONG SUPPORT TO THE EFFORTS OF THE UNITED NATIONS SECURITY COUNCIL AND THE SECRETARY-GENERAL TO OBTAIN THE IMMEDIATE AND FULL IMPLEMENTATION OF THIS RESOLUTION. CONTINUE NON-COMPLIANCE WITH THIS MANDATORY RESOLUTION IS NOT ACCEPTABLE TO THE WORLD COMMUNITY AND THE APPROPRIATE ACTION SHOULD NOW BE TAKEN TO ENFORCE ITS IMPLEMENTATION BY MEANS OF A FOLLOW-UP RESOLUTION.

4. THE TWELVE CONFIRM THEIR DESIRE FOR A NEGOTIATED SOLUTION TO THE ARAB-ISRAELI CONFLICT WHICH WOULD BRING TO THE REGION A JUST, COMPREHENSIVE AND LASTING PEACE IN ACCORDANCE WITH THE PRINCIPLES SET OUT IN THE VENICE DECLARATION, AND REITERATE THEIR SUPPORT FOR AN INTERNATIONAL PEACE CONFERENCE UNDER THE AUSPICES OF THE UNITED

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NATIONS. THEY WELCOME THE ENDORSEMENT GIVEN TO SUCH A CONFERENCE BY THE ARAB LEAGUE SUMMIT IN AMMAN UNDER THE CHAIRMANSHIP OF KING HUSSEIN OF JORDAN. THEY CALL FOR RENEWED EFFORTS BY ALL CONCERNED TO REACH AGREEMENT ON ARRANGEMENTS FOR THE CONFERENCE TO BE HELD AS SOON AS POSSIBLE.

THE TWELVE REITERATE THEIR PREOCCUPATION ABOUT HUMAN RIGHTS AND LIVING CONDITIONS IN THE OCCUPIED TERRITORIES. WITHOUT PREJUDGING FUTURE POLITICAL SOLUTIONS THEY WILL CONTINUE TO CONTRIBUTE TO THE ECONOMIC AND SOCIAL DEVELOPMENT OF THOSE TERRITORIES.

5. THE EUROPEAN COUNCIL REMAINS DEEPLY CONCERNED ABOUT THE SITUATION IN LEBANON. IT CALLS FOR A PEACEFUL SOLUTION TO THE LEBANESE CRISIS WHICH SHOULD BE BASED ON THE INDEPENDENCE, UNITY, SOVEREIGNTY, TERRITORIAL INTEGRITY AND NATIONAL RECONCILIATION OF THAT COUNTRY. THE TWELVE REAFFIRM THEIR SUPPORT FOR UNIFIL AND CALL ON ALL CONCERNED TO SUPPORT THE FORCE AND TO ALLOW IT TO FULFILL ITS MANDATE UNOBSTRUCTED. THEY REITERATE THEIR CONDEMNATION OF THE CONTINUING DETENTION OF HOSTAGES AND VICTIMS OF KIDNAPPING IN LEBANON, AND CALL FOR THEIR IMMEDIATE RELEASE.
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TO IMMEDIATE FCO

TELNO 417

OF 052000Z DECEMBER 87

AND TO PRIORITY EC POSTS, MOSCOW, WASHINGTON, UKDEL NATO
AND TO PRIORITY UKMIS NEW YORK, STRASBOURG, TOKYO, KABUL, DELHI
AND TO PRIORITY ISLAMABAD

EUROPEAN COUNCIL: COPENHAGEN

AFGHANISTAN DECLARATION

1. THE FOLLOWING TEXT ON AFGHANISTAN WAS AGREED BY THE EUROPEAN
COUNCIL ON 5 DECEMBER.

2. BEGINS

THE EUROPEAN COUNCIL EXAMINED THE SITUATION IN AFGHANISTAN WHICH
REMAINS AN IMPORTANT SOURCE OF INTERNATIONAL TENSION 8 YEARS AFTER
THE INVASION BY SOVIET TROOPS. THE TWELVE PAY TRIBUTE TO THE AFGHAN
PEOPLE'S SPIRIT OF INDEPENDENCE. THEY ALSO ACKNOWLEDGE THE COURAGE OF
THE PEOPLE OF PAKISTAN, WHICH HAS SUFFERED SO MUCH AS A RESULT OF
THIS CONFLICT, AND THE GENEROUS ASSISTANCE PROVIDED BY THAT COUNTRY
TO MORE THAN 3 MILLION AFGHAN REFUGEES.

THE TWELVE SUPPORT THE PERSISTENT EFFORTS BY THE UN SECRETARY-GENERAL
AND HIS PERSONAL REPRESENTATIVE TO FIND A NEGOTIATED SOLUTION WHICH
WOULD PUT AN END TO THE TRAGIC HUMAN SUFFERING AND THE CONTINUING
VIOLATIONS OF HUMAN RIGHTS IN AFGHANISTAN, ALLOW THE REFUGEES TO
RETURN AND RESTORE AFGHANISTAN, AS A GENUINELY INDEPENDENT AND
NON-ALIGNED COUNTRY. THE PRINCIPLES WHICH MUST UNDERLIE A SETTLEMENT
HAVE ONCE MORE BEEN OVERWHELMINGLY ENDORSED AT THIS YEAR'S UN GENERAL
ASSEMBLY.

THE TWELVE TAKE NOTE THAT SOVIET LEADERS HAVE ANNOUNCED THEIR
INTENTION TO FIND A POLITICAL SOLUTION IN AFGHANISTAN. THEY BELIEVE
THERE SHOULD NOW BE AN URGENT NEW IMPETUS IN THE PEACE NEGOTIATIONS
AND CALL ON THE SOVIET UNION TO:

- WITHDRAW ALL ITS TROOPS BY A DATE IN 1988 ACCORDING TO A FIXED
TIMETABLE SEMI COLON

- AGREE TO THE ESTABLISHMENT OF A TRANSITIONAL GOVERNMENT, WHOSE
INDEPENDENCE COULD NOT BE CONTESTED, TO MAKE PREPARATIONS FOR A NEW
CONSTITUTION AND A GENUINE ACT OF SELF-DETERMINATION SEMI COLON

- RECOGNIZE THAT THE PARTICIPATION OF THE AFGHAN RESISTANCE IS
ESSENTIAL TO A COMPREHENSIVE POLITICAL SETTLEMENT.

THE TWELVE REMAIN READY TO CONTRIBUTE CONSTRUCTIVELY TOWARDS THE
ACHIEVEMENT OF AN ACCEPTABLE SETTLEMENT, WHICH WOULD BRING ABOUT A
SIGNIFICANT IMPROVEMENT IN INTERNATIONAL RELATIONS.
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TO IMMEDIATE FCO

TELNO 416

OF 051955Z DECEMBER 87

AND TO PRIORITY EC POSTS, MOSCOW, WASHINGTON, UKDEL NATO
AND TO PRIORITY UKMIS NEW YORK, STRASBOURG, TOKYO, WARSAW, PRAGUE
AND TO PRIORITY BUDAPEST, BELGRADE, BUCHAREST, SOFIA, EAST BERLIN
AND TO PRIORITY CSCE VIENNA, ANKARA, BERNE, HELSINKI, HOLY SEE
AND TO PRIORITY NICOSIA, OSLO, OTTAWA, REYKJAVIK, STOCKHOLM
AND TO PRIORITY VALLETTA, VIENNA

EUROPEAN COUNCIL: COPENHAGEN

EAST/WEST DECLARATION

1. THE FOLLOWING TEXT ON EAST/WEST WAS AGREED BY THE EUROPEAN COUNCIL
ON 5 DECEMBER.

2. BEGINS

1. THE EUROPEAN COUNCIL WELCOMES THE IMPORTANT PROSPECTS OF AN
IMPROVEMENT IN EAST-WEST RELATIONS AND ACKNOWLEDGES THAT THE
FORTHCOMING SUMMIT IN WASHINGTON WILL MARK A SIGNIFICANT STEP FORWARD
IN THESE RELATIONS.

2. THE AGREEMENT ON GLOBAL ELIMINATION OF UNITED STATES AND SOVIET
LAND-BASED INTERMEDIATE RANGE NUCLEAR MISSILES WILL BE A MILESTONE,
ELIMINATING FOR THE FIRST TIME AN ENTIRE CLASS OF WEAPONS. THE TWELVE
HOPE THAT THIS AGREEMENT WILL ENTER INTO FORCE SOON.

THEY CONSIDER IT ESSENTIAL THAT THIS ACHIEVEMENT IN NUCLEAR ARMS
CONTROL SHOULD GIVE FURTHER IMPETUS TO SUBSTANTIVE PROGRESS IN THE
WHOLE RANGE OF PRESENT AND FUTURE BILATERAL US/SOVIET AND
MULTILATERAL NEGOTIATIONS ON ARMS CONTROL AND DISARMAMENT.

3. THE TWELVE WILL CONTINUE TO SEEK THROUGH THE CSCE PROCESS MORE
SECURE AND MORE COOPERATIVE RELATIONS BETWEEN THE PARTICIPATING
STATES. ALL THE UNDERTAKINGS MADE IN HELSINKI AND MADRID SHOULD BE
FULLY IMPLEMENTED.

RESPECT FOR HUMAN RIGHTS AND FREEDOMS IS A PREREQUISITE FOR
CONFIDENCE, UNDERSTANDING AND COOPERATION. THE TWELVE ARE DETERMINED
THAT THE VIENNA MEETING SHOULD BENEFIT ALL INDIVIDUALS IN THE 35
COUNTRIES INVOLVED.

THE TWELVE WISH TO BUILD UPON THE ACHIEVEMENTS OF THE STOCKHOLM

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CONFERENCE (CDE) AND WILL CONTRIBUTE TO THE ELABORATION OF A FURTHER SET OF CONFIDENCE AND SECURITY BUILDING MEASURES. THEY WILL WORK RESOLUTELY TOWARDS A STABLE AND SECURE BALANCE OF CONVENTIONAL FORCES IN EUROPE AT A LOWER LEVEL.

4. IN ALL THIS, THE TWELVE WILL COOPERATE CLOSELY WITH OTHER COUNTRIES WHO SHARE THEIR IDEALS, VALUES AND OBJECTIVE.
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REC.	07 DEC 1987
ACTION	Mr A. J. C. Edwards *
COPIES TO	CST, PMG, Sir P. Middleton, Sir G. Little, Sir T. Burns, Mr R. G. Allan, Mr Edwards

6 December 1987 Mr Mortimer
Mr Bonney
Mr Tyrrie

From the Private Secretary

Dear Lyn.

✓

EUROPEAN COUNCIL, COPENHAGEN

I enclose a draft for the Prime Minister's statement on the European Council, to be made in the House on 8 December. The Prime Minister is generally content with it.

* I should be grateful for any comments and proposed amendments by 1800 hours on 7 December.

I am copying this letter and enclosure to Alex Allan (HM Treasury), Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Alison Brimelow (Department of Trade and Industry) and Roger Lavelle (Cabinet Office).

Alex ✓ sees OK AA
You may like to see this. Looks OK to me, but I don't follow Euro matters at all.
AAH

Yours sincerely,
Charles Powell

Charles Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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TELNO 4200
OF 071730Z DECEMBER 87
INFO ROUTINE EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

BUDGET COMMITTEE 7 DECEMBER 1987

1988 BUDGET: BUDGET COUNCIL 9 DECEMBER

SUMMARY

1. BUDGET COUNCIL TO TRY TO AGREE DRAFT BUDGET FOR 1988 ON 9 DECEMBER. ONLY MEETING THAT DAY. POSSIBILITY ^{OF} SOME PROVISIONAL TWELFTHS ALSO ON AGENDA. X

DETAIL

2. THE PRESIDENCY, FOLLOWING A MEETING THAT MORNING WITH TYGSEN, PRESIDENT OF THE BUDGET COUNCIL, CONFIRMED THAT THE BUDGET COUNCIL SCHEDULED FOR 9 DECEMBER WOULD TRY TO ESTABLISH A DRAFT BUDGET FOR 1988. THERE WOULD HOWEVER BE NO COMPROMISE CIRCULATED BEFORE THE MEETING. NOR DID THE COMMISSION INTEND TO CIRCULATE A DOCUMENT BEFORE THEN. INDEED THE COMMISSION ADDED THAT THE COMMISSION WAS NOT EVEN MEETING TO CONSIDER THE 1988 BUDGET UNTIL WEDNESDAY MORNING. X

3. THE COUNCIL WILL ONLY TAKE PLACE ON 9 DECEMBER: THE PRESIDENCY HOPED IT WOULD FINISH FAIRLY EARLY BY BUDGET COUNCIL STANDARDS. (THIS WAS ONE OF SEVERAL SIGNS, ALBEIT AT WORKING LEVEL, THAT THE PRESIDENCY REGARD THE COUNCIL PRIMARILY AS AN EXERCISE IN SAVING FACE.)

4. THE COMMISSION WERE ASKED ABOUT THE STATUS OF THE 'A' VOLUMES OF THE PRELIMINARY DRAFT BUDGET, WHICH MAKE THE NECESSARY ADJUSTMENTS TO MAKE THE PDB CONSISTENT WITH THE EXISTING OWN RESOURCES SYSTEM. THE COUNCIL LEGAL SERVICES COMMENTED THAT THESE VOLUMES HAD NEVER BEEN FORMALLY PRESENTED TO THE COUNCIL: THEIR STATUS WAS THEREFORE UNCLEAR. IT OUGHT TO BE CLARIFIED, PERHAPS THROUGH A RECTIFYING LETTER. THE COMMISSION MERELY REPLIED THAT A RECTIFYING LETTER WAS A HIGHLY POLITICAL ISSUE, BUT THE COUNCIL MIGHT GET A REPLY ON WEDNESDAY. (COMMENT: SUCH A LETTER WOULD ALLOW THE COMMISSION TO REPAY THE DEFERRED OWN RESOURCES COLLECTION COST

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FRAME ECONOMIC

ECOFIN COUNCIL: 7 DECEMBER
NON-LIFE INSURANCE SERVICES

SUMMARY

1. CHANCELLOR'S APPROACHES IN MARGINS OF TODAY'S ECOFIN ELICITS POSSIBLE SUPPORT FROM BELGIUM FOR (REVISED?) DANISH PRESIDENCY COMPROMISE AND A PROMISE FROM ITALY TO LOOK INTO ITS POSITION.

DETAIL

2. IN THE LIGHT OF THE NEGATIVE ATTITUDE OF BELGIUM AND ITALY AND THE 30 NOVEMBER INTERNAL MARKET COUNCIL TOWARDS EVEN THE REVISED PRESIDENCY COMPROMISE, THE CHANCELLOR TODAY RAISED THE SUBJECT WITH BOTH EYSKENS (BELGIUM) AND AMATO (ITALY) IN THE MARGINS OF ECOFIN.

3. EYSKENS MENTIONED THAT HE HAD MET THE BELGIUM INSURERS ONLY THIS MORNING AND THAT HIS GOVERNMENT WOULD BE ACCEPTING THE (REVISED?) PRESIDENCY COMPROMISE.

4. AMATO WAS THEN TOLD THAT (IN THE LIGHT OF THIS APPARENT BELGIAN MOVE) ITALY WAS NOW OUT ON A LIMB (SAVE FOR GREECE, PORTUGAL, SPAIN AND IRELAND THAT IN ANY CASE STAND TO BENEFIT FROM TRANSITIONAL ARRANGEMENTS): HE SAID HE WAS NOT ''AU FAIT'' WITH THIS ISSUE (POSSIBLY BECAUSE HE IS NOT DIRECTLY RESPONSIBLE?) BUT WOULD NONETHELESS LOOK INTO IT.

COMMENT

5. HOW MUCH CREDENCE WE CAN GIVE TO EYSKENS' REMARKS ONLY A FEW DAYS BEFORE THE BELGIAN GENERAL ELECTIONS IS DEBATABLE, BUT THERE DOES SEEM TO BE AT LEAST SOME SIGN OF MOVEMENT WHICH SHOULD BE ENCOURAGED. THE ITALIANS NOW CLEARLY NEED TO HAVE AS MUCH PRESSURE AS POSSIBLE EXERTED ON THEM IN THE RUN UP TO THE NEXT INTERNAL MARKET COUNCIL ON 18 DECEMBER. IT WOULD THEREFORE BE HELPFUL IF BRUSSELS AND ROME COULD FOLLOW THIS UP WITH THE BELGIAN AND ITALIAN ADMINISTRATIONS.

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FRAME ECONOMIC
ECOFIN COUNCIL : 7 DECEMBER
PROSPECTUSES DIRECTIVE

SUMMARY

1. COUNCIL AGREE TO CONTINUE IN GERMAN PRESIDENCY TO WORK TOWARDS PROPOSAL'S ADOPTION 'AS EARLY AS POSSIBLE'.

DETAIL

2. SIMONSEN (PRESIDENCY) REITERATED THE PRESIDENCY STATEMENT AT LAST WEEK'S COREPER - THAT WHILE PROGRESS HAD BEEN MADE IN THE WORKING GROUP ON THIS PROPOSAL, IT HAD NOT BEEN POSSIBLE TO ADVANCE MATTERS SUFFICIENTLY FOR MINISTERIAL DISCUSSION THIS TIME: HOWEVER, IN VIEW OF THE DIRECTIVE'S IMPORTANCE, HE WAS URGING MINISTERS TO SUBMIT THE PROPOSAL BACK TO COREPER AND THE WORKING GROUP WITH A REMIT TO WORK TOWARDS A DECISION AS SOON AS POSSIBLE. (NO MENTION HOWEVER WAS MADE TO SUCH A DECISION HAVING TO BE TAKEN IN THE GERMAN PRESIDENCY).

3. THIS WAS AGREED WITHOUT DISCUSSION. THE ONLY COMMENT CAME FROM LORD COCKFIELD (COMMISSION) WHO APPLAUDED THE DANISH PRESIDENCY'S EFFORTS AND STRONGLY SUPPORTED ITS PLEA THAT WORK BE RESUMED UNDER THE GERMAN PRESIDENCY TO ENABLE AN EARLY CONCLUSION, IF POSSIBLE UNDER THAT PRESIDENCY.

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FRAME ECONOMIC

ECOFIN COUNCIL: 7 DECEMBER 1987

DRAFT 18TH VAT DIRECTIVE: ABOLITION OF CERTAIN DEROGATIONS IN THE
6TH VAT DIRECTIVE

SUMMARY

1. NEW GERMAN REQUEST AND COMMISSION INTRANSIGENCE PREVENT
AGREEMENT ON PRESIDENCY COMPROMISE TO ABOLISH MINOR DEROGATIONS
FROM THE 6TH VAT DIRECTIVE.

DETAIL

2. SIMONSEN (PRESIDENCY) STRONGLY PRESSED FOR ACCEPTANCE OF THE
PRESIDENCY COMPROMISE AS IT STOOD (DOCUMENT 10016/87).

3. AFTER INITIAL SILENCE LOOKED AS THOUGH IT MARKED AGREEMENT,
STOLTENBERG (GERMANY) INTERVENED TO MAKE HIS AGREEMENT CONDITIONAL
ON THE COUNCIL AND THE COMMISSION ACCEPTING THAT MEMBER STATES
SHOULD BE ALLOWED TO TAKE NATIONAL MEASURES TO BALANCE OUT ANY
DISTORTIONS OF COMPETITION FOR SO LONG AS SOME DEROGATIONS IN THE
ORIGINAL PROPOSAL FOR THE DIRECTIVE CONTINUED TO EXIST. (THIS WAS
A CLEAR REFERENCE TO GERMANY'S INTENTION TO TAKE MEASURES TO COPE
WITH DENMARK'S CONTINUED EXEMPTION FOR SERVICES OF TRAVEL AGENTS).

4. LORD COCKFIELD (COMMISSION) HAD SERIOUS DOUBTS ABOUT
STOLTENBERG'S SUGGESTION. HE WAS ALSO UNABLE TO ACCEPT THE TEXT IN
ARTICLE 1 WHICH ALLOWED CONTINUED TAXATION OF SPORTS AND CULTURAL
SERVICES WHERE OTHERWISE THERE WOULD HAVE BEEN DISTORTIONS OF
COMPETITION. HE REGARDED THIS AS MAINTAINING DISHARMONY AND MAKING
A PERMANENT CHANGE TO THE 6TH DIRECTIVE WHICH WAS OUTSIDE THE SCOPE
OF THE PROPOSED 18TH DIRECTIVE.

5. I INTERVENED TO SAY WE HAD BEEN READY TO ACCEPT THE
PRESIDENCY COMPROMISE AS A PACKAGE, BUT THE COMMISSION'S REACTION
HAD PREVENTED AGREEMENT ON A POINT OF MAJOR IMPORTANCE TO THE UK.

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6. SIMONSEN CONCLUDED THAT AGREEMENT ON THE DIRECTIVE WAS NOT POSSIBLE.

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FRAME ECONOMIC
ECOFIN COUNCIL: 7 DECEMBER 1987
ABOLITION OF FISCAL FRONTIERS

SUMMARY

1. CHAIRMAN OF ECONOMIC POLICY COMMITTEE (EPC) PRESENTS AGREED INTERIM REPORT, WITH FINAL REPORT ENVISAGED IN 3 MONTHS. LUXEMBOURG ANXIOUS THAT EPC DETAILED WORK SHOULD RANGE WIDELY TO PROVIDE A BASIS FOR EACH MEMBER STATE TO WEIGH UP COSTS/BENEFITS READY FOR FUTURE IN-DEPTH POLITICAL DISCUSSION. GERMANY OUTLINES NEED FOR DETAILED PREPARATIONS IN COUNCIL WORKING GROUPS, AND FOR CAREFUL CONSIDERATION IN CAPITALS AND WITH THE COMMISSION BEFORE DECIDING WHEN CONCLUSIONS MIGHT BE REACHED ON THE MAJOR POLITICAL ISSUES.

DETAIL

2. MILLERON (CHAIRMAN OF EPC) READ OUT THE COMMITTEE'S INTERIM REPORT AGREED FOLLOWING THE EPC MEETING ON 26/27 NOVEMBER. SIMONSEN (PRESIDENCY) WELCOMED THE REPORT AND STRESSED THE IMPORTANCE OF HAVING A PROPER ANALYSIS BEFORE THE COUNCIL PURSUED AN IN-DEPTH STUDY.

3. LORD COCKFIELD (COMMISSION) EMPHASISED THAT FISCAL APPROXIMATION WAS NOT A NEW CONCEPT, BUT WAS INHERENT IN THE TREATY AND IN ALL SUBSEQUENT FISCAL DIRECTIVES. IT WAS ALSO ESSENTIAL TO THE DEFINITION OF THE INTERNAL MARKET CONTAINED IN THE SINGLE EUROPEAN ACT. IT WAS INCONCEIVABLE THAT MEMBER STATES WOULD NOT HAVE CARRIED OUT THEIR OWN MACRO ECONOMIC STUDIES OF THE IMPACT OF TAX APPROXIMATION. THE EPC TIMETABLE FOR ITS FINAL REPORT MUST BE ADHERED TO, AND FITTED IN WITH THE COMMISSION'S VIEW OF THE TIMETABLE FOR TAX APPROXIMATION OVER THE COMING YEAR.

4. SANTER (LUXEMBOURG) WAS CONCERNED THAT EPC'S REPORT SHOULD PROVIDE A SPECIFIC BASIS TO ALLOW REALLY DETAILED SUBSTANTIAL DISCUSSION IN THE COUNCIL. THE REMIT SHOULD REFER TO THE COUNCIL'S OWN CONCLUSIONS IN JUNE 1986 THAT A FULL DISCUSSION OF BUDGETARY, ECONOMIC, FINANCIAL AND SOCIAL REPERCUSSIONS OF TAX APPROXIMATION NEEDED TO TAKE PLACE. THE VAT CLEARING MECHANISM AND ITS IMPACT ON

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BUDGET MANAGEMENT WAS ALSO IMPORTANT. MEMBER STATES NEEDED TO BE IN A POSITION TO WEIGH UP COSTS/BENEFITS AND THEN DECIDE WHETHER THE COMMISSION'S PROPOSALS AMOUNTED TO AN ACCEPTABLE SYSTEM.

5. STOLTENBERG (GERMANY) CONSIDERED THAT THE EPC'S 3 MONTH DEADLINE WOULD BE AMBITIOUS IF THE JUNE 1986 REMIT WAS HANDED ON TO EPC. HE PROPOSED THAT THE FINANCIAL QUESTIONS GROUP SHOULD WORK INTENSIVELY IN THE NEW YEAR TO CLARIFY THE BASIS FOR FURTHER DECISIONS. ALL MEMBER STATES WOULD NEED TO GIVE SERIOUS CONSIDERATION AT A NATIONAL LEVEL TO THE CONSEQUENCES OF THE FUNDAMENTAL RESTRUCTURING OF FISCAL ARRANGEMENTS WHICH WERE BEING PROPOSED. AT AN APPROPRIATE STAGE THE COUNCIL WOULD HAVE TO DECIDE, IN DISCUSSION WITH THE COMMISSION, WHEN IT WOULD BE POSSIBLE TO REACH A POLITICAL DECISION. IT WAS NOT POSSIBLE TO FIX A DATE BECAUSE THE RESULT OF NATIONAL DISCUSSIONS COULD NOT BE PREDICTED.

6. SIMONSEN CONCLUDED THAT EPC SHOULD PURSUE ITS WORK AND SUBMIT A REPORT IN 3 MONTHS. ACCOUNT WOULD HAVE TO BE TAKEN OF THE COUNCIL'S JUNE 1986 CONCLUSIONS IN ORDER TO PROVIDE THE BASIS FOR IN DEPTH MINISTERIAL DISCUSSION WHICH MINISTERS HAD ALREADY DECIDED WAS REQUIRED. LORD COCKFIELD INTERVENED TO PRESS HIS DEMAND FOR TECHNICAL WORK TO BE UNDERTAKEN IN PARALLEL WITH THE EPC STUDIES. WHEN SIMONSEN DECLINED TO CHANGE HIS PREVIOUS CONCLUSION LORD COCKFIELD SAID THE COMMISSION WOULD MAKE A STATEMENT FOR THE MINUTES.

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ECOFIN COUNCIL: 7 DECEMBER 1987

ANNUAL ECONOMIC REPORT

SUMMARY

1. REPORT AGREED, WITH SATISFACTORY CHANGE TO PREAMBLE.

DETAIL

2. THE COUNCIL DISCUSSED THE COMMISSION'S ANNUAL ECONOMIC REPORT (9561/87) AS AMENDED BY THE COMMISSION IN THE LIGHT OF DISCUSSION WITH MEMBER STATES AND WITH THE ADDITION OF A PREAMBLE CIRCULATED AS DOCUMENT COM(87)685.

3. SCHMIDHUBER (COMMISSION) SAID THAT, DESPITE THE EVENTS OF RECENT WEEKS IN THE FOREIGN EXCHANGE AND SECURITIES MARKETS, THE BASIC ANALYSIS IN THE ANNUAL ECONOMIC REPORT REMAINED VALID. THE COOPERATIVE GROWTH STRATEGY, STRENGTHENED ECONOMIC AND SOCIAL COHESION AND THE COMPLETION OF THE INTERNAL MARKET WERE OF THE FIRST IMPORTANCE. THE EVENTS OF RECENT WEEKS MEANT HOWEVER THAT IT WAS EVEN MORE NECESSARY THAN HAD SEEMED THE CASE WHEN THE REPORT WAS PRODUCED THAT THE COMMUNITY SHOULD PURSUE A MIXTURE OF SUPPLY SIDE AND DEMAND SIDE POLICIES WHICH WOULD SUSTAIN NON INFLATIONARY ECONOMIC GROWTH AND AT THE SAME TIME CONTRIBUTE TO A REDUCTION IN EXTERNAL IMBALANCES.

5. IN A SHORT DISCUSSION THE MAIN POINTS MADE WERE AS FOLLOWS:
 - (A) BALLADUR (FRANCE), AMATO (ITALY) AND THE CHANCELLOR SAID THE MAIN PROBLEMS IN ECONOMIC POLICY ADJUSTMENT LAY IN THE USA NOT EUROPE.
 - (B) SOLCHAGA (SPAIN) AND THE PORTUGUESE DELEGATE MADE WHAT SEEMED TO BE MUTED CALLS IN FAVOUR OF THE CONCERTED FISCAL EXPANSION HINTED AT IN ONE OR TWO PLACES IN THE ORIGINAL VERSION OF THE REPORT:
 - (C) SCHLECHT (GERMANY), BALLADUR AND RUDING (NETHERLANDS) DEFENDED THE RECENT ECONOMIC AND MONETARY POLICY MEASURES WHICH THEY HAD

TAKEN AND OBJECTED TO ANY SUGGESTION THAT THEY HAD SUFFICIENT ROOM FOR MANOEUVRE TO ADOPT FURTHER, SUBSTANTIALLY EXPANSIONARY POLICIES:

- (D) ROUMELIOTIS (GREECE) TRIED TO EXCUSE THE POOR RESULTS OF THE GREEK ECONOMIC RECOVERY PROGRAMME BY REFERENCE TO THE UNEXPECTEDLY LOW YIELD OF VAT AND ADVERSE WEATHER CONDITIONS:
- (E) EYSKENS (BELGIUM) MADE AN ELECTION SPEECH ABOUT THE VIRTUES OF THE SINGLE MARKET AND OF REDUCTIONS IN DIRECT TAX.

6. THE CHANCELLOR SAID THAT THE UNITED KINGDOM COULD ACCEPT THE REPORT AS AMENDED: BUT THE LAST PARAGRAPH OF THE PREAMBLE WOULD BE IMPROVED IF IT REFERRED TO THE NEED FOR FLEXIBILITY IN ECONOMIC POLICY MANAGEMENT RATHER THAN TO FORMAL REVISION OF THE ECONOMIC POLICY GUIDELINES.

7. SUMMING UP, SIMONSEN (PRESIDENCY) CONCLUDED

- (A) THAT THE LAST PARAGRAPH OF THE PREAMBLE SHOULD BE AMENDED TO READ "'... IT IS THE MORE NECESSARY FOR THE COMMUNITY AND ITS MEMBER STATES TO BE READY TO ADAPT THEIR ECONOMIC POLICIES TO THE NECESSITIES OF THE SITUATION AS IT EVOLVES'":
- (B) THAT, WITH THIS CHANGE, THE COUNCIL AGREED THE REPORT AS AMENDED:
- (C) THAT THE TEXT SHOULD BE FORMALLY ADOPTED AT AN EARLY MEETING OF THE COUNCIL. (THIS IS TO PERMIT THE COUNCIL SECRETARIAT TO PUT TOGETHER THE FINAL TEXT AND FOR ANY REMAINING LINGUISTIC POINTS TO BE DEALT WITH IN THE JURISTS/LINGUISTS GROUP).

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FRAME ECONOMIC

ECOFIN COUNCIL : 7 DECEMBER

SUMMARY TELEGRAM

(X DENOTES ITEMS NOT RECORDED ELSEWHERE)

1. THE CHANCELLOR AND I REPRESENTED THE UK.

'A' POINTS

2. ALL AGREED EXCEPT NO'S 5 (STEEL: EXTERNAL ASPECTS FOR 1988) AND 6 (USA: STEEL) WHICH ARE TO GO TO 18 DECEMBER INTERNAL MARKET COUNCIL AS A POINTS. ON NO 7 (FOOD AID FRAMEWORK REGULATION) PRESIDENCY LETTER TO PARLIAMENT PROPOSING ROLL OVER OF PRESENT REGULATION APPROVED BUT DISCUSSION LIKELY AT 14-15 DECEMBER FOREIGN AFFAIRS COUNCIL (FOR FURTHER DETAILS SEE SEPARATE TELNO 4199).

FOLLOW UP TO EUROPEAN COUNCIL (X)

3. NO DISCUSSION: ITEM DELETED FROM AGENDA.

ANNUAL ECONOMIC REPORT 1987-88

4. REPORT AGREED WITH SATISFACTORY CHANGES TO PREAMBLE.

ABOLITION OF FISCAL FRONTIERS (TAX APPROXIMATION)

5. CHAIRMAN OF ECONOMIC POLICY COMMITTEE (EPC) PRESENTS AGREED INTERIM REPORT, WITH FINAL REPORT ENVISAGED IN 3 MONTHS. LUXEMBOURG ANXIOUS THAT EPC DETAILED WORK SHOULD RANGE WIDELY TO PROVIDE A BASIS FOR EACH MEMBER STATE TO WEIGH UP COSTS/BENEFITS READY FOR FUTURE IN-DEPTH POLITICAL DISCUSSION. GERMANY OUTLINES NEED FOR DETAILED PREPARATIONS IN COUNCIL WORKING GROUPS, AND FOR CAREFUL CONSIDERATION IN CAPITALS AND WITH THE COMMISSION BEFORE DECIDING WHEN CONCLUSIONS MIGHT BE REACHED ON THE MAJOR POLITICAL ISSUES.

EIGHTEENTH VAT DIRECTIVE

6. NEW GERMAN REQUEST AND COMMISSION INTRANSIGENCE PREVENT AGREEMENT ON PRESIDENCY COMPROMISE TO ABOLISH MINOR DEROGATIONS FROM SIXTH VAT DIRECTIVE.

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7. COUNCIL AGREE TO CONTINUE IN GERMAN PRESIDENCY TO WORK TOWARDS PROPOSAL DIRECTION 'AS EARLY AS POSSIBLE'.

LUNCHTIME DISCUSSION (X)

8. DISCUSSION ON INTERNATIONAL ECONOMIC SITUATION, WITH PARTICULAR EMPHASIS ON ROLE OF NICS AND ON DIFFICULTIES OF PERSUADING US AUTHORITIES TO PURSUE CONSTRUCTIVE FISCAL AND MONETARY POLICIES. NO MENTION OF COMMUNITY FINANCES.

9. FOR DETAILS, SEE MY 4 IFTS.

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AFTERMATH OF THE COPENHAGEN EUROPEAN COUNCIL

1. A FEW SMALL STRAWS IN THE WIND FROM CONTACTS IN THE MARGINS OF ECOFIN:

(I) ERSBOELL TOLD ME THAT GENSCHER (HAVING PLAYED ALMOST NO ROLE PRE-COPENHAGEN) WAS NOW BUSY PLANNING MUCH ACTIVITY. HE WAS TALKING IN TERMS OF TWO SPECIAL MINISTERIAL MEETINGS (FOREIGN MINISTERS) BEFORE THE FEBRUARY EUROPEAN COUNCIL, THE SECOND A CONCLAVE THE WEEK BEGORE THE LATTER MEETING.

(II) ERSBOELL TOLD THE CHANCELLOR THAT HE BELIEVED THE DANISH POSITION ONCE THEY WERE OUT OF THE PRESIDENCY WOULD MOVE CLOSER TO THE UK (ON STRUCTURAL FUNDS AND ON CEREALS). HE SAID THERE WAS CONSIDERABLE BITTERNESS AT THE WAY KOHL HAD PRE-EMPTED ANY CHANCE OF DECISIONS AT COPENHAGEN AND AN UNWILLINGNESS TO SEE THE GERMANS GAIN THE FRUITS OF THE DANE'S WORK AT NO COST.

(III) DELORS WAS RATHER RELAXED ABOUT COPENHAGEN. I TAXED HIM WITH THE COMMISSION'S LAST MINUTE SWITCH TO A HIGHER MAXIMUM GUARANTEED QUANTITY FOR CEREALS. DELORS SAID THAT HIS COMPROMISE PAPER WAS NO LONGER ON THE TBALE. THE COMMISSION WOULD REVERT TO URGING A 155 MILLION TON MAXIMUM GUARANTEED QUANTITY.

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COPENHAGEN EUROPEAN COUNCIL : DANISH PRESS REACTIONS

SUMMARY

1. DANISH PRESS GENERALLY LOW KEY ON SUMMIT. BRITAIN DISAPPEARED AS THE MAIN TARGET FOR CRITICISM OVER THE WEEKEND. GERMANS IDENTIFIED AS CULPRITS FOR FAILURE TO PRODUCE A RESULT. NO BLAME ATTACHED TO PRESIDENCY. LITTLE OPTIMISM ABOUT PROSPECTS FOR FEBRUARY.

DETAIL

2. THERE WAS A MARKED SHIFT OF EMPHASIS IN DANISH REPORTING OF THE EUROPEAN COUNCIL OVER THE WEEKEND. IN THE RUN-UP TO THE COUNCIL THE DANISH PRESS WAS CONFIDENTLY PREDICTING THAT BRITAIN WOULD BLOCK ANY AGREEMENT. BUT BY SATURDAY MORNING BRITAIN WAS NO LONGER SEEN AS THE STUMBLING BLOCK. INDEED 'INFORMATION' (INTELLECTUAL LEFT) SAID FIRMLY THAT MRS THATCHER WAS RIGHT TO INSIST ON CAP REFORM. THE GENERAL PRESS MOOD WAS THAT DENMARK WAS WORKING HARD TO SAVE THE SUMMIT. BY SUNDAY THE PAPERS WERE REPORTING WHAT MANY DESCRIBED AS A FIASCO, WITH THE GERMANS AS THE MAIN CULPRITS. 'BERLINGSKE TIDENDE' (INDEPENDENT CONSERVATIVE) CARRIED A LEADING ARTICLE SAYING THAT MRS THATCHER WOULD INEVITABLY BE LINKED WITH THE FAILURE OF THE COPENHAGEN SUMMIT, BUT THE NEGATIVE ATTITUDE OF THE GERMANS MUST ALSO BE TAKEN INTO ACCOUNT.

3. MOST PAPERS CARRY THEIR EDITORIAL JUDGEMENT TODAY. 'INFORMATION' SAYS BLUNTLY THAT CHANCELLOR KOHL CAUSED THE SUMMIT BREAKDOWN. 'JYLLANDS-POSTEN' (INDEPENDENT CONSERVATIVE) ALSO HOLDS UP GERMANY AS THE VILLAIN OF THE SUMMIT, SAYING THAT EC CREDIBILITY IS BADLY DENTED. 'POLITIKEN' (LEFT OF CENTRE) AGREES THAT THE EC REPUTATION HAS BEEN FURTHER DAMAGED AND DESCRIBES THE POSTPONEMENT AS 'A FIASCO OF SUMMIT POLITICS'. BORSEN (FT EQUIVALENT) SAYS THAT THE SUMMIT COULD LEAD TO A VIOLENT EC CRISIS AND SAYS THAT THE GERMAN PRESIDENCY WILL TAKE OVER A 'SEIZED UP' COMMUNITY. 'KRISTELIGT DAGBLAD' (CHRISTIAN, CENTRE) SAYS THAT THE FAILURE TO REACH AGREEMENT WAS A DEFEAT FOR EVERYONE.

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4. NO BLAME IS ATTACHED TO THE PRESIDENCY BY THE MEDIA FOR THE COUNCIL'S FAILURE TO REACH AGREEMENT. THE ''LITTLE DENMARK'' MENTALITY IS IN EVIDENCE : DENMARK WAS UNABLE TO COPE WITH DISAGREEMENTS BETWEEN THE THREE BIG EC COUNTRIES. SOME PAPERS REPORT THE SOCIAL DEMOCRATS AS CRITICISING SCHLUTER FOR GOING INTO TOO MUCH DETAIL IN HIS COMPROMISE PROPOSALS. HOWEVER THIS IS NOT GENERALLY TAKEN UP : THE MOOD SEEMS TO BE THAT THE DANISH PRESIDENCY PERFORMED WELL AND PERHAPS DESERVED BETTER THAN IT GOT. LOOKING AT THE PICTURE OVERALL THE MESSAGE SEEMS TO BE THAT THE THREE BIG COUNTRIES WERE UNABLE TO REACH AGREEMENT, ALTHOUGH BRITAIN IS GIVEN CREDIT FOR NOT TURNING DOWN THE FINAL DANISH COMPROMISE.

5. THE DANISH MEDIA ARE NOT PARTICULARLY OPTIMISTIC ABOUT THE PROSPECTS FOR SUCCESS AT A RESUMED SUMMIT IN BRUSSELS. THE UNDERLYING FEELING SEEMS TO BE THAT IN VIEW OF THE ROLE PLAYED BY GERMANY AT COPENHAGEN IT WILL NOT BE EASY FOR THEM AS PRESEIDENCY TO MAKE THE MOVES NECESSARY TO PRODUCE A SUCCESSFUL RESULT IN FEBRUARY. ''BERLINGSKE TIDENDE'' QUOTES SCHLUTER AS SAYING THAT UNLESS SOME AGREEMENT DOES EMERGE AT BRUSSELS ''A CATASTROPHE IS IMMINENT'' FOR THE EC.

COMMENT

6. MOST OF THE REPORTS AND ARTICLES ON THE SUMMIT LACK BITE. THERE IS ALMOST NO CRITICISM OF THE DANISH PRESIDENCY AND CRITICISM OF OTHER PLAYERS IS PRETTY MUTED. ALL IN ALL THE PAPERS WERE SCOUTING AROUND FOR SCRAPS TO FEED OFF. ONE SUCH WAS THE ELABORATE SECURITY OPERATION REQUIRED : THIS OFFENDED MANY DANES AND ONE LEADING SOCIAL DEMOCRAT WENT SO FAR AS TO SAY THAT ALL FUTURE SUMMITS SHOULD BE HELD IN BRUSSELS OR STRASBOURG BECAUSE OF SECURITY REQUIREMENTS. THE CONCLUSION MUST BE THAT WITH NO OUTCOME AND NO FIREWORKS THE EUROPEAN COUNCIL WAS TOTALLY DETACHED FROM REALITY FOR MOST DANES, AND THEY WERE NOT INTERESTED. ALREADY MEDIA ATTENTION HAS SWITCHED TO A RANGE OF OTHER ISSUES, MOSTLY PAROCHIAL.

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MAIN 363

FRAME GENERAL

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ADDITIONAL 2

FRAME
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FM BRUSSELS

TO IMMEDIATE FCO

TELNO 432

OF 071741Z DECEMBER 87

INFO PRIORITY UKREP BRUSSELS

INFO ROUTINE OTHER EC POSTS

COPENHAGEN EUROPEAN COUNCIL: BELGIAN MEDIA REACTIONS

SUMMARY

1. BALANCED, FAIRLY FACTUAL COVERAGE. INEVITABLE DISAPPOINTMENT, PARTICULARLY ON THE EVE OF THE REAGAN-GORBACHEV SUMMIT. KOHL AND MITTERAND PORTRAYED AS CHIEFLY RESPONSIBLE FOR FAILURE TO REACH AGREEMENT. THE PRIME MINISTER PORTRAYED AS RESTRAINED BUT FIRM. LITTLE COMMENT SO FAR FROM MARTENS.

DETAIL

2. BELGIAN MEDIA COVERAGE HAS BEEN NOTICEABLY MORE FACTUAL AND Milder IN TONE THAN AFTER THE BRUSSELS EUROPEAN COUNCIL. THERE IS GENERAL DISAPPOINTMENT AT THE FAILURE TO REACH AGREEMENT, BUT NO ONE DELEGATION IS SINGLED OUT AS CHIEFLY RESPONSIBLE FOR THE FAILURE. THE FRANCOPHONE DAILY 'LA LIBRE BELGIQUE' STATES THAT EUROPE'S POLITICAL CREDIBILITY WILL HAVE SUFFERED VIS-A-VIS THE SUPER-POWERS, AND MOST PAPERS HIGHLIGHT THE CONTRAST BETWEEN THE COMMUNITY'S FAILURE TO REACH AGREEMENT IN COPENHAGEN AND THE LIKELY AGREEMENT BETWEEN REAGAN AND GORBACHEV IN WASHINGTON.

3. BOTH LE SOIR (FRANCOPHONE DAILY) AND DE STANDAARD (FLEMISH DAILY) SUGGEST THAT THE AGENDA FOR COPENHAGEN WAS TOO AMBITIOUS. LE SOIR SAYS THAT THE SUMMIT DIED OF INDIGESTION, AND THAT BOTH THE SPECIAL BRUSSELS EUROPEAN COUNCIL IN FEBRUARY AND THE HANOVER EUROPEAN COUNCIL WILL BE NEEDED BEFORE THERE IS FULL AGREEMENT.

4. BOTH DE STANDAARD AND THE FLEMISH DAILIES GAZET VAN ANTWERPEN AND DE MORGEN COMPARE THE POSITION OF THE UK IN COPENHAGEN WITH OUR POSITION AT THE BRUSSELS EUROPEAN COUNCIL. THE PRIME MINISTER IS DESCRIBED AS FIRM, BUT MILD IN APPROACH AND NO LONGER ISOLATED IN OPPOSITION TO THE REST OF THE COMMUNITY. BY CONTRAST KOHL AND MITTERAND ARE SAID TO HAVE SWEEPED AWAY THE PRESIDENCY COMPROMISE AND PREVENTED AGREEMENT.

5. MARTENS IS DESCRIBED IN GAZET VAN ANTWERPEN AND BY THE NEWSAGENCY BELGA AS DISAPPOINTED AT THE OUTCOME. BELGA QUOTES HIM

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AS SAYING THAT UNLESS 'TECHNICAL' MINISTERS ARE ABLE TO MAKE
PROGRESS, HE DOES NOT SEE A MEANS OF ENSURING THE FUTURE OF EUROPE.
OVERALL, HOWEVER, HE HAS NOT FEATURED GREATLY IN PRESS OR TELEVISION
COVERAGE OF THE SUMMIT.

6. POLITICAL COOPERATION SUBJECTS RECEIVE ONLY BRIEF FACTUAL
TREATMENT IN DE MORGEN AND LE SOIR.

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MAIN 363

FRAME GENERAL ECD (I)

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TELNO 920
OF 071430Z DECEMBER 87
AND TO IMMEDIATE UKREP BRUSSELS, PARIS, COPENHAGEN, THE HAGUE
AND TO ROUTINE OTHER EUROPEAN COMMUNITY POSTS

COPENHAGEN EUROPEAN COUNCIL: GERMAN PRESS REACTIONS

SUMMARY

1. THE GERMAN PRESS IS UNANIMOUS THAT DECISIONS WILL BE NO EASIER IN FEBRUARY, PARTICULARLY FOR KOHL. NO ONE PARTY IS BLAMED IN PARTICULAR FOR THE LACK OF RESULT AT COPENHAGEN BUT PAPERS AGREE THAT AGRICULTURAL SPENDING MUST BE BROUGHT UNDER CONTROL.

DETAIL

2. THE LACK OF AGREEMENT AT COPENHAGEN IS THE MAIN STORY FOR MOST SERIOUS PAPERS ON 7 DECEMBER. THE FAILURE OF THE SUMMIT BECAUSE OF DISAGREEMENT AT COPENHAGEN IS WIDELY SEEN AS REGRETTABLE AT A TIME WHEN A CLEAR ECONOMIC SIGNAL OF CONFIDENCE IN THE EC WAS NEEDED AND THE SUPERPOWER SUMMIT WAS ABOUT TO TAKE PLACE. NO ONE PARTY WAS TO BLAME, BUT SOME REPORTS CRITICISE THE COMMISSION FOR PUTTING ITS PAPERS FORWARD TOO LATE WHILE OTHERS LAUD THE DELORS PACKAGE AS EMINENTLY SENSIBLE. THE FAILURE OF THE FRANCO-GERMAN ALLIANCE TO LIVE UP TO EXPECTATIONS IS NOTED, AS IS THE SUCCESS OF THE ANGLO-DUTCH ALLIANCE IN GETTING AGREEMENT TO A FEBRUARY COUNCIL WHEN PRESIDENCY PRESSURES WILL OBLIGE THE FEDERAL GOVERNMENT TO ACT AS BROKER BETWEEN THE MEMBER STATES.

3. COMMENTATORS AGREE THAT THE KEY TO SUCCESS IN FEBRUARY WILL BE CURBING THE CAP. 'THE PLUG IS NOT IN YET', IS THE HEADLINE OF ONE EDITORIAL. AS FOR THE BRUSSELS COUNCIL, POLITICAL COURAGE WILL BE NECESSARY ON KOHL'S PART. SOME COMMENTATORS THINK THE BITTER PILL WILL HAVE TO BE SWALLOWED, WHILE OTHERS ARE SCEPTICAL ABOUT THE CHANCES OF SUCCESS.

4. COMMENTS ON THE UK MOSTLY SHOW GRUDGING ACCEPTANCE THAT OUR POSITION ON AGRICULTURE IS CORRECT. SOME SUGGEST THAT AN ANGLO-GERMAN DEAL TRADING AGRICULTURAL REFORM AGAINST THE UK ABATEMENT MIGHT HAVE BEEN POSSIBLE BUT DID NOT COME OFF. THE OUTCOME AT COPENHAGEN IS SEEN AS ONE WITH WHICH THE PRIME MINISTER CAN BE SATISFIED.

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FRAME GENERAL ECD (I)

ADDITIONAL 2

FRAME HOUSE OF LORDS
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FM MADRID

TO PRIORITY FCO

TELNO 843

OF 071540Z DEC 87

INFO ROUTINE OTHER EC POSTS

EUROPEAN COUNCIL: SPANISH PRESS REACTION

SUMMARY

1. LACK OF AGREEMENT CAME AS NO SURPRISE. SPANISH PRESS HIGHLIGHT THE OPTIMISM EXPRESSED BY GONZALEZ FOR PROSPECTS AT THE FEBRUARY MEETING. A USEFUL BY-PRODUCT OF THE COPENHAGEN MEETING IS REPORTED AS BEING THE CONSOLIDATION OF THE NEW PHASE IN ANGLO-SPANISH RELATIONS AFTER THE GIBRALTAR AIRPORT AGREEMENT. GONZALEZ IS REPORTED TO HAVE INVITED THE PRIME MINISTER TO VISIT SPAIN SHORTLY.

DETAIL

2. THE FAILURE TO REACH AGREEMENT AT COPENHAGEN HAS BEEN REPORTED IN THE SPANISH PRESS IN TERMS WHICH INDICATE THAT THE OUTCOME WAS MUCH AS EXPECTED. THE TENDENCY IN THE RUN UP TO THE COUNCIL WAS TO PAVE THE WAY FOR BLAMING THE UK FOR ITS ANTICIPATED FAILURE. BUT THIS GAVE WAY LATER TO RECOGNITION THAT NO ONE COUNTRY WAS TO BLAME.

3. GONZALEZ IS QUOTED AT A COPENHAGEN PRESS CONFERENCE AS BEING OPTIMISTIC ABOUT THE PROSPECTS FOR THE FEBRUARY COUNCIL. HE NOTED THAT PERHAPS THERE WAS A LACK OF POLITICAL WILL TO PRESS AHEAD WITH REFORM AT THIS STAGE, BUT STRESSED THE GOOD ATMOSPHERE OF THE MEETING. IT WAS NOT APPROPRIATE TO SINGLE OUT CULPRITS, NOR TO ATTRIBUTE FAILURE TO A NORTH-SOUTH DIVIDE IN THE COMMUNITY. HE WAS HOWEVER CRITICAL OF COUNCIL WORKING METHODS, WHERE STRICTLY TECHNICAL THEMES WERE EXPECTED TO BE DEALT WITH ON A POLITICAL LEVEL.

4. THE PRESS NOTES THAT THE OPTIMISM SHOWN BY GONZALEZ AT THE END OF THE MEETING WAS NOT EVIDENT EARLIER IN THE DAY WHEN HE HAD DESCRIBED THE MEETING AS A STEP BACKWARDS FROM THE BRUSSELS SUMMIT ON SOME CRUCIAL POINTS FOR SPAIN, PARTICULARLY THE STRUCTURAL FUNDS.

5. AN EL PAIS (INDEPENDENT DAILY) EDITORIAL ON 7 DECEMBER SAYS THAT THE SPANISH ROLE AT COPENHAGEN WAS POSITIVE. SPAIN WAS NOT ALONE IN REJECTING THE IDEA THAT THE COMMUNITY COULD NOT IMPLEMENT

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THE SEA WITHOUT BUDGETARY REFORM. THE WEIGHT OF THE SOUTHERN COUNTRIES OF THE COMMUNITY WAS NOW SUCH THAT IT WAS MUCH MORE DIFFICULT FOR THEIR INTERESTS TO BE IGNORED. UNLIKE PREVIOUS COUNCILS, NO INDIVIDUAL COULD BE HELD TO BLAME FOR THE FAILURE AND THE CONSTRUCTIVE BRITISH ATTITUDE IS ACKNOWLEDGED. ABC (CONSERVATIVE DAILY) COMMENTED IN AN EDITORIAL ON SATURDAY THAT MRS THATCHER WAS RIGHT TO INSIST ON BUDGETARY REFORM AND, IN PARTICULAR, ON AGRICULTURAL STABILIZERS.

6. THE PRESS REPORTS THAT GONZALEZ WAS ALSO ABLE TO FULFILL HIS PROMISE TO THE LATIN AMERICAN NATIONS TO DRAW THE COUNCIL'S ATTENTION TO THEIR ECONOMIC PROBLEMS. THE HOPE IS EXPRESSED THAT THE FEBRUARY COUNCIL MIGHT BE ABLE TO FORMALISE THE EC/LATIN AMERICAN DIALOGUE.

7. THE NEW WARMTH IN ANGLO-SPANISH RELATIONS FOLLOWING THE GIBRALTAR AIRPORT AGREEMENT IS WIDELY RECORDED. SPANISH DIPLOMATS ARE SAID TO HAVE UNDERLINED THE NEW DEGREE OF CORDIALITY BETWEEN GONZALEZ AND THE PRIME MINISTER AT THE COUNCIL. GONZALEZ IS SAID TO HAVE INVITED THE PRIME MINISTER TO PAY AN EARLY VISIT TO SPAIN.

GORDON LENNOX

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MAIN 363

FRAME GENERAL

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ADDITIONAL 2

FRAME
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UNCLASSIFIED
FM PARIS
TO IMMEDIATE FCO
TELNO 1257
OF 071628Z DECEMBER 87
INFO IMMEDIATE UKREP BRUSSELS
INFO PRIORITY OTHER EC POSTS

COPENHAGEN SUMMIT: FRENCH PRESS REACTIONS

SUMMARY

1. DISAPPOINTMENT THAT THE 12 COULD NOT REACH AGREEMENT AT A TIME OF TURMOIL IN THE FINANCIAL MARKETS AND DEVELOPING SUPERPOWER COOPERATION. FRANCO-GERMAN COOPERATION SEEN AS A NEGATIVE RATHER THAN A POSITIVE FACTOR. NO INCLINATION TO BLAME THE UK FOR THE BREAKDOWN OR TO CLAIM THAT THE UK WAS ISOLATED.

DETAIL

2. DESCRIPTIONS OF THE OUTCOME OF THE COPENHAGEN SUMMIT IN THE FRENCH PRESS RANGE FROM 'POLITICAL SETBACK' (LE QUOTIDIEN) TO 'DISASTROUS FAILURE' (LE MONDE). MOST PRESS COMMENTATORS AGREE THAT IT IS UNFORTUNATE THAT EUROPE COULD NOT GET ITS ACT TOGETHER AT A TIME OF TURMOIL IN THE FINANCIAL MARKETS AND DEVELOPING COOPERATION BETWEEN THE SUPERPOWERS, BUT SOME VIEW THIS FAILURE LESS TRAGICALLY THAN OTHERS, REFLECTING RELATIVELY OPTIMISTIC OFFICIAL BRIEFING.

3. RESPONSIBILITY FOR THE BREAKDOWN IS VARIOUSLY ASCRIBED TO THE DANISH PRESIDENCY, THE COMMISSION, THE COMPLEXITY OF THE TECHNICAL ISSUES ADDRESSED BY THE HEADS OF STATE, THE 'VARIABLE GEOMETRY' OF THE NEGOTIATIONS, AND THE MAGNITUDE OF THE SACRIFICES REQUIRED IF AGREEMENT IS TO BE REACHED. THERE IS NO ATTEMPT TO SINGLE OUT THE UK FOR BLAME OR TO CLAIM THAT THE UK WAS ISOLATED. ON THE CONTRARY, REFERENCE IS MADE TO THE PRIME MINISTER'S 'GOOD WILL' (LA TRIBUNE DE L'ECONOMIE) AND TO THE SERVICE SHE HAS RENDERED TO EUROPE BY REFUSING TO COUNTENANCE FURTHER GROWTH IN AGRICULTURAL STOCKS (LE QUOTIDIEN DE PARIS).

4. MOST PAPERS HIGHLIGHT THE EXTENT OF COOPERATION BETWEEN THE FRENCH AND GERMAN DELEGATIONS AT COPENHAGEN. THE MAJORITY VIEW IT UNFAVOURABLY. LES ECHOS DESCRIBES IT AS 'EXCESSIVE', AND SEVERAL CHARACTERISE IT AS SERVING AS A 'BRAKE' ON PROGRESS. LIBERATION SEES THE DAYS OF 9 AGAINST 1 (UK) AS OVER, AND STRESSES THAT ON CAP

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REFORM IT IS FRANCE AND GERMANY THAT ARE ISOLATED. LE MONDE (LEMAITRE) SAYS THE DOMINANT IMPRESSION WAS THAT FRANCE HID BEHIND THE GERMANS, CLAIMING TO BE IN FAVOUR OF LIMITING AGRICULTURAL EXPENDITURE BUT IN FACT GIVING GERMAN OBJECTIONS THE BENEFIT OF THE DOUBT.

5. THERE IS SOME SCEPTICISM ABOUT THE LIKELIHOOD OF AGREEMENT BEING REACHED IN BRUSSELS IN FEBRUARY. SPECULATION CENTRES ON WHETHER THE ASSUMPTION OF THE PRESIDENCY WILL MAKE IT EASIER FOR KOHL TO CONCEDE ON CAP REFORM. GUILLAUME IS QUOTED AS SAYING THAT BETWEEN NOW AND THEN THE BRITISH WILL HAVE TO BE PERSUADED TO RENOUNCE SOME OF THEIR REQUIREMENTS.

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FRAME GENERAL ECD (I)

ADDITIONAL 2

FRAME HOUSE OF LORDS
LORD PRESIDENT OF THE COUNCIL,

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Ch/ An interesting telegram by - / summary -
Sir D Hannan himself.

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OF 070915Z DEC 87
INFO IMMEDIATE EUROPEAN COMMUNITY POSTS

FRAME GENERAL/ECONOMIC

COPENHAGEN EUROPEAN COUNCIL : 4/5 DECEMBER.

1. THIS WAS AN UNUSUAL EUROPEAN COUNCIL, NEITHER SUCCESSFUL NOR ACRIMONIOUS. IT WAS NONE THE WORSE FOR THAT, SINCE SUCCESS WAS NOT REALLY ON THE CARDS AND ACRIMONY NEVER LURKS FAR BENEATH THE SURFACE ON THESE OCCASIONS

2. THERE WERE MANY REASONS WHY THE ADVANCE PREDICTIONS THAT THE COPENHAGEN MEETING WOULD NOT TAKE DECISIONS WERE VALIDATED. MOST IMPORTANT WAS THE GERMAN POSITION ON AGRICULTURAL STABILISERS, PARTICULARLY FOR CEREALS, WHICH WAS NOT CONCEIVABLY RECONCILABLE WITH THE OBJECTIVE OF CONTAINING AGRICULTURAL SPENDING, ENDORSED BY THE BRUSSELS COUNCIL AND A FUNDAMENTAL OBJECTIVE FOR OURSELVES, THE DUTCH AND THE COMMISSION. THE FACT THAT THE FRENCH CHOSE TO STAND BY THE GERMANS DID NOT, AS MANY HAD FEARED, MAKE A BAD PACKAGE MORE LIKELY, IT MERELY ENSURED THERE WAS NO PACKAGE AT ALL, SINCE IT WEAKENED THE PRESSURE ON THE GERMANS TO SHOW FLEXIBILITY. VERY NEARLY AS IMPORTANT A FACTOR WAS THAT THE DJINN OF DOUBLING THE STRUCTURAL FUNDS PROVED VERY DIFFICULT TO GET BACK INTO THE BOTTLE, WITH THE COMMISSION SEEKING TO BLOCK EVERY PRESIDENCY ATTEMPT TO SCALE DOWN THE FIGURE TO WHAT WE AND THE OTHER NORTHERNERS WOULD CONSIDER REASONABLE PROPORTIONS AND THE SOUTHERNERS STILL IN HOT PURSUIT OF AN OUTCOME WHICH IS UNATTAINABLE. ADD TO THIS THAT THE ITALIANS WERE PLAYING FOR A DRAW FROM THE OUTSET AND IT BECOMES CLEAR THAT NO AMOUNT OF PRESIDENCY MAGIC AND NO NUMBER OF ADDITIONAL HOURS WOULD HAVE BROUGHT AN AGREEMENT IN COPENHAGEN.

3. THE LACK OF ACRIMONY WAS MORE SURPRISING. THERE WAS PLENTY OF POTENTIAL FOR IT, KOHL'S TRUCULENT DEFENSIVENESS ON CEREALS AND SUBSEQUENT FLOUNDERING AROUND BETWEEN UNACCEPTABLE EXPEDIENTS BEING THE SORT OF PERFORMANCE THAT ON MANY PREVIOUS OCCASIONS WOULD HAVE SET THINGS OFF. BUT SKILFUL, LOW-KEY CHAIRMANSHIP BY SCHLUTER KEPT THE TEMPERATURE DOWN. AND NO DOUBT THE UNDESIRABILITY OF THE EUROPEANS STAGING A FULL-SCALE FAMILY FRACAS ON THE EVE OF THE REAGAN/GORBACHEV SUMMIT WAS A RESTRAINING FACTOR TOO.

4. SOME PROGRESS WAS MADE, ALTHOUGH IT IS IN THE NATURE OF AN INCONCLUSIVE MEETING THAT ANY PROGRESS REMAINS PRECARIOUS. OUR PREFERRED APPROACH TO SETTING THE LIMITS TO AGRICULTURAL SPENDING IS NOW IN THE LEAD: PROBLEMS REMAIN HOWEVER OVER THE BASE AND EXCEPTIONAL CIRCUMSTANCES. THE NEGOTIATION OVER STABILISERS HAS EDGED FORWARD, WITH NO REAL CHALLENGE TO THE PRESIDENCY'S ADMITTEDLY IMPERFECT PACKAGE OF STABILISERS ON OTHER PRODUCTS (MILK, SUGAR, TOBACCO, WINE, SHEEPMEAT, FRUIT AND VEGETABLES ETC.), WITH SOMETHING REALLY EFFECTIVE ON OIL SEEDS AND PROTEINS SEEMINGLY CLOSE TO ACCEPTANCE AND WITH THE BATTLE LINES ON CEREALS DRAWN ON BETTER GROUND THAN THE DEEPLY FLAWED FRANCO-GERMAN IDEAS OF LINKING PENALTIES TO PRODUCTIVITY INCREASES ALONE AND SETTING THE MAXIMUM GUARANTEED QUANTITY AT 165 MILLION TONS. ABOVE ALL THERE IS NOW ON THE TABLE AN APPROACH TO THE UK ABATEMENT WITH WHICH, GIVEN A BIT OF LARGELY PRESENTATIONAL ADJUSTMENT, WE CAN LIVE. AND THE OILS AND FATS TAX HAS BEEN LAID OUT ON THE MORTUARY SLAB. R.I.P.

5. OUR OWN POSITION AT THIS COUNCIL PROVED A GOOD DEAL MORE COMFORTABLE THAN WE HAD ANTICIPATED. THIS WAS LARGELY DUE TO THE FACT THAT, WHILE THE OVERNIGHT PRESIDENCY COMPROMISE CONTAINED PLENTY OF THINGS WE COULD NOT ACCEPT, IT CONTAINED MORE THAT OTHERS COULD NOT: AND THE GERMANS RAPIDLY ASSUMED THE ROLE OF CHIEF WRECKERS. WE WERE CONSIDERABLY HELPED BY A STALWART DUTCH PERFORMANCE ON AGRICULTURAL SPENDING AND STABILISERS. THE COMMISSION, WHILE THEY WERE SOMEWHAT ERRATIC AND VACILLATING AND POSITIVELY UNHELPFUL ON THE STRUCTURAL FUNDS, ON BALANCE STAYED WITH THE ANGELS ON AGRICULTURE.

6. WITH NINE WEEKS TO GO UNTIL THE SPECIAL EUROPEAN COUNCIL ON 11/12 FEBRUARY, WHAT ARE THE PROSPECTS? THERE ARE PLENTY OF FLIES IN THE OINTMENT. NONE OF THE MAJOR ISSUES IN DISPUTE ARE LIKELY TO BE SETTLED AT A LOWER LEVEL, ALTHOUGH SOME HIGHLY DESIRABLE TIDYING UP AND CONSOLIDATION MAY BE ACHIEVED. THE PRESSURE TO AGREE A MORE EXPENSIVE DEAL ON THE STRUCTURAL FUNDS AND A HIGHER LEVEL OF OVERALL FINANCIAL RESOURCES FOR THE COMMUNITY THAN WE CONSIDER ACCEPTABLE REMAIN STRONG. WHILE SOME FLEXIBILITY MAY BE IMPUTED TO THE GERMAN POSITION BY THEIR ASSUMPTION OF THE PRESIDENCY, THE FRENCH ARE LIKELY TO PROVE MORE DIFFICULT AS THEIR PRESIDENTIAL ELECTION DRAWS CLOSER. BUT THE POLITICAL AND FINANCIAL PRESSURES TO TAKE DECISIONS NEXT TIME WILL BE STRONG.

7. BOTH WE AND THE COMMUNITY NEED A TACTICAL GAME PLAN. SO FAR AS THE LATTER IS CONCERNED, WE CAN EXPECT SOME INDICATIONS FROM THE

INCOMING GERMAN PRESIDENCY AT THE 14/15 DECEMBER FOREIGN AFFAIRS COUNCIL. THERE SEEMS NO REASONABLE ALTERNATIVE TO KEEPING COREPER AND THE FOREIGN AFFAIRS COUNCIL IN THE LEAD. IT IS HARD TO SEE THE AGRICULTURE COUNCIL PLAYING A CONSTRUCTIVE ROLE. THE GERMANS MAY ORGANISE A SERIES OF HIGH LEVEL, BILATERAL CONTACTS IN CAPITALS, AS THEY DID IN THE RUN-UP TO STUTTGART. THAT COULD BE MILDLY USEFUL. THE MOST IMPORTANT THING FOR US IS TO ENSURE THAT NONE OF THE GROUND ALREADY GAINED, AND REGISTERED IN THE DANISH PRESIDENCY PAPERS TABLED OVERNIGHT ON 4/5 DECEMBER, IS LOST.

8. AS TO OUR OWN GAME PLAN, THE NEXT ANGLO-FRENCH AND ANGLO-GERMAN SUMMITS FALL EXTREMELY WELL, JUST BEFORE THE SPECIAL EUROPEAN COUNCIL. WE WILL NEED TO PUT THESE MEETINGS TO GOOD USE TO ESTABLISH AS MUCH COMMON GROUND AS POSSIBLE WITH THESE KEY PLAYERS. IF WE CAN ESTABLISH A COMMON POSITION AMONG THESE THREE ON THE STRUCTURAL FUNDS, THAT WILL BE A MAJOR ADVANCE. WE WILL ALSO NEED NOW TO REVIEW CAREFULLY OUR APPROACH TO EACH OF THE POINTS STILL AT ISSUE. A SETTLEMENT AT THE NEXT COUNCIL ON A BASIS CONSISTENT WITH OUR MAIN NEGOTIATING OBJECTIVES SHOULD BE ATTAINABLE BUT NOT WITHOUT SOME TACTICAL FLEXIBILITY.

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FRAME GENERAL/ECONOMIC

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TELNO 4194
OF 070915Z DEC 87
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FRAME GENERAL/ECONOMIC

COPENHAGEN EUROPEAN COUNCIL : 4/5 DECEMBER.

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2. THERE WERE MANY REASONS WHY THE ADVANCE PREDICTIONS THAT THE COPENHAGEN MEETING WOULD NOT TAKE DECISIONS WERE VALIDATED. MOST IMPORTANT WAS THE GERMAN POSITION ON AGRICULTURAL STABILISERS, PARTICULARLY FOR CEREALS, WHICH WAS NOT CONCEIVABLY RECONCILABLE WITH THE OBJECTIVE OF CONTAINING AGRICULTURAL SPENDING, ENDORSED BY THE BRUSSELS COUNCIL AND A FUNDAMENTAL OBJECTIVE FOR OURSELVES, THE DUTCH AND THE COMMISSION. THE FACT THAT THE FRENCH CHOSE TO STAND BY THE GERMANS DID NOT, AS MANY HAD FEARED, MAKE A BAD PACKAGE MORE LIKELY, IT MERELY ENSURED THERE WAS NO PACKAGE AT ALL, SINCE IT WEAKENED THE PRESSURE ON THE GERMANS TO SHOW FLEXIBILITY. VERY NEARLY AS IMPORTANT A FACTOR WAS THAT THE DJINN OF DOUBLING THE STRUCTURAL FUNDS PROVED VERY DIFFICULT TO GET BACK INTO THE BOTTLE, WITH THE COMMISSION SEEKING TO BLOCK EVERY PRESIDENCY ATTEMPT TO SCALE DOWN THE FIGURE TO WHAT WE AND THE OTHER NORTHERNERS WOULD CONSIDER REASONABLE PROPORTIONS AND THE SOUTHERNERS STILL IN HOT PURSUIT OF AN OUTCOME WHICH IS UNATTAINABLE. ADD TO THIS THAT THE ITALIANS WERE PLAYING FOR A DRAW FROM THE OUTSET AND IT BECOMES CLEAR THAT NO AMOUNT OF PRESIDENCY MAGIC AND NO NUMBER OF ADDITIONAL HOURS WOULD HAVE BROUGHT AN AGREEMENT IN COPENHAGEN.

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4. SOME PROGRESS WAS MADE, ALTHOUGH IT IS IN THE NATURE OF AN INCONCLUSIVE MEETING THAT ANY PROGRESS REMAINS PRECARIOUS. OUR PREFERRED APPROACH TO SETTING THE LIMITS TO AGRICULTURAL SPENDING IS NOW IN THE LEAD: PROBLEMS REMAIN HOWEVER OVER THE BASE AND EXCEPTIONAL CIRCUMSTANCES. THE NEGOTIATION OVER STABILISERS HAS EDGED FORWARD, WITH NO REAL CHALLENGE TO THE PRESIDENCY'S ADMITTEDLY IMPERFECT PACKAGE OF STABILISERS ON OTHER PRODUCTS (MILK, SUGAR, TOBACCO, WINE, SHEEPMEAT, FRUIT AND VEGETABLES ETC.), WITH SOMETHING REALLY EFFECTIVE ON OIL SEEDS AND PROTEINS SEEMINGLY CLOSE TO ACCEPTANCE AND WITH THE BATTLE LINES ON CEREALS DRAWN ON BETTER GROUND THAN THE DEEPLY FLAWED FRANCO-GERMAN IDEAS OF LINKING PENALTIES TO PRODUCTIVITY INCREASES ALONE AND SETTING THE MAXIMUM GUARANTEED QUANTITY AT 165 MILLION TONS. ABOVE ALL THERE IS NOW ON THE TABLE AN APPROACH TO THE UK ABATEMENT WITH WHICH, GIVEN A BIT OF LARGELY PRESENTATIONAL ADJUSTMENT, WE CAN LIVE. AND THE OILS AND FATS TAX HAS BEEN LAID OUT ON THE MORTUARY SLAB. R.I.P.

5. OUR OWN POSITION AT THIS COUNCIL PROVED A GOOD DEAL MORE COMFORTABLE THAN WE HAD ANTICIPATED. THIS WAS LARGELY DUE TO THE FACT THAT, WHILE THE OVERNIGHT PRESIDENCY COMPROMISE CONTAINED PLENTY OF THINGS WE COULD NOT ACCEPT, IT CONTAINED MORE THAT OTHERS COULD NOT: AND THE GERMANS RAPIDLY ASSUMED THE ROLE OF CHIEF WRECKERS. WE WERE CONSIDERABLY HELPED BY A STALWART DUTCH PERFORMANCE ON AGRICULTURAL SPENDING AND STABILISERS. THE COMMISSION, WHILE THEY WERE SOMEWHAT ERRATIC AND VACILLATING AND POSITIVELY UNHELPFUL ON THE STRUCTURAL FUNDS, ON BALANCE STAYED WITH THE ANGELS ON AGRICULTURE.

6. WITH NINE WEEKS TO GO UNTIL THE SPECIAL EUROPEAN COUNCIL ON 11/12 FEBRUARY, WHAT ARE THE PROSPECTS? THERE ARE PLENTY OF FLIES IN THE OINTMENT. NONE OF THE MAJOR ISSUES IN DISPUTE ARE LIKELY TO BE SETTLED AT A LOWER LEVEL, ALTHOUGH SOME HIGHLY DESIRABLE TIDYING UP AND CONSOLIDATION MAY BE ACHIEVED. THE PRESSURE TO AGREE A MORE EXPENSIVE DEAL ON THE STRUCTURAL FUNDS AND A HIGHER LEVEL OF OVERALL FINANCIAL RESOURCES FOR THE COMMUNITY THAN WE CONSIDER ACCEPTABLE REMAIN STRONG. WHILE SOME FLEXIBILITY MAY BE IMPUTED TO THE GERMAN POSITION BY THEIR ASSUMPTION OF THE PRESIDENCY, THE FRENCH ARE LIKELY TO PROVE MORE DIFFICULT AS THEIR PRESIDENTIAL ELECTION DRAWS CLOSER. BUT THE POLITICAL AND FINANCIAL PRESSURES TO TAKE DECISIONS NEXT TIME WILL BE STRONG.

7. BOTH WE AND THE COMMUNITY NEED A TACTICAL GAME PLAN. SO FAR AS THE LATTER IS CONCERNED, WE CAN EXPECT SOME INDICATIONS FROM THE

INCOMING GERMAN PRESIDENCY AT THE 14/15 DECEMBER FOREIGN AFFAIRS COUNCIL. THERE SEEMS NO REASONABLE ALTERNATIVE TO KEEPING COREPER AND THE FOREIGN AFFAIRS COUNCIL IN THE LEAD. IT IS HARD TO SEE THE AGRICULTURE COUNCIL PLAYING A CONSTRUCTIVE ROLE. THE GERMANS MAY ORGANISE A SERIES OF HIGH LEVEL, BILATERAL CONTACTS IN CAPITALS, AS THEY DID IN THE RUN-UP TO STUTTGART. THAT COULD BE MILDLY USEFUL. THE MOST IMPORTANT THING FOR US IS TO ENSURE THAT NONE OF THE GROUND ALREADY GAINED, AND REGISTERED IN THE DANISH PRESIDENCY PAPERS TABLED OVERNIGHT ON 4/5 DECEMBER, IS LOST.

8. AS TO OUR OWN GAME PLAN, THE NEXT ANGLO-FRENCH AND ANGLO-GERMAN SUMMITS FALL EXTREMELY WELL, JUST BEFORE THE SPECIAL EUROPEAN COUNCIL. WE WILL NEED TO PUT THESE MEETINGS TO GOOD USE TO ESTABLISH AS MUCH COMMON GROUND AS POSSIBLE WITH THESE KEY PLAYERS. IF WE CAN ESTABLISH A COMMON POSITION AMONG THESE THREE ON THE STRUCTURAL FUNDS, THAT WILL BE A MAJOR ADVANCE. WE WILL ALSO NEED NOW TO REVIEW CAREFULLY OUR APPROACH TO EACH OF THE POINTS STILL AT ISSUE. A SETTLEMENT AT THE NEXT COUNCIL ON A BASIS CONSISTENT WITH OUR MAIN NEGOTIATING OBJECTIVES SHOULD BE ATTAINABLE BUT NOT WITHOUT SOME TACTICAL FLEXIBILITY.

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EUROPEAN COUNCIL: COMMISSION STOCKTAKING.

SUMMARY.

1. FAIRLY DEPRESSED AND A LITTLE DEFENSIVE BUT NOT APOCALYPTIC.

DETAIL.

2. THE COMMISSION CONSIDERED THE RESULTS OF COPENHAGEN AT A DINNER LAST NIGHT. DELORS' ACCOUNT WAS SOMBRE BUT NOT ALARMIST. THERE WAS NO REPEAT OF HIS EARLIER TALK OF RESIGNATION.

THE MAIN THEMES WERE AS FOLLOWS:

I) DELORS WAS PERPLEXED ABOUT THE CHANGE OF ATMOSPHERE (AND IN PARTICULAR OF KOHL'S MOOD) FROM FRIDAY TO SATURDAY. HE WAS NOT DISPOSED TO BLAME THE PRESIDENCY, THOUGH HE CRITICISED THEIR WEAKENING OF THE PROPOSALS ON CEREALS (SIC).

II) THERE WAS MUCH BEMOANING OF THE FACT THAT THE COMMUNITY HAD 'LOST' ITALY AS A RESULT OF THE COMMISSION'S PROPOSALS FOR OWN RESOURCES. DELORS LAMBASTED DGII FOR INITIALLY UNDERESTIMATING THE DAMAGE WHICH THESE WOULD DO TO ITALY (NOW, ACCORDING TO DGII'S REVISED FIGURES, A LOSS OF 1 BECU BY 1992). THERE WAS ALSO A TENDENCY TO BLAME GORIA, FOR BEING LESS COMMUNAUTAIRE THAN ANDREOTTI.

III) DELORS COMMENTED THAT THE COMMISSION HAD PUT TOO MUCH EMPHASIS ON INCREASING OWN RESOURCES AND DOUBLING THE FUNDS RATHER THAN PERSUADING NORTH AND SOUTH THAT THE NEW POLICIES WHICH THEY WOULD FINANCE WOULD BE BENEFICIAL TO ALL.

IV) LOOKING AHEAD, DELORS FELT THAT, SHORT OF A MIRACLE, IT WAS DIFFICULT TO SEE AN AGREEMENT BEING REACHED WHEN THE EUROPEAN COUNCIL RESUMED IN MID-FEBRUARY:

V) MUCH BREAST-BEATING, ESPECIALLY FROM CHRISTOPHERSEN, ABOUT THE DIFFICULTY OF RUNNING THE COMMUNITY ON PROVISIONAL TWELFTHS: A GENERAL ACKNOWLEDGEMENT, HOWEVER, THAT THE 9 DECEMBER BUDGET COUNCIL COULD DO NO MORE THAN AGREE PROVISIONAL TWELFTHS UNTIL THE FEBRUARY SUMMIT, AND THAT THE COMMISSION SHOULD HELP DISSUADE THE PARLIAMENT FROM TAKING LEGAL ACTION ON THE 1988 BUDGET.

VI) THERE DOES NOT SEEM TO HAVE BEEN ANY DECISION ABOUT HOW THE

COMMISSION SHOULD HANDLE THE 1988 PRICE FIXING.
VII) NOT A WORD OF CRITICISM OF THE UK THROUGHOUT.

3. THE COMMISSION'S FOCUS NOW SWITCHES TO THEIR TRADITIONAL
PRE-PRESIDENCY SESSION WITH GENSCHER ON 14 DECEMBER.

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EUROPEAN COUNCIL : LUXEMBOURG REACTION

SUMMARY

1. GLOOM. NO DIRECT CRITICISM OF UK.

DETAIL

2. PRESS COMMENT ON THE SUMMIT SPEAKS MOROSELY OF NATIONAL SELFISHNESS AND SMALL SHOPKEEPER MENTALITY. THERE IS GENERALISED CRITICISM OF ALL PARTICIPANTS, WITH ONE UNNAMED COUNTRY'S INSISTENCE ON ITS REBATE LISTED AMONG EXAMPLES, BUT NO CRITICISM OF THE UK OR THE PRIME MINISTER BY NAME.

3. TAGEBLATT, WHICH THE POLITICAL DIRECTOR REMARKED TO ME SUFFERS FROM BEING TOO MUCH UNDER THE INFLUENCE OF POOS, STRIKES A SOURER NOTE, SHARPLY CRITICISING FRANCE, GERMANY AND DELORS, BUT COMMENTING THAT 'SANTER AND POOS HAVE EMPHASISED THAT THIS TIME MRS THATCHER, WELL KNOWN FOR HER EXTREME POSITIONS AND CLAIMS, DEMONSTRATED MODERATION, AND THEY ADDED THAT WE MUST NOT FALL INTO THE TRAP SET BY THOSE (FRENCH AND GERMANS?) WHO WERE RESPONSIBLE FOR THE MESS.'

4. TAGEBLATT ALSO CRITICISES THE EUROPEAN COUNCIL SYSTEM, WHICH ENCOURAGES THE INSTITUTIONS ESTABLISHED BY THE TREATIES TO LEAVE EVERYTHING TO HEADS OF GOVERNMENT TWICE A YEAR. THE POLITICAL DIRECTOR COMMENTED THAT IN THIS RESPECT AT LEAST THE GERMANS HAD DONE THEIR DUTY BY SETTING UP THE EXTRA SUMMIT IN FEBRUARY.

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	MRS IMBER MR CB EVANS
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ppf

8 December 1987

EUROPEAN COUNCIL: STATEMENT

I enclose the text to the Prime Minister's statement as she has approved it.

I am copying this letter and enclosure to Alex Allan (HM Treasury), Shirley Stagg (Ministry of Agriculture, Fisheries and Food) and Roger Lavelle (Cabinet Office).

C D POWELL

Lyn Parker, Esq.
Foreign and Commonwealth Office

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FINAL

STATEMENT ON THE

EUROPEAN COUNCIL

IN COPENHAGEN

ON 4/5 DECEMBER

8 December 1987

With permission, Mr. Speaker, I shall make a statement about the European Council held in Copenhagen on 4 and 5 December, which I attended, together with my rt. hon. and learned Friend the Foreign and Commonwealth Secretary.

At the previous European Council, in June, we had decided that:

"the Community must submit the use of its

resources to effective and binding discipline" and adopt regulations "to keep the level of expenditure within the budget framework."

Our principal task this time was to consider practical measures to give effect to these objectives.

Our discussions concentrated on three main aspects:

- first, the amount of spending and its control, with particular reference to agricultural spending;

- second, the level and objectives of the Community's regional, social and agricultural guidance funds; and

- third, how the Community should be financed in the years ahead.

First, control of spending.

I made clear to the House before
Copenhagen our determination to see the
Community's agricultural spending brought
under proper control, together with
measures to dispose of existing
agricultural surpluses and prevent the
build-up of new ones.

I also made clear that the most effective

way to achieve our aim was by the
introduction of agricultural stabilizers
for each and every commodity.

We were able to go far in Copenhagen towards
establishing the basis for stabilizers,
which will impose automatic cuts in
price support if agreed production levels
are exceeded.

All member states now accept that such

stabilizers are needed.

We made progress in particular towards agreeing tough stabilizers for cereals, oil-seeds and protein crops, on which spending has increased particularly sharply.

We also had before us a proposal but only in very general terms for a Community-wide set-aside scheme, which a number of governments, including ourselves, support as a complementary measure to stabilisers.

I am glad to say that the Commission's proposal for an oils and fats tax, which we had resisted strongly at the June European

Council, was not further pursued.

Second, the Structural Funds.

The Commission had proposed a doubling of the resources devoted to these funds by 1992.

In common with several other Heads of Government, I made clear that this was out of the question.

Our view is that growth of these funds

must be contained within a strict framework of budgetary discipline, but that it would be right to concentrate a higher proportion of them on the less prosperous member states, particularly Spain and Portugal.

Third, how the Community should be financed.

We discussed proposals put forward by the Commission for restructuring member

states' contributions to the Community budget in order to make the arrangements more fairly reflect national prosperity.

Decisions on the future level of the Community's own resources will be taken only when improved budget discipline arrangements have been worked out in detail.

I made absolutely clear that we are not prepared to see any dilution of our

Fontainebleau abatement.

Mr. Speaker, much credit is due to the fair and

indeed courageous chairmanship of the

Danish Prime Minister, Mr. Schluter, for

the progress which we made.

Nonetheless, the large number of issues to

be settled, and the amount of detail

involved, meant that we were unable to

finish our work at this meeting, the more

so because each government naturally wants to be able to judge the results as a whole.

The Council therefore adjourned and will resume its discussion under German chairmanship in Brussels on 11 and 12 February, building on the work done at the Copenhagen meeting.

On foreign policy questions, we issued statements on East-West relations, Afghanistan and the Middle East.

Texts are in the Library of the House.

We recognised the importance of the meeting between President Reagan and Mr. Gorbachev and of the INF Agreement which will be signed at it.

We urged the Soviet Union to withdraw from Afghanistan by a set date in 1988, and to

agree to the establishment of an independent transitional government there.

We also called for action to enforce implementation of Security Council Resolution 598 on the Iran/Iraq conflict by means of a follow-up resolution.

Heads of Government also discussed the world financial situation.

We welcomed the agreement between the

Administration and Congress to reduce the US budget deficit.

We confirmed our commitment to run our economies soundly, keeping down inflation and encouraging enterprise.

We stressed the importance of taking the necessary steps to have a Europe free from trade barriers by 1992.

In conclusion, Mr. Speaker, the Copenhagen Council

represented a significant move in our
direction, namely towards effective and
binding control of Community spending.

A great deal of work remains to be done
before the next Council.

But the United Kingdom's determination to
secure such control is very well
understood and will not change.

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FOREIGN AFFAIRS COUNCIL: 14/15 DECEMBER: LOBBYING
FOLLOW-UP TO EUROPEAN COUNCIL

1. IT SEEMS LIKELY THAT DISCUSSION WILL BE LARGELY PROCEDURAL. YOU SHOULD EMPHASISE OUR VIEW THAT SUBSTANTIAL PROGRESS WAS MADE AT COPENHAGEN, AND SHOULD DRAW ATTENTION TO THE PRIME MINISTER'S 8 DECEMBER STATEMENT IN THE HOUSE. WE LOOK FORWARD TO BUILDING, AT THE RESUMED 11/12 FEBRUARY SESSION IN BRUSSELS, ON THE WORK DONE AT COPENHAGEN.

EC/YUGOSLAVIA COOPERATION COUNCIL

2. THIS WILL BE HELD ON THE EVENING OF 14 DECEMBER: AND WILL TAKE THE FORM OF A BRIEF, FORMAL EXCHANGE OF POSITIONS, FOLLOWED BY A DINNER AT WHICH DISCUSSION WILL RANGE MORE WIDELY. NO NEED TO LOBBY.

A.L.A. GUIDELINES

3. THIS SUBJECT IS NOW NOT LIKELY TO BE RAISED IN THE COUNCIL.

FOOD AID REGULATION

4. THE FOOD AID FRAMEWORK REGULATION AGREED IN DECEMBER 1986 EXPIRES AFTER ONE YEAR. THIS LIMITED PERIOD RESULTS FROM A COMPROMISE WITHIN THE COUNCIL, AND BETWEEN THE COUNCIL AND THE PARLIAMENT, ON THE STRUCTURE AND POWERS OF THE FOOD AID COMMITTEE. THE COMMISSION HAD PROPOSED A SUBSTANTIAL TRANSFER OF POWER TO IT FROM MEMBER STATES: WE PREFER TO MAINTAIN THE EXISTING COMMITTEE STRUCTURE. THERE IS CONSENSUS THAT IT WORKS PERFECTLY WELL: AND ARTICLE 4 OF THE COMITOLGY DECISION OF JULY 1987 SPECIFICALLY ALLOWS FOR EXISTING COMMITTEES TO BE MAINTAINED. DESPITE THIS CONSENSUS, THE COMMISSION PROPOSAL FOR A CHANGE IS SUPPORTED BY BENELUX AND IRELAND. MOST OTHER MEMBER STATES SHARE OUR VIEW. BECAUSE OF THE CONTINUING DISAGREEMENT, THE PRESIDENCY HAS NOW WRITTEN TO THE PRESIDENT

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OF THE PARLIAMENT EXPLAINING THAT A TEMPORARY CONTINUATION OF THE EXISTING COMMITTEE SEEMS THE ONLY AVAILABLE OPTION IF THE EC IS TO CONTINUE TO PROVIDE FOOD AID ON A LEGALLY VALID BASE AFTER 31 DECEMBER. AN ATTEMPT WILL BE MADE AT THE FAC TO RECONCILE EP VIEWS (WHICH STRONGLY SUPPORT THE COMMISSION) WITH THOSE OF THE COUNCIL.

5. YOU SHOULD ACCORDINGLY TELL YOUR CONTACTS THAT WE AGREE WITH THE PRESIDENCY APPROACH. WE CONTINUE TO BELIEVE THAT THE PRESENT STRUCTURE DOES NOT NEED CHANGING: BUT, WHATEVER HAPPENS IN THE DEBATE OVER THE COURSE OF NEXT YEAR, IT IS ESSENTIAL THAT THERE SHOULD BE NO RISK OF DELAYS TO AID FOR AFRICA, AT A TIME WHEN THERE IS SO MUCH PUBLIC CONCERN ABOUT FAMINE THERE.

6. THE GERMANS AND FRENCH HAVE JOINED US IN A FORMAL DECLARATION FOR THE COUNCIL MINUTES SETTING OUT OUR VIEWS. GRATEFUL IF BONN AND PARIS WOULD SUGGEST TO THEIR CONTACTS THAT IT WOULD BE USEFUL IF GERMAN AND FRENCH MEPS WERE TO REFLECT A SIMILAR APPROACH DURING THE CONCILIATION MEETING. (WE HAVE ALREADY LOBBIED CERTAIN UK MEPS WHO ARE LIKELY TO BE INVOLVED).

SUB-SAHARAN AFRICA

7. THE AGENDA CURRENTLY INCLUDES THE DRAFT DECISION CONCERNING FUNDING ARRANGEMENTS FOR THE SPECIAL COMMUNITY PROGRAMME TO ASSIST LOW INCOME, HEAVILY INDEBTED SUB-SAHARAN AFRICAN COUNTRIES PURSUING ADJUSTMENT. THE ONE OUTSTANDING POINT CONCERNS ARRANGEMENTS FOR FUNDING PART OF THE PROGRAMME FROM MEMBER STATES' EIB ACCOUNTS. WE ARE CONFIDENT THAT THE DISAGREEMENT BETWEEN THE UK AND THE COMMISSION OVER HOW TO TREAT THE UK CONTRIBUTION WILL BE RESOLVED, ENABLING THE DECISION TO GO THE FAC AS AN A POINT. NO NEED TO LOBBY.

POST CHERNOBYL: RADIOACTIVITY IN FOODSTUFFS

8. IT WAS DISAPPOINTING THAT THE COUNCIL FAILED TO REACH AGREEMENT ON A FRAMEWORK REGULATION ON 24 NOVEMBER. ASSUMING NO BACKTRACKING FROM THE DUTCH AND OTHERS, IT SHOULD BE POSSIBLE TO SETTLE THE ISSUE NEXT WEEK. IF NOT WE WOULD WISH TO AVOID DISCUSSION FOR AT LEAST SIX MONTHS TO ALLOW TIME FOR REFLECTION. THE MAIN OUTSTANDING ISSUES ARE:
A) RADIATION LEVELS IN LIQUID FOODSTUFFS. THE UK WOULD HAVE DIFFICULTY ACCEPTING THE LEVELS OF 200 BQ/KG FOR CAESIUM/STRONTIUM AND 100 BQ/KG FOR IODINE PROPOSED BY THE COMMISSION ON 24 NOVEMBER (UKREP TELNO 3996). WE WOULD PREFER

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FIGURES OF 600 AND 400 RESPECTIVELY. THESE SHOULD ALSO HELP ENSURE FRENCH SUPPORT FOR THE REGULATION.

B) RENEWAL OF REGULATION 1707. OUR POSITION REMAINS THAT WE COULD ONLY ACCEPT THIS IN THE CONTEXT OF AGREEMENT ON A FRAMEWORK REGULATION, AND EVEN THEN FOR NOT MORE THAN 12 MONTHS. THOUGH WE COULD, TO MEET THE DUTCH, AGREE THAT THE BASIC SAFETY STANDARDS BE KEPT UNDER REVIEW, WE COULD NOT ACCEPT ANY LINKAGE BETWEEN THE IMPLEMENTATION OF ANY REVIEW AND THE DURATION OF 1707. IN THE ABSENCE OF AGREEMENT ON A FRAMEWORK REGULATION, WE ENVISAGE EXTENDING THE CURRENT 'GENTLEMAN'S AGREEMENT' INTO THE SECOND HALF OF 1988.

C) COMITOLGY. WE CONTINUE TO BELIEVE THAT THE COUNCIL SHOULD RETAIN THE FINAL SAY IN ANY ADDITION OR CHANGE TO INTERVENTION LEVELS. THE TEXT WHICH EMERGED ON 24 NOVEMBER TO THE EFFECT THAT INTERVENTION LEVELS SHOULD CONTINUE TO APPLY FOR AS LONG AS THE UNDERLYING SITUATION CONTINUES TO EXIST OR UNTIL THE COUNCIL TAKES A DECISION TO THE CONTRARY SHOULD MEET POSSIBLE CONCERNS ABOUT THE CREATION OF A VACUUM AFTER THE INITIAL THREE MONTH PERIOD PROVIDED FOR IN THE DRAFT REGULATION.

9. FOR COPENHAGEN. PLEASE URGE THE DANES TO MAKE A DETERMINED EFFORT TO REACH FINAL AGREEMENT AT THE COUNCIL. WE HOPE THEY WILL KEEP UP THE PRESSURE ON THE DUTCH, PORTUGUESE, BELGIANS AND ITALIANS NOT TO GO BACK ON THE LEVEL OF AGREEMENT REACHED ON 24 NOVEMBER. YOU SHOULD UNDERLINE THAT PERSISTING WITH THE LOW LEVELS FOR LIQUID FOODSTUFFS PROPOSED BY THE COMMISSION RISKS PERPETUATING FRENCH OPPOSITION. THE HIGHER FIGURES OF 600 AND 400 BQ/KG WOULD ALSO AVOID A LEVEL FOR CAESIUM LOWER THAN IN REGULATION 1707.

10. FOR THE HAGUE, BRUSSELS, LISBON AND ROME. PLEASE SPEAK ALONG THE SAME LINES AS COPENHAGEN ON LIQUID FOODSTUFFS, AND DRAW AS APPROPRIATE ON PARA 9(B) AND (C) IF RENEWAL OF REGULATION 1707 OR COMITOLGY ARE RAISED.

11. FOR DUBLIN. WE WOULD BE SURPRISED IF IRISH OPPOSITION IS MAINTAINED, PROVIDED THE DUTCH IN PARTICULAR CAN AGREE TO A SOLUTION WITH WHICH WE CAN LIVE. PLEASE EXPRESS THE HOPE THAT THE IRISH GOVERNMENT WILL REVIEW ITS POSITION IN THE LIGHT OF THE GROWING CONSENSUS IN SUPPORT OF THE REVISED PRESIDENCY TEXT OF 24 NOVEMBER. YOU SHOULD DRAW ON THE ABOVE TO SET OUT THE BASIS ON WHICH WE BELIEVE AN EQUITABLE OUTCOME CAN BE ACHIEVED.

12. FOR ATHENS. WE HOPE THE GREEKS WILL NOT PERSIST IN

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BLOCKING AGREEMENT BECAUSE OF THEIR PROBLEM OVER DURUM WHEAT. YOU MIGHT POINT OUT TO THEM THAT THEY WILL IN THE LONG RUN BE WORSE OFF IF THERE IS NO FRAMEWORK REGULATION, SINCE THE 'GENTLEMAN'S AGREEMENT' ESSENTIALLY PROLONGS THE STANDARDS

ESTABLISHED IN REGULATION 1707 (ALBEIT ON A NATIONAL BASIS), AND THESE ARE STRICTER THAN THOSE IN THE PRESIDENCY COMPROMISE.

URUGUAY ROUND

13. THE COMMISSION WILL REPORT ON PROGRESS IN THE URUGUAY ROUND DURING THE INITIAL PHASE. A MAJOR ISSUE WILL BE THE ACHIEVEMENT OF A SMOOTH TRANSITION TO THE SUBSTANTIVE PHASE OF THE NEGOTIATIONS WHICH WILL BEGIN IN 1988. NO NEED TO LOBBY.

RACE

14. RACE IS ON THE AGENDA BECAUSE DELORS WANTS TO MAKE A STATEMENT ON THE COMITOLGY ISSUE, TO EXPLAIN WHY HE HAS DIFFICULTIES WITH THE COUNCIL'S COMMON POSITION. NO NEED TO LOBBY.

EC/HUNGARY

15. THIS IS PROVISIONALLY ON THE AGENDA, AT COMMISSION REQUEST, TO ALLOW DE CLERCQ TO SEEK MINISTERIAL ENDORSEMENT OF THE COMMISSION'S PROPOSED TIMETABLE FOR THE ABOLITION OF QUANTITATIVE RESTRICTIONS. DE CLERCQ WILL PROBABLY ONLY WISH TO RAISE THE MATTER IF THE COUNCIL'S WORKING GROUP FAILS TO MAKE ADEQUATE PROGRESS THIS WEEK. WE ARE GENERALLY CONTENT WITH THE TEXT. IF THERE IS ANY FAC DISCUSSION WE WOULD SIMPLY REAFFIRM THE POLITICAL IMPORTANCE WE ATTACH TO EARLY PROGRESS IN THE NEGOTIATIONS. NO NEED TO LOBBY.

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FRAME GENERAL

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER

INTRODUCTION

1. SIX DIFFICULT ISSUES WOULD HAVE HAD TO BE SETTLED FOR AN AGREEMENT TO BE REACHED AT LAST WEEK'S EUROPEAN COUNCIL: THE OVERALL LEVEL OF AGRICULTURAL EXPENDITURE, THE CONTROL OF SPENDING ON INDIVIDUAL CROPS, THE RATE OF GROWTH OF THE STRUCTURAL (REGIONAL AND SOCIAL) FUNDS, THE CONTINUATION OF THE UK ABATEMENT, THE STRUCTURE OF THE COMMUNITY'S REVENUE (OWN RESOURCES) SYSTEM, AND THE OVERALL CEILING ON OWN RESOURCES. IT IS NOT SURPRISING THAT AGREEMENT PROVED IMPOSSIBLE. BUT CONSIDERABLE PROGRESS WAS MADE.

BACKGROUND

2. ON THE KEY ISSUE OF IMPROVED CONTROL OF TOTAL AGRICULTURAL SPENDING (UP FROM POUNDS STERLING 9 MILLION IN 1984 TO POUNDS STERLING 19 MILLION IN 1987, AND NOW SOME 70 PER CENT OF THE TOTAL COMMUNITY BUDGET) THERE WAS SIGNIFICANT CONVERGENCE OF VIEWS. AGREEMENT WAS CLOSE ON A LIMIT (THE GUIDELINE) FOR FUTURE AGRICULTURAL SPENDING, ON HOW IT WOULD VARY OVER TIME, ON HOW LARGE DOLLAR/ECU MOVEMENTS WOULD AFFECT IT, AND ON HOW DISPOSAL OF ACCUMULATED STOCKS WOULD BE FINANCED. DISCUSSION OF THE STRUCTURE OF THE COMMUNITY'S OWN RESOURCES SAW THE ITALIANS DIGGING IN AGAINST CHANGES WHICH WOULD REDUCE THEIR NET RECEIPTS FROM THE EC BUDGET, AND SPAIN AND PORTUGAL WANTING BETTER ACCOUNT TAKEN OF RELATIVE PROSPERITY. NEVERTHELESS, AN AGREEMENT IN THIS AREA LOOKS OBTAINABLE. ON THE UK ABATEMENT, IT SEEMED CLEAR THAT, IN THE CONTEXT OF AN OVERALL AGREEMENT, ALL WOULD IN THE

END ACCEPT THAT THE FONTAINEBLEAU MECHANISM (WHICH HAS REDUCED OUR NET CONTRIBUTION BY SOME POUNDS STERLING 2.8 BILLION SINCE 1984, THOUGH STILL LEAVING US THE SECOND LARGEST NET CONTRIBUTOR) SHOULD CONTINUE. DISCUSSION ON THE OVERALL CEILING OF COMMUNITY 'OWN RESOURCES' DID NOT GET BEYOND A PRELIMINARY STAGE: WE OF COURSE ACCEPTED THAT THE CURRENT CEILING MUST BE RAISED, BUT ONLY WHEN IMPROVED BUDGET DISCIPLINE ARRANGEMENTS HAVE BEEN WORKED OUT IN DETAIL.

3. THE TWO ISSUES WHICH PROVED MOST INTRACTABLE WERE THE STRUCTURAL FUNDS, AND AGRICULTURAL STABILISERS.

4. ON THE STRUCTURAL FUNDS, THERE WAS A STAND OFF BETWEEN SOUTHERN MEMBER STATES (AND THE COMMISSION) WHO WANT A 100 PER CENT INCREASE, IN REAL TERMS, BY 1992, AND NORTHERN MEMBER STATES WHO WANT MUCH LOWER GROWTH, CONCENTRATED ON THE LESS PROSPEROUS (IE SPAIN, PORTUGAL, GREECE AND IRELAND). THE UK/FRENCH/FRG/NETHERLANDS' VIEWS WERE FAIRLY CLOSELY ALIGNED: SOME SOUTHERN MEMBER STATES (EG PORTUGAL) MAY NOW CONCLUDE THAT IT WILL BE NECESSARY TO AIM LOWER FOR REALISM IF A DEAL IS TO BE STRUCK. BUT M. DELORS' PASSIONATE ADVOCACY OF A 100 PER CENT INCREASE, AND ITALIAN RELUCTANCE TO SEE A PROPORTIONATE REDUCTION IN ITALY'S TAKE, AT THE SAME TIME AS HER REVENUE CONTRIBUTION RISES WITH CHANGES IN THE STRUCTURE OF OWN RESOURCES, MAY FURTHER DELAY AGREEMENT.

5. HOWEVER THE BREAKDOWN ISSUE WAS AGRICULTURAL STABILISERS, IE THE MEANS BY WHICH THE AGRICULTURE GUIDELINE WOULD BE ENFORCED.

ALL MEMBER STATES NOW AGREE IN PRINCIPLE TO THE CONCEPT OF STABILISERS, WHICH THE UK ARE STRONGLY ADVOCATED, EG IN OUR PAPERS TABLED IN JULY. THEY WOULD IN MOST CASES OPERATE BY AUTOMATIC PRICE CUTS WHEN EXCESS PRODUCTION THREATENS CEILINGS FOR INDIVIDUAL COMMODITIES. BEFORE COPENHAGEN AGREEMENT WAS CLOSE ON STABILISERS FOR ALL COMMODITIES OTHER THAN THE DAIRY SECTOR (WHERE ARRANGEMENTS ALREADY INTRODUCED IN OUR PRESIDENCY IN 1986 ARE WORKING WELL, AND THE BUTTER MOUNTAIN IS DIMINISHING) AND CEREALS, OILSEEDS AND PROTEIN CROPS (WHERE WE AND THE DUTCH HAD HELD OUT WITH THE COMMISSION FOR TOUGHER STABILISERS THAN THE GERMANS, WITH FRENCH SUPPORT, WOULD CONTEMPLATE). AT COPENHAGEN THE GERMANS APPEARED TACITLY TO ACCEPT THE COMMISSION'S LATEST PROPOSALS ON OILSEEDS AND PROTEINS, AS DO WE.

6. BUT THE GERMANS REFUSED TO ACCEPT COMMISSION PROPOSALS ON CEREALS (IE A PRODUCTION CEILING OF 155 MILLION TONNES (ROUGHLY THE SIZE OF THIS YEAR'S HARVEST) WITH PROVISION FOR A 50/50 MIX OF PRICE CUTS AND

CO-RESPONSIBILITY LEVY (A LEVY ON FARMERS TO HELP DISPOSE OF SURPLUSES) IF THE CEILING WERE EXCEEDED. THE GERMANS, AGAIN WITH FRENCH SUPPORT, WANTED THE CEILING RAISED, THE EMPHASIS TO BE ON CO-RESPONSIBILITY LEVY RATHER THAN PRICE CUTS, AND THE PENALTIES TO APPLY ONLY TO INCREASED PRODUCTION RESULTING FROM IMPROVED PRODUCTIVITY RATHER THAN INCREASED ACREAGE. THE GERMANS ALSO ARGUED FOR A SUBSTANTIAL 'SET ASIDE' SCHEME, 50 PER CENT COMMUNITY-FINANCED, TO PAY FARMERS TO GO OUT OF PRODUCTION. WE (AND THE COMMISSION AND THE DUTCH) WERE READY TO AGREE AN ELEMENT OF SET ASIDE, BUT AS A COMPLEMENT TO, NOT A SUBSTITUTE FOR, EFFECTIVE STABILISERS. DESPITE SEVERAL DANISH ATTEMPTS, AND AN EVENTUAL COMMISSION ATTEMPT, TO PRODUCE A COMPROMISE, THE GERMANS REFUSED TO GIVE GROUND ON CEREALS, AND DISMISSED THE PRESIDENCY'S PAPERS AS NOT PROVIDING A BASIS FOR NEGOTIATION. THE FRENCH SUPPORTED THE GERMANS. WE AND THE DUTCH MAINTAINED THAT THE PRESIDENCY TEXT, THOUGH NOT PERFECT, WAS A GOOD BASIS FOR NEGOTIATION. THE INITIATIVE TO CALL OFF THE DEBATE (AND RESUME ON 11/12 FEBRUARY), AROSE IN THE CEREALS CONTEXT, AND CAME FROM THE FRG AND FRANCE.

7. THE FRG TAKES OVER THE PRESIDENCY FROM 1 JANUARY, WILL NO DOUBT SEEK TO BURY THE DANISH PRESIDENCY TESTS, AND MAY SEEK PROGRESS ON CEREALS THROUGH BILATERAL CONTACTS, MARGINALISING THE COMMISSION. OUR AIMS CLEARLY ARE THE OBVERSE OF THE FRG'S: WE WISH TO ENSURE THAT THE PRESIDENCY PACKAGE, MUCH OF WHICH SUITS US RATHER WELL, DOES NOT UNRAVEL: TO MAINTAIN OUR ALLIANCES WITH THE DUTCH AND THE COMMISSION: TO TRY TO DETACH THE FRENCH (WHOSE SUBSTANTIVE INTERESTS ON CEREALS ARE QUITE CLOSE TO OURS) FROM THE GERMANS, AND TO ENSURE THAT WE MAINTAIN THE GOOD TACTICAL POSITION WHICH THE PRIME MINISTER SECURED AT COPENHAGEN.
LINE TO TAKE

8. IN COMMUNITY CAPITALS, THE KEY MESSAGE THEREFORE IS THAT SIGNIFICANT PROGRESS WAS MADE IN COPENHAGEN: THAT THE DANISH PRESIDENCY TEXT PROVIDES THE RIGHT BASIS FOR FURTHER DISCUSSION: THAT EFFECTIVE CONTROL OF CAP SPENDING ENTAILS EFFECTIVE STABILISERS: THAT SET ASIDE CAN ONLY BE COMPLEMENTARY: THAT ON CEREALS THE COMMISSION PROPOSALS ARE ON THE RIGHT LINES: AND THAT THE UK HOPES FOR OVERALL AGREEMENT ON 11/12 FEBRUARY. POSTS SHOULD MAKE FULL USE OF THE PRIME MINISTER'S STATEMENT IN THE HOUSE ON 8 DECEMBER.

9. IN NON-COMMUNITY CAPITALS, THE KEY MESSAGE IS THAT THE COMMUNITY IS MAKING PROGRESS, AND DESERVES CREDIT FOR A SERIOUS EFFORT TO GET TO GRIPS WITH THE WORLD-WIDE PROBLEM OF EXCESSIVE AGRICULTURAL SUPPORT.
ADDITIONAL POINTS TO MAKE, AS APPROPRIATE

- CRISIS IN THE COMMUNITY? NO: LIKE EVERY INDIVIDUAL GOVERNMENT, THE COMMUNITY IS TACKLING THE PROBLEM OF ENSURING THAT ITS SPENDING IS UNDER PROPER CONTROL. THE TASK OF ENSURING THAT THE SUM OF LEGITIMATE EXPENDITURE ASPIRATIONS DOES NOT EXCEED THE LEVEL OF AVAILABLE RESOURCES IS FAMILIAR, INDEED PERENIAL, IN CAPITALS. THE SAME CONSIDERATIONS APPLY AT COMMUNITY LEVEL, AND IT IS NOT SURPRISING THAT A COMMUNITY OF TWELVE DEMOCRATICALLY-ELECTED GOVERNMENTS SHOULD FIND IT HARD TO DECIDE HOW TO CUT THE CAKE.
- FARM SPENDING OUT OF CONTROL? THE POLITICO- ECONOMIC PROBLEM OF HOW TO PRESERVE RURAL SOCIETY COST-EFFECTIVELY IS NOT UNIQUE TO THE COMMUNITY (US FARM SUBSIDIES ARE HIGHER THAN THE COMMUNITY'S: JAPANESE AGRICULTURAL PRICES ARE 8 TIMES WORLD PRICES). AND THE COMMUNITY IS MAKING PROGRESS: IT IS NOW ACCEPTED THAT THERE MUST BE STABILISERS FOR EACH AGRICULTURAL REGIME TO ENSURE THAT PRODUCTION AND ASSOCIATED COSTS STAY WITHIN BUDGET LIMITS. THE EUROPEAN COUNCIL CAME CLOSE TO AGREEING REGIMES FOR THE MAJOR OILSEEDS AND PROTEIN SECTORS AND FOR MINOR AGRICULTURAL PRODUCTS: THE PROBLEM OF THE CEREALS SECTOR IS THE MOST INTRACTABLE, BUT THE EUROPEAN COUNCIL RESISTED THE TEMPTATION TO SETTLE FOR HALF-MEASURES.
- WHAT NEXT? WE MUST NOW BUILD ON THE PROGRESS MADE AND NOT ALLOW IT TO BE ERODED. WE HAVE TO ENSURE THAT STABILISERS BRING ABOUT REAL CUTS IN PRODUCTION: THAT CEILINGS ARE NOT SET AT LEVELS WHICH WOULD ALLOW FURTHER SUBSTANTIAL INCREASES: IN AND THAT INCREASES RESULTING FROM INCREASED ACREAGE ARE CAUGHT. (IF PENALTIES APPLIED ONLY TO INCREASED YIELDS IT WOULD BE ALL TOO EASY FOR FARMERS TO MOVE OUT OF LOW COST CROPS INTO HIGH-COST CEREALS.)
- WHY NOT ACCEPT THE GERMAN PRESCRIPTION? THE MEASURES WHICH THE UK AND DUTCH HAVE SOUGHT ARE THOSE PROPOSED BY THE COMMISSION ON THE BASIS OF OBJECTIVE ASSESSMENT. ALTHOUGH THE FINAL SETTLEMENT WILL OBVIOUSLY BE A POLITICAL ONE, IT MUST BE ONE WHICH IS OBJECTIVELY JUSTIFIABLE IN TERMS OF THE COMMUNITY'S OWN BUDGET AND CREDIBLE IN THE GATT ROUND NEGOTIATIONS ON AGRICULTURE.
- OILS AND FATS TAX? THE PRESIDENCY'S DOCUMENTATION ASSUMED THAT THE PROPOSED TAX WOULD NOT BE ADOPTED. THAT WAS NOT CHALLENGED. AND UK/FRG/NETHERLANDS OPPOSITION TO THE TAX REMAINS FIRM.
- UK ABATEMENT? THERE WAS GENERAL ACKNOWLEDGEMENT AT COPENHAGEN THAT THE CASE FOR THE FONTAINEBLEAU ABATEMENT REMAINS VALID. THE UK WAS, AND REMAINS, WILLING TO SEE THE MECHANISM ADAPTED TECHNICALLY SO THAT IT APPLIES TO WHATEVER REVISED STRUCTURE OF

COMMUNITY OWN RESOURCES IS AGREED. BUT AS A NET CONTRIBUTOR, AFTER ABATEMENT, OF OVER 1 BILLION ECU (POUNDS STERLING 700 MILLION), A YEAR THE UK IS NOT PREPARED TO AGREE TO ANY ARRANGEMENT LESS FAVOURABLE THAN FONTAINEBLEAU. MOST MEMBER STATES, SEVERAL WITH PER CAPITAL GNP HIGHER THAN THE UK'S, ARE NET BENEFICIARIES.

- INCREASES IN STRUCTURAL FUNDS? THE SIZE OF THE STRUCTURAL FUNDS IS UP BY A HALF, IN REAL TERMS, SINCE 1984. THE UK SUPPORTS FURTHER INCREASES. BUT WE BELIEVE THAT IT MAKES MOST SENSE TO CONCENTRATE THE INCREASED FUNDS ON THE LESS PROSPEROUS MEMBERS OF THE COMMUNITY. WITH THE FRENCH, GERMANS AND OTHERS WE CANNOT ACCEPT THE DELORS PLAN FOR A FURTHER 100 PER CENT INCREASE BY 1992.

- FUTURE STRUCTURE AND LEVEL OF OWN RESOURCES? WE REMAIN READY TO SEE A CHANGE IN THE STRUCTURE OF OWN RESOURCES SO THAT THE SYSTEM MORE CLOSELY REFLECTS RELATIVE PROSPERITY AS MEASURED BY GNP. THE RIGHT FUTURE LEVEL OF OWN RESOURCES CAN ONLY BE SET IN THE LIGHT OF DECISIONS ON OTHER ISSUES, PARTICULARLY THE LEVEL AND CONTROL OF AGRICULTURAL SPENDING.

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INFO PRIORITY EUROPEAN COMMUNITY POSTS, UKREP BRUSSELS

EUROPEAN COUNCIL, COPENHAGEN: DUTCH PRESS REACTION

SUMMARY

1. DUTCH PAPERS EMPHASISED THE CLOSENESS OF THE BRITISH AND DUTCH POSITIONS AT COPENHAGEN. THE FRG AND FRANCE WERE BLAMED FOR THE FAILURE TO REACH AGREEMENT ON AGRICULTURAL SPENDING. THE COMMENTS OF BOTH MRS THATCHER AND MR LUBBERS THAT THE SUMMIT HAD NOT BEEN A COMPLETE FAILURE WERE WIDELY QUOTED.

DETAIL

2. MANY DUTCH PAPERS USED EXPRESSIONS SUCH AS THE 'LONDON-HAGUE AXIS' TO DESCRIBE THE CLOSENESS OF THE BRITISH AND DUTCH POSITIONS, AND REPORTED COMPLIMENTARY REMARKS BY MR LUBBERS ABOUT MRS THATCHER'S CONSTRUCTIVE AND POSITIVE APPROACH. THEY ALSO QUOTED THE TWO PRIME MINISTERS AS SAYING THAT SOME PROGRESS HAD BEEN MADE AT COPENHAGEN, AND THAT THERE SHOULD NOT BE TOO MUCH PESSIMISM ABOUT THE PROSPECTS FOR THE SPECIAL SUMMIT IN FEBRUARY.

3. FOR DE VOLKSKRANT (LEFT OF CENTRE), THE FAILURE TO REACH AGREEMENT CAME AS NO SURPRISE, BUT IT WAS UNFORTUNATE THAT YET ANOTHER CHANCE HAD BEEN MISSED TO GIVE A CLEAR SIGNAL TO THE FINANCIAL WORLD. THIS WAS NECESSARY IN ORDER TO BUILD CONFIDENCE IN EUROPE AS AN ECONOMIC ENTITY. IT WAS UNFORTUNATE, TOO, THAT THE FRG AND FRANCE HAD GIVEN OVERRIDING PRIORITY TO PROTECTING THEIR WHEAT FARMERS.

4. DE TELEGRAAF (RIGHT OF CENTRE, LARGEST CIRCULATION) AND ALGEMEEN DAGBLAD (CENTRE RIGHT) ALSO PLACED THE BLAME ON THE FRG AND FRANCE FOR THE FAILURE TO REACH AGREEMENT ON CURBING AGRICULTURAL SURPLUSES. ALGEMEEN DAGBLAD CONSIDERED THAT CHANCELLOR KOHL NOW HAD A MORAL OBLIGATION TO WORK FOR REFORMS IN THE CAP WHEN HE CHAIRS THE SPECIAL SUMMIT IN FEBRUARY.

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5. THE BRUSSELS CORRESPONDENT OF THE INFLUENTIAL NRC HANDELSBLAD (CENTRE LIBERAL) REMARKED THAT THIS WAS ONE OF THE FEW SUMMITS WHERE THE UK HAD NOT STOOD AGAINST THE REST. HE THOUGHT THE UK HAD COME OUT OF COPENHAGEN WELL: OUR APPROACH TO BINDING CONTROLS ON AGRICULTURAL SPENDING HAD HAD SUPPORT, OUR DEMANDS FOR TIGHTER BUDGETARY DISCIPLINE HAD NOT BEEN REJECTED, AND NOW PROPOSALS ON ABATEMENT WERE NOT DISTASTEFUL TO US. VERWEY COMMENTED THAT HOLDING THE PRESIDENCY NEXT YEAR WOULD FORCE THE GERMANS TO SOFTEN THEIR POSTION, LEAVING ONLY FRANCE TO RESIST EFFECTIVE CONTROLS ON EXPENDITURE.

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LORD PRESIDENT OF THE COUNCIL,

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FROM: A J C EDWARDS
DATE: 8 December 1987

CHANCELLOR

cc: Chief Secretary
Paymaster General
Sir P Middleton
Sir G Littler
Mr Bonney
Mr Mercer
Mr Mortimer
Mr Evans
Mr Donnelly
Mr Tyrie

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COPENHAGEN REMEMBERED

Copenhagen telegram number 419 of 5 December and UKREP telegram number 4194 of 7 December attached report and reflect, respectively, on the Copenhagen European Council. You may like to have a few Treasury glosses on the UKREP material.

2. As is customary on these occasions, only the Prime Minister and Sir Geoffrey Howe were present in the conference room.

Our impression is, however, that the Heads of Government left the meeting in high hopes of agreement at the resumed meeting on 11-12 February. Germany's accession to the Presidency should, I believe, be helpful on balance apart from Herr Kiechle's presidency of the Agriculture Council.

3. So far as individual elements of the dossier are concerned, the picture is, as so often, patchy.

4. On stabilisers, we seemed before Copenhagen to be heading for a package giving savings of around $\frac{1}{2}$ becu next year, rising to approaching 3 becu by 1990, mainly on account of new measures for cereals and oilseeds. This package will not suffice in itself to stabilise agricultural production or keep expenditure

within any reasonable guideline limit. It would however, like the milk agreement of December 1986, be a considerable step in the right direction. The oilseeds element seems to be largely agreed, though somewhat diluted from the Commission's original proposals. In cereals, however, the maximum guaranteed quantity has not been settled. The Prime Minister said on the Friday that she would be prepared to block agreement sooner than exceed the 155 million tons, but both the Presidency and the Commission subsequently went for 158 million tons. Also unresolved is the formula for price cuts and co-responsibility levy increases in the event of excesses over the maximum guaranteed quantity. The provisions relating to other commodities remain less than satisfactory. The task will be to prevent them becoming even less satisfactory. There remains much to play for here. The devil will be in the detail.

5. On the agricultural expenditure guideline, the Prime Minister's view was that 27 becu in 1988 followed by 60 per cent of GNP growth, with old stock disposals financed outside the guideline, was too generous. The Commission on the other hand are extremely concerned that they will not be able to manage next year within such a guideline. The Presidency compromise on Friday night proposed to ease the position partly by raising the base from 27 becu to 27.5 becu and partly by delaying Community payments to member states by a further two weeks, thus giving a once for all saving of 1 becu in 1988. Here too the argument remains unresolved. The oils and fats tax looks to be on the way out, though the French will probably continue to play tactical games with it.

6. On exceptional circumstances, various schemes were put forward. The Commission renewed their campaign for a monetary reserve to finance expenditure excesses resulting from exceptional circumstances but then, in response to a Dutch suggestion, offered the alternative of a token entry in the budget. We understand that they have since had still further thoughts: but we have not yet seen these officially. No one else seemed prepared to contemplate an exchange rate movement threshold as high as 10 per cent.

7. On the structural funds, the Commission and the southern member states continued to assert loudly that nothing less than a doubling in real terms by 1992 would suffice. The Presidency compromise suggested an increase of two thirds in real terms over the period. A more promising development, from our point of view, was that there seemed to be some prospect of agreement by the French, the Germans and ourselves on a common stand whereby the increase would be limited to 40-50 per cent in real terms on the basis that it would have to be contained within an overall increase in non-obligatory expenditure limited to 1½ times the maximum rate. This is, of course, much more than we would wish to pay and will be expensive for the UK after allowing for an inevitable degree of concentration in the funds. It would however limit the potential damage.

8. On the own resources ceiling, the UK was able to get across what a difference it makes whether the ceiling includes or excludes financing of the UK abatement. The Presidency paper proposed a 1.3 per cent GNP ceiling, abatement-exclusive, which is equivalent to nearly 1.4 per cent abatement-inclusive. Subject to some confusion on this point, most member states were apparently prepared to go to 1.4 per cent GNP. However, France and the Netherlands argued for 1.2 per cent, probably abatement-inclusive; Germany and Belgium for 1.25 to 1.3 percent, abatement-inclusive; and the Spanish for 1.16 per cent rising to 1.3 per cent. The Prime Minister declined to give a view on this until other aspects had been settled. This is likely to be a major source of contention in February, though the outcome will be largely determined by what is decided on agricultural expenditure and the structural funds.

9. On the UK abatement, we had one excellent and one less welcome development. The excellent development was that the Presidency conclusions ditched the Commission's alternative agricultural correction and went instead for a modified version of the Fontainebleau system. We suspect that the Commission's alternative correction mechanism is probably now dead.

10. The other development was that the Presidency text provided that our Fontainebleau abatement should be adjusted, not only by redefining our budget imbalance to take account of the fourth resource, but also by reduction of the 66 per cent compensation rate so as to ensure that we did not receive any more than we would have done with the existing Fontainebleau abatement and own resources structure.

11. The Prime Minister's reaction to this, in a rather hectic pre-Conference meeting on Saturday morning, was that fair was fair and she had no wish to appear greedy. She was prepared to settle for Fontainebleau, no more, no less - ie to accept that the UK should receive the identical amounts that we would have received under the present abatement and own resources systems. She was also quite clear, however, that the presentation must not say that the 66 per cent rate of compensation would be reduced. Officials prepared an alternative text accordingly. The relevant part of the Presidency text and the Prime Minister's preferred alternative, (given to the Presidency), are annexed.

12. We understand that in the Council itself the Prime Minister then indicated in broad terms that she was prepared to go along with the substance of the Presidency proposal.

13. We had hoped, as you will recall, that it might be possible for the UK to come out of this negotiation with a small but useful amelioration of our position as a result of the change in the own resources structure, which would have helped to offset in some degree the increase in our net contribution resulting from the increased budget size. It was a change which could also have become more important over time. So long as we achieve effective budget discipline, however, the cost of not getting this change should remain relatively small.

Scoresheet

14. In the light of the developments on the abatement and elsewhere described above, the overall prospect now looks rather worse than before: see the revised scoresheet attached, which Mr Mortimer has kindly prepared. It looks as if, realistically, we have to think in terms of an increase in our net contribution at 1987 prices of some £175 million a year initially rising to over £200 million thereafter.

15. So far as implications for the own resources ceiling are concerned, the small excess over a 1.2 percent abatement-inclusive GNP ceiling shown for 1988 in the table could easily be solved by adjustment to the phasing of expenditure on old stocks depreciation, IGA repayments, or own resources refunds. We should continue to aim for a new ceiling not exceeding 1.2 per cent GNP (abatement-inclusive) or 1.1 per cent (abatement-exclusive).

Next steps

16. The indications are that the Foreign Affairs Council will continue to be in charge of the dossier between now and February, with support from COREPER and the Agriculture Council.

AJC
A J C EDWARDS

Correcting Imbalances**[Presidency text]**

The following adjustments will be introduced in the Fontainebleau arrangement:

- (i) The VAT share will be replaced by share of 3rd and 4th resource.
- (ii) The benefit to the United Kingdom of the introduction of the 4th resource will to the extent it is not already compensated by the change under (i), be compensated through the necessary reduction of the 66 percentage figure.

[Prime Minister's preferred version]

The following adjustments will be introduced in the Fontainebleau arrangement:

- (i) The VAT share will be replaced by the share of the 3rd and 4th resource. The gap (base of correction) will be corrected annually at 66%.
- (ii) The Commission will make a separate calculation based on the provisions laid down in the Own Resources Decision of 7 May 1985 and the Commission working paper contained in Document 5046/85, and the amount of the abatement will be adjusted so as to ensure that the overall effect on the UK resulting from the fourth resource, and the change at (i) above, is identical with the 66% Fontainebleau arrangement.

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FRAME GENERAL ECONOMIC

FROM UKREP BRUSSELS
EUROPEAN COUNCIL: COPENHAGEN: 4-5 DECEMBER 1987

SUMMARY

1. A BUILD-UP OF INTRACTABLE PROBLEMS - WITH THE FRENCH AND GERMANS ON CEREALS, THE SOUTHERNERS ON THZLSTRUCTURAL FUNDS AND THE ITALIANS ON THE FOURTH RESOURCE - MADE IT OBVIOUS AS THE SECOND DAY PROGRESSED THAT THERE WAS NO PROSPECT OF AGREEMENT AT THIS COUNCIL. BY AGREEMENT BETWEEN THE PRIME MINISTER, KOHL AND CHIRAC, READILY ENDORSED BY THE OTHERS, IT WAS DECIDED TO ADJOURN THE COUNCIL UNTIL 11/12 FEBRUARY.
2. ALL AGREED TO PLAY UP THE POSITIVE ASPECTS: IN PARTICULAR THE UNCONTENTIOUS ATMOSPHERE, THE AMOUNT OF PROGRESS MADE ESPECIALLY ON STABILISERS, AND THE FACT THAT THE VERY FULL PRESIDENCY TEXT IS ACCEPTED AS THE BASIS OF WORK OVER THE NEXT 9 WEEKS. BUT, ALTHOUGH IT WAS AGREED THAT THERE SHOULD BE NO RECRIMINATIONS, IT WAS CLEAR THAT RESPONSIBILITY RESTED PRIMARILY WITH THE GERMANS AND TO A LESSER EXTENT THE FRENCH. THE UK'S TACTICAL POSITION WAS SURPRISINGLY COMFORTABLE, THANKS IN PART TO FAIR AND COURAGEOUS CHAIRMANSHIP BY SCHLUTER.
3. STRONG INDICATIONS THAT OTHER MEMBER STATES ARE RECONCILED TO THE CONTINUATION OF THE UK ABATEMENT FUNERAL ARRANGEMENTS FOR THE OILS AND FATS TAX NOW WELL ADVANCED.

DETAIL

4. THE FIRST DAY WAS GIVEN OVER TO A THOROUGH DISCUSSION OF THE PRESIDENCY'S DRAFT CONCLUSIONS OF 1 DECEMBER. THIS PROVIDED THE BASIS FOR SOME SIGNIFICANT CHANGES IN THE CONCLUSIONS CIRCULATED BY THE PRESIDENCY EARLY ON 5 DECEMBER (BY BAG TO POSTS). THESE MADE IT CLEAR THAT THE PRESIDENCY WAS NOT ADOPTING THE EASY TACTIC OF CONCILIATING THE FRENCH AND THE GERMANS AND/OR THE SOUTHERNERS AND ISOLATING THE

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UK. BUT THERE WERE SIMPLY TOO MANY SUBJECTS ON WHICH THE MAJOR MEMBER STATES WERE AT ODDS WITH EACH OTHER AS WELL AS WITH THE SOUTHERNERS.

5. AGRICULTURE

(I) STABILISERS

THE FRENCH, GERMANS AND IRISH PRESSED HARD TO INCREASE THE PRODUCTION LEVEL BEYOND WHICH PENALTIES APPLY FOR CEREALS AND TO REDUCE THE SCOPE FOR PRICE PENALTIES. OVERNIGHT, THE PRESIDENCY RAISED THE CEREALS MGQ FROM 155 TO 158M TONNES AND PROPOSED THAT PRICE CUTS SHOULD APPLY ONLY TO INCREASES DUE TO PRODUCTIVITY. THIS TEXT BECAME ONE OF THE CENTRE-PIECES OF THE COUNCIL, WITH OURSELVES AND LUBBERS (NETHERLANDS) PRESSING TO INCREASE THE SCOPE FOR PRICE CUTS AND TO ENSURE THAT EACH PERCENTAGE POINT OF OVERPRODUCTION LED TO A ONE PER CENT PENALTY. BY THE END OF THE COUNCIL, WE HAD A COMMISSION TEXT WHICH RETAINED 158M TONNES UP TO 1991 BUT WITH AUTOMATIC PENALTIES AND A CLEAR PROCEDURE FOR THE COMMISSION TO TAKE DECISIONS IF THE COUNCIL FAILED TO DO SO. THE COMMISSION'S PROPOSALS FOR OILSEEDS AND PROTEINS, FLOATED DURING THE CONCLEVE, ARE ALSO FIRMLY IN THE PRESIDENCY TEXT, ALONG WITH ALL THE OTHER STABILISER PROPOSALS INTACT.

(II) SET-ASIDE

THE GERMANS, WITH IRISH AND SOME SPANISH SUPPORT, TRIED TO INSIST ON A LASTING SET-ASIDE REGIME WITH 50 PERCENT COMMUNITY FINANCING. THE 5 DECEMBER TEXT GAVE THEM NO COMFORT ON THIS SCORE, BUT SUGGESTED THAT FARMERS TAKING PART IN THE SET-ASIDE PROGRAMME SHOULD BE EXONERATED FROM THE CORESPONSIBILITY LEVY. THIS ISSUE REMAINS TOTALLY UNRESOLVED AND WILL LOOM LARGE IN THE NEXT 2 MONTHS.

6. BUDGET DISCIPLINE

(I) AGRICULTURAL GUIDELINE

MOST MEMBER STATES CAME OUT IN FAVOUR OF HANDLING STOCKS OFF-GUIDELINE WITH A 27 BECU GUIDELINE, INCREASING AT 60 PERCENT OF THE GNP GROWTH RATE. FRANCE AND IRELAND WANTED THE FIGURE INCREASED IF THERE WAS NO OILS AND FATS TAX: BUT THE MAIN OPPOSITION TO THE PROPOSAL CAME FROM THE COMMISSION AND GERMANY, WHO WANTED THE STOCKS TO BE FINANCED WITHIN THE GUIDELINE. OVERNIGHT THE PRESIDENCY TOOK THIS PROPOSAL INTO THEIR TEXT, RAISING THE GUIDELINE TO 27.5 BECU BUT ACKNOWLEDGING THAT THE OILS AND FATS TAX WAS DEAD.

(II) EXCEPTIONAL CIRCUMSTANCES

X THE FRENCH AND IRISH WERE ALONE IN WANTING TO COVER NON-MONETARY CIRCUMSTANCES. MOST MEMBER STATES ACCEPTED THAT THERE SHOULD BE A FRANCHISE. THE 5 DECEMBER TEXT RETAINS THE TWO MAIN DEFECTS OF THE ORIGINAL: BREACHES BY THIRD COUNTRIES OF INTERNATIONAL UNDERTAKINGS STILL QUALIFY AS AN EXCEPTIONAL CIRCUMSTANCE AND QUOTE ABERRANT DEVELOPMENTS UNQUOTE MAY MEAN THAT CLAWBACK IS NOT APPLIED.

(III) MONETARY RESERVE

X THE COMMISSION CONTINUED THEIR PITCH FOR A MONETARY RESERVE SET AT 1 BECU, WITH A FRANCHISE OF 4⁰⁰ MECU, LINKED SOLELY TO THE DOLLAR/ECU RATE. THE PRESIDENCY TOOK ON BOARD A DUTCH SUGGESTION THAT THERE SHOULD BE NO BUDGETARY PROVISION BUT THAT MEMBER STATES SHOULD COMMIT THEMSELVES TO AGREE A SUPPLEMENTARY BUDGET OF UP TO 1,000 MECU WHEN THE THRESHOLD WAS CROSSED.

(IV) FEOGA ADVANCES

THE TEXT OF 5 DECEMBER EXTENDS THE DELAY IN ADVANCES FROM 2 TO 2 AND A HALF MONTHS. THIS PRODUCES A CASH FLOW BENEFIT OF 1,000 MECU, OSTENSIBLY TO MAKE UP FOR THE FACT THAT THERE WILL BE NO OILS AND FATS TAX. NO ONE CHALLENGED THIS.

7. STRUCTURAL FUNDS

(I) LEVEL OF FUNDING

BELGIUM, LUXEMBOURG AND THE SOUTHERNERS CAME OUT IN FAVOUR OF DOUBLING THE FUNDS, AGAINST A SHAKY ALLIANCE OF NORTHERN STATES, ALL TRYING TO CAMP ON DIFFERENT FIGURES: THE UK 35 PER CENT, NETHERLANDS 35 PERCENT PLUS. FRANCE 40 PERCENT, GERMANY 50 PERCENT. THE 5 DECEMBER TEXT PROPOSES AN INCREASE OF 4.4 BECU UP TO 1992 (INSTEAD OF 7 BECU) BUT A QUOTE PERSPECTIVE UNQUOTE THAT THEY WILL BE DOUBLED BY 1995.

(II) CONCENTRATION

ITALY AND THE COMMISSION PREDICTABLY RESISTED NORTHERN PROPOSALS THAT THE FUNDS SHOULD BE CONCENTRATED ON THE FOUR POOREST. EVERYONE AGREED THAT 80 PERCENT OF THE REGIONAL FUND SHOULD GO TO BACKWARD REGIONS, LEAVING 20 PERCENT FOR AREAS OF INDUSTRIAL DECLINE. MOST OF THE

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SOUTHERNERS CONTINUED TO PRESS FOR 2/3 OF ALL OF THE FUNDS.

(III) THE MAXIMUM RATE

THE PRESIDENCY'S PRE-COUNCIL TEXT HAD AN UNSATISFACTORY AND AMBIGUOUS FORMULA FOR APPLYING THE MAXIMUM RATE TO THE STRUCTURAL FUNDS. ON THE FIRST DAY, CHIRAC INTRODUCED THE IDEA THAT THE FUNDS SHOULD INCREASE AT 1 AND HALF TIMES THE MAXIMUM RATE. THE UK AND NETHERLANDS SUPPORTED. THE 5 DECEMBER TEXT, HOWEVER, STILL RETAINS UNSATISFACTORY LANGUAGE WHICH WOULD PERMIT A HIGHER RATE OF INCREASE.

8. OWN RESOURCES

(I) CEILING

UNDER PRESSURE TO DECLARE THEIR HAND FOR THE FIRST TIME, ALL OPTED FOR 1.4 PER CENT OF GNP EXCEPT FRANCE AND THE NETHERLANDS (1.2 PER CENT), GERMANY (1.25/1.3 PER CENT) AND THE UK (WAIT AND SEE). THE 5 DECEMBER PRESIDENCY TEXT PROPOSED A CEILING OF 1.3 PER CENT GNP (EQUIVALENT TO NEARLY 1.4 PER CENT SINCE IT ASSUMED THAT THE UK ABATEMENT WOULD BE FINANCED OUTSIDE THE CEILING). THERE WAS NO FURTHER DISCUSSION ON THE SECOND DAY.

(II) FOURTH RESOURCE

THE DISCUSSION ON THE FIRST DAY REVEALED A WIDE RANGE OF PREFERENCES. BELGIUM, THE NETHERLANDS AND ITALY (AND PRESUMABLY DENMARK) FAVOURED A GNP BASED RESOURCE. MOST OF THE REST FAVOURED THE DIFF TAX BUT WITH VARIOUS LEVELS OF VAT. OVERNIGHT, THE PRESIDENCY CHANGED THEIR TUNE FROM 1.25 PER CENT VAT AND A GNP BASED FOURTH RESOURCE, TO 1.4 PER CENT VAT (REDUCING TO 1 PER CENT BY 1992) AND THE DIFF TAX. A LONG DISCUSSION ON THE SECOND DAY CENTRED ON GORIA'S (ITALY) ENTRENCHED HOSTILITY TO ANY FORM OF DIFF TAX. TO KEEP HIS IDEA ALIVE, DELORS PROPOSED AN INTERIM ARRANGEMENT FOR 1988 (1.25 PER CENT VAT PLUS GNP) WHILE THE COMMISSION PRODUCED A STUDY (PRESUMABLY DESIGNED TO UNDERMINE ITALY'S TECHNICAL OBJECTIONS TO THE DIFF TAX.)

9. BUDGET IMBALANCES

THERE WAS NO TEXT BEFORE THE EUROPEAN COUNCIL, BUT THE PRESIDENCY TRIED BRIEFLY TO SMOKE OUT ATTITUDES AT THE END OF THE FIRST DAY. GERMANY, SPAIN AND IRELAND REFUSED TO COMMENT UNTIL THEY HAD SEEN THE SHAPE OF THE FINAL PACKAGE. PORTUGAL AND BELGIUM FAVOURED THE COMMISSION'S PROPOSAL. FRANCE AND GERMANY WANTED ANY ABATEMENT TO DIMINISH OR END BY 1992. ITALY ARGUED, WITH A STRAIGHT FACE, THAT THE UK ABATEMENT WAS CAUSED BY AGRICULTURAL IMBALANCES AND THAT MEMBER STATES WITH AGRICULTURAL SURPLUSES SHOULD THEREFORE PAY FOR IT. THE 5 DECEMBER TEXT PROPOSED THE FONTAINEBLEAU SYSTEM, WITH THE 66 PER CENT FIGURE MODIFIED TO TAKE ACCOUNT OF THE UK'S BENEFITS FROM THE FOURTH

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RESOURCE. WE MADE IT CLEAR TO THE PRESIDENCY IN PRIVATE THAT, ALTHOUGH WE ACCEPTED THE CASE FOR MODIFYING THE MECHANISM TO REMOVE ANY UNCOVENANTED BENEFITS, THE ADJUSTMENT SHOULD NOT INVOLVE TINKERING WITH THE 66 PER CENT FIGURE. THE PRESIDENCY'S PROPOSALS ALSO CONTAINED UNSATISFACTORY LANGUAGE ON THE DURATION OF THE NEW MECHANISM AND ON ARRANGEMENTS FOR A REVIEW IN 1991.

10. FINAL STAGE

AFTER A LONG AND UNPRODUCTIVE EXCHANGE ON THE FOURTH RESOURCE AND THE STRUCTURAL FUNDS, SCHLUTER ANNOUNCED A ONE HOUR BREAK IN MID-AFTERNOON. DURING THE BREAK KOHL SUGGESTED TO CHIRAC AND THE PRIME MINISTER THAT, SINCE AGREEMENT WAS NOT IN SIGHT, THE COUNCIL SHOULD BE ADJOURNED AND RECALLED IN MID-FEBRUARY. THIS WAS AGREED BY OTHER DELEGATIONS AND SCHLUTER THEN CONCENTRATED ON BRINGING THE COUNCIL TO A DECOROUS AND POSITIVE END. A LAST MINUTE EFFORT BY DELORS TO SALVAGE HIS PROPOSALS WAS DOOMED WHEN HE TRIED TO BOUNCE THE COUNCIL INTO AN INCREASE IN OWN RESOURCES TO 1.3 PER CENT GNP AND TO A VIRTUAL DOUBLING OF THE STRUCTURAL FUNDS (1.2 BECU A YEAR FOR 1988/92). DELORS' PAPER WAS POLITELY SET ASIDE AND MEMBERS OF THE COUNCIL AGREED TO PRESENT THEIR WORK IN A POSITIVE AND FORWARD LOOKING WAY, WITH ONLY MITTERRAND STRIKING A MELANCHOLY NOTE.

11. OTHER SUBJECTS

THERE WAS SOME HESITATION ABOUT THE CREDIBILITY, AT A TIME WHEN THE COMMUNITY COULD NOT RESOLVE ITS INTERNAL DISAGREEMENT, OF ISSUING THE STATEMENTS AGREED BY FOREIGN MINISTERS ON EAST/WEST RELATIONS, MIDDLE EAST AND AFGHANISTAN. BUT IT WAS DECIDED THAT, ON THE EVE OF THE REAGAN/GORBACHEV SUMMIT IT WOULD BE MORE DAMAGING TO BE SILENT. ALL THREE TEXTS WERE THEREFORE ISSUED WITHOUT DISCUSSION IN THE COUNCIL. THE FRENCH PRESENTATION ON DEMOGRAPHY NEVER SURFACED SEMI COLON BUT SCHLUTER USED THE COUNCIL TO LAUNCH A QUOTE EUROPEAN CODE AGAINST CANCER. UNQUOTE

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COPENHAGEN EUROPEAN COUNCIL : 4/5 DECEMBER.

1. THIS WAS AN UNUSUAL EUROPEAN COUNCIL, NEITHER SUCCESSFUL NOR ACRIMONIOUS. IT WAS NONE THE WORSE FOR THAT, SINCE SUCCESS WAS NOT REALLY ON THE CARDS AND ACRIMONY NEVER LURKS FAR BENEATH THE SURFACE ON THESE OCCASIONS

2. THERE WERE MANY REASONS WHY THE ADVANCE PREDICTIONS THAT THE COPENHAGEN MEETING WOULD NOT TAKE DECISIONS WERE VALIDATED. MOST IMPORTANT WAS THE GERMAN POSITION ON AGRICULTURAL STABILISERS, PARTICULARLY FOR CEREALS, WHICH WAS NOT CONCEIVABLY RECONCILABLE WITH THE OBJECTIVE OF CONTAINING AGRICULTURAL SPENDING, ENDORSED BY THE BRUSSELS COUNCIL AND A FUNDAMENTAL OBJECTIVE FOR OURSELVES, THE DUTCH AND THE COMMISSION. THE FACT THAT THE FRENCH CHOSE TO STAND BY THE GERMANS DID NOT, AS MANY HAD FEARED, MAKE A BAD PACKAGE MORE LIKELY, IT MERELY ENSURED THERE WAS NO PACKAGE AT ALL, SINCE IT WEAKENED THE PRESSURE ON THE GERMANS TO SHOW FLEXIBILITY. VERY NEARLY AS IMPORTANT A FACTOR WAS THAT THE DJINN OF DOUBLING THE STRUCTURAL FUNDS PROVED VERY DIFFICULT TO GET BACK INTO THE BOTTLE, WITH THE COMMISSION SEEKING TO BLOCK EVERY PRESIDENCY ATTEMPT TO SCALE DOWN THE FIGURE TO WHAT WE AND THE OTHER NORTHERNERS WOULD CONSIDER REASONABLE PROPORTIONS AND THE SOUTHERNERS STILL IN HOT PURSUIT OF AN OUTCOME WHICH IS UNATTAINABLE. ADD TO THIS THAT THE ITALIANS WERE PLAYING FOR A DRAW FROM THE OUTSET AND IT BECOMES CLEAR THAT NO AMOUNT OF PRESIDENCY MAGIC AND NO NUMBER OF ADDITIONAL HOURS WOULD HAVE BROUGHT AN AGREEMENT IN COPENHAGEN.

3. THE LACK OF ACRIMONY WAS MORE SURPRISING. THERE WAS PLENTY OF POTENTIAL FOR IT, KOHL'S TRUCULENT DEFENSIVENESS ON CEREALS AND SUBSEQUENT FLOUNDERING AROUND BETWEEN UNACCEPTABLE EXPEDIENTS BEING THE SORT OF PERFORMANCE THAT ON MANY PREVIOUS OCCASIONS WOULD HAVE SET THINGS OFF. BUT SKILFUL, LOW-KEY CHAIRMANSHIP BY SCHLUTER KEPT THE TEMPERATURE DOWN. AND NO DOUBT THE UNDESIRABILITY OF THE EUROPEANS STAGING A FULL-SCALE FAMILY FRACAS ON THE EVE OF THE REAGAN/GORBACHEV SUMMIT WAS A RESTRAINING FACTOR TOO.

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4. SOME PROGRESS WAS MADE, ALTHOUGH IT IS IN THE NATURE OF AN INCONCLUSIVE MEETING THAT ANY PROGRESS REMAINS PRECARIOUS. OUR PREFERRED APPROACH TO SETTING THE LIMITS TO AGRICULTURAL SPENDING IS NOW IN THE LEAD: PROBLEMS REMAIN HOWEVER OVER THE BASE AND EXCEPTIONAL CIRCUMSTANCES. THE NEGOTIATION OVER STABILISERS HAS EDGED FORWARD, WITH NO REAL CHALLENGE TO THE PRESIDENCY'S ADMITTEDLY IMPERFECT PACKAGE OF STABILISERS ON OTHER PRODUCTS (MILK, SUGAR, TOBACCO, WINE, SHEEPMEAT, FRUIT AND VEGETABLES ETC.), WITH SOMETHING REALLY EFFECTIVE ON OIL SEEDS AND PROTEINS SEEMINGLY CLOSE TO ACCEPTANCE AND WITH THE BATTLE LINES ON CEREALS DRAWN ON BETTER GROUND THAN THE DEEPLY FLAWED FRANCO-GERMAN IDEAS OF LINKING PENALTIES TO PRODUCTIVITY INCREASES ALONE AND SETTING THE MAXIMUM GUARANTEED QUANTITY AT 165 MILLION TONS. ABOVE ALL THERE IS NOW ON THE TABLE AN APPROACH TO THE UK ABATEMENT WITH WHICH, GIVEN A BIT OF LARGELY PRESENTATIONAL ADJUSTMENT, WE CAN LIVE. AND THE OILS AND FATS TAX HAS BEEN LAID OUT ON THE MORTUARY SLAB. R.I.P.

5. OUR OWN POSITION AT THIS COUNCIL PROVED A GOOD DEAL MORE COMFORTABLE THAN WE HAD ANTICIPATED. THIS WAS LARGELY DUE TO THE FACT THAT, WHILE THE OVERNIGHT PRESIDENCY COMPROMISE CONTAINED PLENTY OF THINGS WE COULD NOT ACCEPT, IT CONTAINED MORE THAT OTHERS COULD NOT: AND THE GERMANS RAPIDLY ASSUMED THE ROLE OF CHIEF WRECKERS. WE WERE CONSIDERABLY HELPED BY A STALWART DUTCH PERFORMANCE ON AGRICULTURAL SPENDING AND STABILISERS. THE COMMISSION, WHILE THEY WERE SOMEWHAT ERRATIC AND VACILLATING AND POSITIVELY UNHELPFUL ON THE STRUCTURAL FUNDS, ON BALANCE STAYED WITH THE ANGELS ON AGRICULTURE.

6. WITH NINE WEEKS TO GO UNTIL THE SPECIAL EUROPEAN COUNCIL ON 11/12 FEBRUARY, WHAT ARE THE PROSPECTS? THERE ARE PLENTY OF FLIES IN THE OINTMENT. NONE OF THE MAJOR ISSUES IN DISPUTE ARE LIKELY TO BE SETTLED AT A LOWER LEVEL, ALTHOUGH SOME HIGHLY DESIRABLE TIDYING UP AND CONSOLIDATION MAY BE ACHIEVED. THE PRESSURE TO AGREE A MORE EXPENSIVE DEAL ON THE STRUCTURAL FUNDS AND A HIGHER LEVEL OF OVERALL FINANCIAL RESOURCES FOR THE COMMUNITY THAN WE CONSIDER ACCEPTABLE REMAIN STRONG. WHILE SOME FLEXIBILITY MAY BE IMPUTED TO THE GERMAN POSITION BY THEIR ASSUMPTION OF THE PRESIDENCY, THE FRENCH ARE LIKELY TO PROVE MORE DIFFICULT AS THEIR PRESIDENTIAL ELECTION DRAWS CLOSER. BUT THE POLITICAL AND FINANCIAL PRESSURES TO TAKE DECISIONS NEXT TIME WILL BE STRONG.

7. BOTH WE AND THE COMMUNITY NEED A TACTICAL GAME PLAN. SO FAR AS THE LATTER IS CONCERNED, WE CAN EXPECT SOME INDICATIONS FROM THE

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INCOMING GERMAN PRESIDENCY AT THE 14/15 DECEMBER FOREIGN AFFAIRS COUNCIL. THERE SEEMS NO REASONABLE ALTERNATIVE TO KEEPING COREPER AND THE FOREIGN AFFAIRS COUNCIL IN THE LEAD. IT IS HARD TO SEE THE AGRICULTURE COUNCIL PLAYING A CONSTRUCTIVE ROLE. THE GERMANS MAY ORGANISE A SERIES OF HIGH LEVEL, BILATERAL CONTACTS IN CAPITALS, AS THEY DID IN THE RUN-UP TO STUTTGART. THAT COULD BE MILDLY USEFUL. THE MOST IMPORTANT THING FOR US IS TO ENSURE THAT NONE OF THE GROUND ALREADY GAINED, AND REGISTERED IN THE DANISH PRESIDENCY PAPERS TABLED OVERNIGHT ON 4/5 DECEMBER, IS LOST.

8. AS TO OUR OWN GAME PLAN, THE NEXT ANGLO-FRENCH AND ANGLO-GERMAN SUMMITS FALL EXTREMELY WELL, JUST BEFORE THE SPECIAL EUROPEAN COUNCIL. WE WILL NEED TO PUT THESE MEETINGS TO GOOD USE TO ESTABLISH AS MUCH COMMON GROUND AS POSSIBLE WITH THESE KEY PLAYERS. IF WE CAN ESTABLISH A COMMON POSITION AMONG THESE THREE ON THE STRUCTURAL FUNDS, THAT WILL BE A MAJOR ADVANCE. WE WILL ALSO NEED NOW TO REVIEW CAREFULLY OUR APPROACH TO EACH OF THE POINTS STILL AT ISSUE. A SETTLEMENT AT THE NEXT COUNCIL ON A BASIS CONSISTENT WITH OUR MAIN NEGOTIATING OBJECTIVES SHOULD BE ATTAINABLE BUT NOT WITHOUT SOME TACTICAL FLEXIBILITY.

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THE COST OF A FUTURE FINANCING AGREEMENT

Mecu, 1987 prices

	1987	1988	1989	1990	1991	1992
<u>A. Best attainable outcome</u>						
Agriculture (a) Guideline	26860	26240	26670	27100	27540	27980
(b) Stock disposals		1170	1360	1360	1360	1360
Structural funds	6200	7110	7440	7880	8390	8920
Other (including expenditure effect of abatement)	8790	10920	10050	9810	9620	9760
Total budget (abatement inclusive)	41850	45440	45520	46150	46910	48020
% of GNP	1.14	1.21	1.18	1.16	1.15	1.15
UK net contribution (after abatement)	1348	1408	1476	1538	1553	1607
Increase in UK net contribution (compared to Autumn Statement)	+106	+243	+221	+254	+263	+277
(£m)	(+77)	(+178)	(+162)	(+186)	(+193)	(+203)
<u>B. Outcome with higher agricultural expenditure</u>						
Additional guarantee expenditure	-	-	110	340	780	1140
Total budget (abatement inclusive)	41850	45440	45630	46500	47710	49400
% of GNP	1.14	1.21	1.18	1.17	1.17	1.18
Increase in UK net contribution (compared to A)	-	-	+4	+14	+32	+47
(£m)			(+3)	(+10)	(+23)	(+34)

Note: the table assumes 1.25% VAT plus GNP contributions plus a modified Fontainebleau abatement system giving 66% of our VAT expenditure gap less the benefit to the UK of substituting GNP contributions for VAT. DNO is assumed to grow at 1½ times the maximum rate. Unlike the scoresheet, the table assumes no phasing of expenditure to deal with the 1988 hump. Thus the 1988 budget figure includes the 1987 IGA repayment and the 400 mecus worth of own resources refunds postponed from this year in addition to the 1988 IGA repayment and a full 12 months of own resources refunds for 1988. The table also takes account of the latest revisions to the GNP figures reflecting in particular the increase in Italy's GNP. In section A, agricultural expenditure grows at 60 per cent of GNP from a base of 27 becu in 1988 (1988 prices). The disposal of existing stocks is outside the guideline. In section B, agricultural spending grows in line with GNP from a base of 28.2 becu in 1988 (1988 prices). In this case, all stock disposals are within the guideline.

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OF 091030Z DECEMBER 87

INFO ROUTINE COPENHAGEN, UKREP BRUSSELS, BONN

COPENHAGEN EUROPEAN COUNCIL: IRISH REACTIONS

SUMMARY

1. BOTH IN PUBLIC AND IN PRIVATE IRISH LEADERS HAVE REACTED WITH DISAPPOINTMENT TO THE FAILURE OF THE COPENHAGEN COUNCIL AND WITH STRONG HOPE FOR SUCCESS IN FEBRUARY. NO DISPOSITION TO BLAME THE UNITED KINGDOM.

DETAIL

2. THE TAOISEACH TOLD THE PRESS OF HIS DISAPPOINTMENT. THE CONCLUSIONS ON THE TABLE AT THE END OF THE MEETING HAD BEEN 'VERY MUCH IN IRELAND'S INTERESTS'. HE EXPRESSED CONFIDENCE THAT A PACKAGE COULD BE AGREED AT BRUSSELS WHICH HE STRONGLY HOPED WOULD INCLUDE THE DOUBLING OF THE STRUCTURAL FUNDS FOR IRELAND.

3. THE TANAISTE HAS CONFIRMED TO ME PRIVATELY THAT THE PRESIDENCY'S OVERNIGHT DRAFT WAS 'ON THE WHOLE ACCEPTABLE TO IRELAND'. NATURALLY HE AND MR HAUGHEY WERE DISAPPOINTED THAT IT HAD NOT BEEN POSSIBLE TO WRAP THIS UP AT COPENHAGEN BUT THEY WERE DETERMINED TO REACH CONCLUSIONS IN FEBRUARY SINCE THEIR PLANS FOR THE BUDGET DEPENDED ON IT. 'WE REALLY NEED THAT STRUCTURAL PACKAGE THROUGH'. NEITHER LEADER HAS SHOWN ANY DISPOSITION TO BLAME BRITAIN. PRIVATELY THEY POINT THE FINGER AT THE FARMERS OF BAVARIA.

4. THE PRESS HAVE REFLECTED THESE VIEWS. THE IRISH TIMES SAYS THAT WEST GERMANY WAS RELUCTANT TO SEE HER CEREAL GROWERS PENALISED WHILE AT THE SAME TIME CONTINUING TO PROVIDE THE BULK OF THE COMMUNITY'S INCOME. 'FOR ONCE MRS THATCHER WAS NOT IN HER ISOLATIONIST POSITION'. THE IRISH PRESS REPORTED MR HAUGHEY AS OPTIMISTIC FOR FEBRUARY: 'THE WORK DONE SO FAR IS VALUABLE AND SHOULD BE CARRIED FORWARD'. THE IRISH INDEPENDENT COMMENTED THAT THE DEVICE OF HOLDING A SPECIAL SUMMIT MEETING IN FEBRUARY WILL WORK ONLY IF THE WEST GERMAN CHANCELLERY CAN HANDLE ITS UNRULY FARMERS AND THEIR EXCESSIVE FARM PRODUCTION.

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A handwritten signature in the top right corner of the page.

FROM: J M G TAYLOR

DATE: 9 December 1987

A J C EDWARDS ✓

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

COPENHAGEN REMEMBERED

The Chancellor was grateful for your minute of 8 December.

2. He has noted your impression that the Heads of Government left the meeting with high hopes of agreement at the resumed meeting on 11/12 February. He has commented that this is not the view of the Danes or the Commission, as told to him by them at ECOFIN.

A handwritten signature, likely of J M G Taylor, located above the typed name.

J M G TAYLOR

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OF 091940Z DECEMBER 87
INFO PRIORITY EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC/GENERAL

COREPER AMBASSADORS: 9 DECEMBER

FOLLOW UP TO EUROPEAN COUNCIL

SUMMARY

1. THE INCOMING GERMAN PRESIDENCY OUTLINED THEIR PROCEDURAL PLANS AND WERE WARNED AGAINST HOLDING TOO MANY MINISTERIAL MEETINGS. A GENERAL FEELING THAT THE DANISH PRESIDENCY CONCLUSIONS SHOULD NOT BE UNPICKED AND THAT PREPARATION FOR THE FEBRUARY EUROPEAN COUNCIL SHOULD BE LEFT TO FOREIGN MINISTERS, WITH COREPER'S JOB BEING TO CLARIFY A LIMITED NUMBER OF TECHNICAL ISSUES.

DETAIL

2. OVER LUNCH, UNGERER (GERMANY) OUTLINED TENTATIVE GERMAN PLANS TO DISCUSS FUTURE FINANCING AT A SPECIAL COUNCIL ON 18/19 JANUARY AND A CONCLAVE ON 1/2 FEBRUARY AS WELL AS THE FAC ALREADY SCHEDULED FOR 25/6 JANUARY AND THE EPC MINISTERIAL ON 8 FEBRUARY. HE PROPOSED A SPECIAL COREPER ON FUTURE FINANCING ON 11 JANUARY. ESPER LARSEN (PRESIDENCY) WAS CONTENT TO LEAVE IT AT THAT, BUT AGREED AT MY REQUEST TO HAVE A FURTHER DISCUSSION IN RESTRICTED SESSION OF COREPER.

3. IN COREPER AFTER LUNCH ALL DELEGATIONS GAVE THEIR INITIAL REACTIONS, STRESSING THAT THEY WERE SPEAKING WITHOUT INSTRUCTIONS ON A PERSONAL BASIS. I SAID THAT IT WOULD BE USEFUL TO HAVE A CLEARER IDEA OF WHAT THE PRESENT AND FUTURE PRESIDENCIES HOPED WOULD HAPPEN AT NEXT WEEK'S FAC. I ASSUMED THAT THE INFORMATION GIVEN BY UNGERER OVER LUNCH MERELY INDICATED THE PRESIDENCY'S SUGGESTIONS AND THAT THERE WOULD BE AN OPPORTUNITY FOR MINISTERS TO OFFER THEIR OWN THOUGHTS, POSSIBLY OVER LUNCH, ON 14 DECEMBER. OUR PROVISIONAL VIEW WAS THAT TOO MANY MINISTERIAL MEETINGS WOULD SIMPLY ENCOURAGE A REPETITION OF WELL KNOWN POSITIONS. BUT IT WAS EQUALLY IMPORTANT NOT TO FALL INTO THE OPPOSITE TRAP OF ALLOWING A SENSE OF DRIFT TO DEVELOP AS A RESULT OF TOO LITTLE CONTACT BETWEEN NOW AND MID-FEBRUARY. THERE WOULD PRESUMABLY HAVE TO BE A LOT OF BILATERAL

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CONTACT AS WELL AS A SENSIBLE NUMBER OF MINISTERIAL MEETINGS.

4. AS TO WHO SHOULD DO WHAT, OUR FEELING WAS THAT THERE WAS SCOPE FOR COREPER TO DO USEFUL WORK ON CERTAIN TECHNICALLY COMPLEX SUBJECTS WHICH WERE NOT OVER-SENSITIVE IN POLITICAL TERMS (FOR EXAMPLE, TO CLARIFY THE COMMISSION'S IDEAS ON THE MONETARY RESERVE). THE AIM AT NEXT WEEK'S FAC SHOULD BE TO AGREE A PLAN OF ACTION WHICH WOULD GET THE COMMUNITY TO 11 FEBRUARY IN A STATE READY TO SETTLE ALL OF THE MAJOR ISSUES.

5. ESPER LARSEN CONFIRMED THAT ELLEMANN-JENSEN'S INTENTION WAS TO INVITE MINISTERS OVER LUNCH TO DISCUSS THE FOLLOW UP TO COPENHAGEN AND THE PREPARATION FOR THE FEBRUARY EUROPEAN COUNCIL. HE HOPED IN PARTICULAR THAT THE INCOMING PRESIDENCY WOULD BE ABLE TO OUTLINE THEIR PLANS.

6. SCHEER (FRANCE) SAID THAT A REASONABLE NUMBER OF MINISTERIAL MEETINGS WOULD BE USEFUL PROVIDED THAT THEY WERE WELL-PREPARED. EVERYTHING POSSIBLE SHOULD BE DONE TO AVOID A REPEAT OF COPENHAGEN. THIS MEANT THAT COREPER IN PARTICULAR SHOULD FOCUS THE ISSUES FOR MINISTERS, AS I HAD SUGGESTED. IT WAS IMPORTANT TO AVOID UNPICKING THE COPENHAGEN PACKAGE OR DESTROYING ITS COHERENCE AND BALANCE.

7. WESTENDORP (SPAIN) AGREED BROADLY WITH SCHEER AND ME THAT THERE WERE TECHNICAL ISSUES WHICH COULD BE CLARIFIED FURTHER AT COREPER. HE COMMENTED DISINGENUOUSLY THAT THERE WERE ALSO SOME MORE POLITICAL ISSUES WHICH NEEDED FURTHER TECHNICAL CLARIFICATION, FOR EXAMPLE HOW BEST TO CONCENTRATE THE STRUCTURAL FUNDS, HOW TO TAKE SPAIN AND PORTUGAL OUT OF THE ARRANGEMENTS FOR FINANCING THE DISPOSAL OF OLD STOCKS AND HOW TO EXCLUDE THE FOUR POOREST MEMBER STATES FROM THE UK ABATEMENT SYSTEM.

8. MATHIAS (PORTUGAL) SUGGESTED THAT COREPER SHOULD CONCENTRATE ON TRYING TO AGREE WHICH ITEMS WERE ESSENTIAL FOR EACH MEMBER STATE. THIS SUGGESTION WAS HEAVILY CRITICISED BY NEARLY EVERY SUBSEQUENT SPEAKER.

9. NIEMAN (NETHERLANDS) WARNED AGAINST A PROLIFERATION OF COUNCILS AND FAVOURED THE USE OF COREPER, THOUGH WITH RESTRICTED ATTENDANCE AND MORE STATISTICS.

10. CALAMIA (ITALY) AGREED THAT TOO MANY MINISTERIAL MEETINGS WOULD SIMPLY LEAD TO MATTERS BEING REFERRED TO LATER MEETINGS. TWO SPECIAL MEETINGS OF THE COUNCIL WOULD BE REASONABLE. HE SAW NO

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ALTERNATIVE TO GRINDING THROUGH ALL THE KEY CHAPTERS AGAIN AT COREPER AND COUNCIL LEVEL.

11. WEYLAND (LUXEMBOURG) THOUGHT THAT DISCUSSION AT COREPER WOULD BE USEFUL ONLY IF AMBASSADORS WERE GIVEN MORE ADVENTUROUS INSTRUCTIONS. THE TECHNICAL ISSUES HAD BEEN LARGELY CLARIFIED.

12. DE SCHOUTHEETE (BELGIUM) AGREED WITH ME THAT THERE WERE A FEW TECHNICAL ISSUES WHICH COULD BE WORKED OVER AGAIN BY COREPER. HE MENTIONED THE UK ABATEMENT AND STABILISERS AS EXAMPLES, BUT HE SAW LITTLE POINT IN GOING THROUGH EVERY ISSUE AGAIN AT THAT LEVEL.

13. UNGERER (GERMANY) SAID THAT HE WOULD REPORT THIS USEFUL DISCUSSION TO GENSCHER. HE CONFIRMED THAT NOTHING HAD BEEN DECIDED ABOUT MINISTERIAL MEETINGS. HE RECOGNISED THAT THE PROLIFERATION OF COUNCILS WOULD NOT BY ITSELF PRODUCE AGREEMENT BUT HE THOUGHT THAT AT LEAST TWO SPECIAL COUNCILS BEFORE 11 FEBRUARY WOULD BE USEFUL, PERHAPS LEAVING THE JANUARY FAC TO DEAL WITH ITS USUAL FARE HE SAW NO POINT IN TRYING TO DISTINGUISH THE ESSENTIAL ISSUES FROM THE REST. HE AGREED THAT THERE WERE SOME TECHNICAL ISSUES, SUCH AS THE MONETARY RESERVE AND THE DEPRECIATION OF STOCKS, ON WHICH COREPER SHOULD PREPARE THE GROUND FURTHER FOR MINISTERS. EACH MINISTERIAL MEETING WOULD NEED TO BE PREPARED BY BILATERALS, AT WHICH THE PRESIDENCY WOULD SEEK TO CLEAR UP MISUNDERSTANDINGS.

14. UNGERER PAID TRIBUTE TO THE EFFORTS OF THE DANISH PRESIDENCY. HE THOUGHT THAT COPENHAGEN HAD FAILED TO REACH AGREEMENT BECAUSE THE EUROPEAN COUNCIL HAD BEEN CONFRONTED BY NEW IDEAS FOR WHICH SOME MEMBERS HAD NOT BEEN PREPARED. THE GERMANY PRESIDENCY WOULD CONTINUE PRAGMATICALLY AND DUTIFULLY ON THE ROAD LAID DOWN BY THE DANES. HE REPUDIATED PRESS RUMOURS THAT THEY INTENDED TO GO DOWN A DIFFERENT ROUTE, THROUGH HE DID NOT EXCLUDE NEW IDEAS.

15. NIEMAN ASKED WHETHER THERE WOULD BE A ROLE FOR THE AGRICULTURAL COUNCIL. UNGERER COMMENTED THAT THE AGRICULTURAL COUNCIL SCHEDULED FOR 18/19 JANUARY WOULD NOT BE ABLE TO AVOID DISCUSSING THE AGRICULTURAL PARTS OF THE FUTURE FINANCING PACKAGE. THIS PROVOKED TROJAN TO SAY THAT HE DOUBTED WHETHER THERE WOULD BE MUCH OF A ROLE FOR THE AGRICULTURAL COUNCIL. THERE WERE SOME SUBJECTS ON WHICH IT COULD HELP, FOR EXAMPLE SET ASIDE, BUT IT SHOULD NOT SET TO WORK AGAIN IN THE STABILISERS. HE AGREED THAT TOO MANY COUNCILS WOULD BE A MISTAKE BUT WANTED TO REFLECT FURTHER ON THE ROLE OF COREPER. HE THOUGHT IT WOULD BE USEFUL TO DISTINGUISH

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THE FIVE CENTRAL UNRESOLVED ISSUES (CEREALS, THE FOURTH RESOURCE, THE STRUCTURAL FUNDS, THE OWN RESOURCES CEILING AND THE UK ABATEMENT) FROM THE REST OF THE PRESIDENCY TEXT WHICH WAS MORE OR LESS AGREED. HE ACCEPTED THAT THERE WERE SOME OTHER ISSUES, NOTABLY THE MONETARY RESERVE AND POSSIBLY AGRICULTURAL STOCKS, WHICH MIGHT NEED FURTHER TECHNICAL DISCUSSION. HE WARNED THE PRESIDENCY TO BEAR IN MIND THAT, ALTHOUGH BILATERAL MEETINGS WOULD BE HELPFUL IN CLARIFYING POSITIONS, DECISIONS SHOULD BE TAKEN ONLY IN THE PROPER FORA AND ON THE BASIS OF COMMISSION PROPOSALS.

16. CAMPBELL (IRELAND) COMMENTED THAT TWO SPECIAL COUNCILS WERE THE MOST THAT WOULD BE NEEDED. BILATERAL MEETINGS WOULD BE NEEDED, BUT THEY SHOULD NOT LEAD TO OTHER MEMBER STATES BEING CONFRONTED BY SURPRISES. LYBEROPOLOUS (GREECE) STRESSED THAT THE PACKAGE SHOULD NOT BE REOPENED. ESPER LARSEN CONCLUDED THAT THIS DISCUSSION HAD PROVIDED A USEFUL BACKCLOTH TO THE MINISTERIAL LUNCH ON 14 DECEMBER HE WOULD RESERVE COMMENT AND WITHHOLD HIS ADVICE FOR THE GERMAN PRESIDENCY.

17. COMMENT: THE DANES HAVE TOLD US PRIVATELY THAT THEY ARE HANDICAPPED FROM PLUGGING THE 5 DECEMBER VERSION OF THE PRESIDENCY DRAFT CONCLUSIONS, BECAUSE THEY CONTAIN SOME POINTS WHICH THEY DID NOT HAVE FOLKETING AUTHORITY.

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TELNO 928

OF 101350Z DECEMBER 87

INFO ROUTINE UKREP BRUSSELS, PARIS, COPENHAGEN

INFO SAVING OTHER EUROPEAN COMMUNITY POSIS

COPENHAGEN EUROPEAN COUNCIL: KOHL'S GOVERNMENT DECLARATION

1. IN A GOVERNMENT DECLARATION GIVEN BEFORE THE BUNDESTAG ON 10 DECEMBER, CHANCELLOR KOHL MADE A STATEMENT ON THE EUROPEAN COUNCIL.
2. HE SAID THAT PROGRESS HAD BEEN MADE ON THE DELORS PACKAGE, EVEN THOUGH NO SOLUTIONS WHICH COULD LEAD TO COMPROMISE HAD BEEN FOUND. IN SUGGESTING ADJOURNMENT TO 11/12 FEBRUARY IN BRUSSELS, HE HAD CHOSEN AS EARLY A DATE AS POSSIBLE TO SHOW THAT HE DID NOT INTEND TO PUT OFF DECISIONS UNTIL THE HANOVER COUNCIL.
3. IT HAD BEEN DETERMINED THAT THE STRUCTURAL FUNDS WOULD BE SUBSTANTIALLY INCREASED. THE DECISION TO DIRECT THEM TOWARDS COUNTRIES WITH THE GREATEST STRUCTURAL PROBLEMS PARTICULARLY SPAIN AND PORTUGAL WAS AN IMPORTANT SIGN OF SOLIDARITY. THEY ALSO CONSTITUTED A PRECONDITION FOR COMPLETION OF THE SINGLE MARKET. AGREEMENT HAD BEEN REACHED ON A FOURTH RESOURCE WHICH WOULD LINK CONTRIBUTIONS MORE WITH THE PROSPERITY OF INDIVIDUAL MEMBERS. SIGNIFICANT PROGRESS HAD BEEN MADE IN THE AGRICULTURAL FIELD WITH RECOGNITION OF THE IMPORTANCE OF SET-ASIDE. BEFORE THE COMMUNITY COULD RETURN TO A PRICE POLICY, WHICH HAD AN EFFECT ON INCOMES, THE MISTAKES OF THE PAST WOULD HAVE TO BE CORRECTED. UNTIL THEN, INCOMES IN AGRICULTURE HAD TO BE SUPPORTED AND STRUCTURAL CHANGE MADE SOCIALLY BEARABLE. THE NECESSARY MEASURES SHOULD BE TAKEN AT NATIONAL AND COMMUNITY LEVELS. THE EUROPEAN COUNCIL HAD ALSO COMMITTED ITSELF TO BUDGETARY DISCIPLINE. THE SAME STRICT RULES WHICH APPLIED DOMESTICALLY SHOULD APPLY TO COMMUNITY EXPENDITURE.
4. FROM THE START OF THE GERMAN PRESIDENCY, THE GOVERNMENT WOULD DEVOTE ITSELF, WITH THE COMMISSION AND EC PARTNERS, TO BRINGING FORWARD CONCRETE PROPOSALS SO THAT THE OBJECTIVES OF COPENHAGEN COULD BE REALISED.

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INFO ROUTINE UKREP BRUSSELS
INFO SAVING OTHER EC POSTS

EUROPEAN COUNCIL: DEBATE IN SPANISH PARLIAMENT

SUMMARY

1. THE SPANISH PRIME MINISTER REPORTED TO PARLIAMENT ON 9 DECEMBER. GONZALEZ STRESSED THAT SPAIN COULD NOT ACCEPT PARTIAL SOLUTIONS TO COMMUNITY REFORM OR SEPARATE CONSIDERATION OF THE 1988 BUDGET. SPAIN WOULD STAND FIRM ON DEMANDS FOR A DOUBLING OF THE STRUCTURAL FUNDS AT THE SPECIAL COUNCIL IN FEBRUARY.

DETAIL

2. GONZALEZ OPENED THE FIVE HOUR DEBATE IN PARLIAMENT ON THE OUTCOME OF THE EUROPEAN COUNCIL WITH A DETAILED EXAMINATION OF THE ISSUES. HE ATTRIBUTED NO BLAME FOR THE COUNCIL'S FAILURE AND DENIED THAT THERE WAS ANY NORTH/SOUTH DEVIDE IN THE COMMUNITY. HE REGRETTED THAT OVER SIXTY PERCENT OF THE COUNCIL'S TIME HAD BEEN TAKEN UP WITH AGRICULTURAL ISSUES. THIS HAD DEFLECTED ATTENTION FROM DISCUSSION OF THE PROPOSAL FOR A DOUBLING OF THE STRUCTURAL FUNDS, FOCUSSED ON THE POOREST REGIONS, WHICH GONZALEZ DESCRIBED AS VITAL FOR SPANISH INTERESTS. HE WAS CRITICAL OF COUNCIL WORKING METHODS WHICH WERE 'BEGINNING TO ACQUIRE HABITS WHICH WOULD BE DIFFICULT TO RESOLVE WITHOUT A POLITICAL WILL TO CHANGE THE MECHANISM'.

3. SPAIN WANTED NO FINANCIAL INVOLVMENT IN THE DISPOSAL OF AGRICULTURAL STOCKS ACCUMULATED PRE-SUCCESSION. GONZALEZ AGREED WITH THE INTRODUCTION OF AGRICULTURAL STABILISERS, BUT INDICATED THAT HE HAD ASKED THE COUNCIL FOR SAFEGUARDS TO PROTECT SAMLL FARMERS IN AREAS OF HIGH UNEMPLOYMENT AND OF SPARSE POPULATION. ON STRUCTURAL FUNDS, SPAIN WAS STRONGLY BEHIND A DOUBLING OF RESOURCES BY 1992, WITH THE EXTRA MONEY STARTING IN 1988 RATHER THAN 1989 AS PROPOSED BY THE COMMISSION. ON OWN RESOURCES, SPAIN BACKED THE FIGURE OF 1.4% GNP BY 1992 AS A BROAD OBJECTIVE. GONZALEZ FIRMLY REFUSED TO CONSIDER ANY SEPARATION OF THE 1988 BUDGET FROM THE TOTAL PACKAGE AND CONFIRMED THAT SPAIN WAS NOT DISPOSED TO CONTRIBUTE TO THE UK ABATEMENT.

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OF 111610Z DECEMBER 87
INFO PRIORITY EUROPEAN COMMUNITY POSTS

FRAME GENERAL/FRAME ECONOMIC
COPENHAGEN EUROPEAN COUNCIL : FOLLOW-UP

SUMMARY

1. THE PRESIDENT OF THE COMMISSION GAVE LUNCH TO COREPER ON 11 DECEMBER. DISCUSSION LONG ON BREAST BEATING AND HAND-WRINGING AND SHORT ON CONSTRUCTIVE SUGGESTIONS FOR THE RUN-UP TO THE FEBRUARY EUROPEAN COUNCIL. MALADROIT GERMAN AND DELPHIC FRENCH PRESENTATIONS SHOW WHERE THE ROCKS LIE. MUCH CRITICISM OF EUROPEAN COUNCIL MACHINERY, AND LACK OF COORDINATION IN CAPITALS. WIDESPREAD DOUBTS ABOUT GENSCHER'S PROPOSED SCHEDULE OF MINISTERIAL MEETINGS. COMMISSION TO FIRM UP THEIR IDEAS ON SET-ASIDE.

DETAIL

2. THE PRESIDENT OF THE COMMISSION INVITED COREPER TO LUNCH ON 11 DECEMBER TO EXCHANGE VIEWS ON THE COPENHAGEN EUROPEAN COUNCIL AND ITS FOLLOW-UP. IN A RAMBLING ANALYSIS DELORS SAID HE BELIEVED THE CALM ACHIEVED AT AND AFTER COPENHAGEN WAS A FALSE ONE. THE MEETING HAD BEEN A FAILURE FOR THE COMMISSION AND ITS IDEAS. IT HAD BEEN HYPOCRITICAL TO CRITICISE THE MEETING AS DEALING WITH TOO DETAILED MATTERS : THESE SUBJECTS HAD REACHED THE EUROPEAN COUNCIL ONLY BECAUSE THE HEADS OF GOVERNMENT HAD NOT THROWN THEIR WEIGHT BEHIND SETTling THEM AT A LOWER LEVEL. THE DEADLOCK IN THE AGRICULTURE COUNCIL OVER STABILISERS AND THE REFUSAL OF THE FOREIGN MINISTERS TO GET TO GRIPS WITH THE SUBJECT THEREAFTER HAD DOOMED COPENHAGEN.

3. SCHEER (FRANCE) SAID THERE HAD BEEN A BIG CHANGE IN THE ATMOSPHERE BETWEEN THE FIRST AND SECOND DAYS OF THE EUROPEAN COUNCIL. THE PRESIDENCY AND THE COMMISSION COULD NOT ESCAPE THE GENERAL RESPONSIBILITY FOR THE FAILURE TO TAKE DECISIONS. BUT THE FAILURE TO PREPARE AGRICULTURE PROPERLY HAD BEEN THE MAIN CONTRIBUTING CAUSE. AGRICULTURE HAD NEVER BEEN PROPERLY TREATED AT EITHER THE FOREIGN AFFAIRS COUNCIL NOR THE CONCLAVE. HE READILY ADMITTED THAT IT WOULD HAVE BEEN MORE THAN HIS MINISTER'S LIFE WAS WORTH TO HAVE GOT INVOLVED IN THAT SUBJECT. EVERYONE HAD HOPED THAT THE HEADS OF GOVERNMENT WOULD CUT THE GORDIAN KNOT BUT THEY HAD FAILED TO DO SO. DE SCHOUTEETE (BELGIUM) SAID THAT IT HAD BEEN CLEAR

FROM THE MEETING OF AGRICULTURAL EXPERTS THAT HE HAD ATTENDED ON THE FIRST DAY OF THE EUROPEAN COUNCIL THAT THE FRENCH AND GERMANS WERE NOT GOING TO ACCEPT THE SORT OF SOLUTION WHICH THE PRESIDENCY, THE COMMISSION AND OTHERS WANTED.

4. ERSBOLL (SECRETARY GENERAL OF THE COUNCIL) SPEAKING AS ONE WHO HAD BEEN IN THE ROOM THROUGHOUT, SAID THAT THE NEGOTIATION HAD NEVER GOT GOING. THE FIRST DAY HAD NOT BEEN A NEGOTIATION. THE SECOND HAD BEEN STOPPED IN ITS TRACKS BY KOHL. THE WORK DONE BY COREPER HAD GOT AWAY OUT AHEAD OF THE COORDINATION IN MOST CAPITALS. MANY HEADS OF GOVERNMENT HAD FELT THEY WERE LOST IN A JUNGLE WITHOUT A GUIDE. SCHLUTER'S TOUR OF CAPITALS HAD BEEN PRETTY USELESS. EVERYONE HAD STUCK TO GENERALITIES. SOME HEADS OF GOVERNMENTS (HE MENTIONED KOHL AGAIN) HAD SIMPLY NOT UNDERSTOOD WHAT WAS ON THE TABLE. KOHL HAD COME WITH A DIFFERENT AGENDA.

5. I SAID THAT THE FACT THAT THE MEETING HAD BEEN CONDUCTED CALMLY AND WITHOUT ACRIMONY WAS SURELY A PLUS. COMPLICATED COMMUNITY PROBLEMS OFTEN TOOK MORE THAN TWO MEETINGS TO RESOLVE, BUT IN THE PAST THE SECOND HAD USUALLY INVOLVED A ROW. AS COPENHAGEN HAD NOT, WE DID NOT NOW NEED TO SPEND AN EXCESSIVE AMOUNT OF TIME ON ELABORATE POST MORTEMES BUT COULD GET ON WITH PREPARING THE NEXT MEETING. A LOT HAD BEEN AGREED EVEN IF THE MOST DIFFICULT POINTS REMAINED TO BE SETTLED. IT WAS CRUCIAL NOT TO LOOSE THE THREAD OF THE NEGOTIATIONS, WHICH HAD FORTUNATELY NOT BEEN BROKEN AT COPENHAGEN. COREPER COULD DO USEFUL WORK ON A LIMITED NUMBER OF TECHNICAL ISSUES. ON AGRICULTURE THERE WAS CLEARLY MORE WORK NEEDED ON SET-ASIDE AND HERE THE AGRICULTURE COUNCIL COULD PLAY A USEFUL ROLE. BUT WE DOUBTED WHETHER THEY HAD MORE TO CONTRIBUTE ON STABILISERS.

6. SEVERAL OTHER PERMANENT REPRESENTATIONS LYBEROPOULOS (GREECE) MATHIAS (PORTUGAL) CAMPBELL (IRELAND) EMPHASISED THE NEED TO BUILD ON WHAT HAD BEEN AGREED AT COPENHAGEN. ESER LARSEN SAID THE DANISH PRESIDENCY'S PROPOSALS REMAINED ON THE TABLE TO BE WORKED ON FURTHER IF EVERYONE HAD THE WILL TO DO SO. DELORS COMMENTED THAT THAT WAS THE FIRST DECISION THE GERMAN PRESIDENCY HAD TO TAKE.

7. GRUNHAGE (THE GERMAN DEPUTY PERMANENT REPRESENTATIVE STANDING IN FOR UNGERER) IN A DEFENSIVE AND RATHER MALADROIT INTERVENTION AGREED THAT THE DANISH PRESIDENCY DOCUMENT REMAINED ON THE TABLE. BUT SO DID CERTAIN COMMISSION IDEAS. THE GERMANS WOULD BE SEEKING TO FIND A PROPER POLICY MIX AMONGST THEM. KOHL AND GENSCHER WOULD NOT BE TRYING TO TURN EVERYTHING UPSIDE DOWN. THE BRUSSELS EUROPEAN

COUNCIL SHOULD MAKE PROGRESS EVEN IF IT COULD NOT TAKE DECISIONS. IT WOULD HAVE BEEN BETTER IF THERE HAD BEEN DIFFERENT OPTIONS ON THE TABLE AT COPENHAGEN. THAT MIGHT BE A BETTER APPROACH FOR THE FUTURE. A NUMBER OF PERMANENT REPRESENTATIVES REACTED NEGATIVELY TO THIS. DELORS SAID HE DID NOT BELIEVE IT WAS WISE TO HAVE TOO MANY MINISTERIAL MEETINGS. CONCLAVES HAD NOT WORKED WELL. HIS PREFERENCE WAS FIRMLY FOR WORKING ON THE BASIS OF THE DANISH PRESIDENCY PROPOSALS.

8. SCHEER (FRANCE) SAID THE PACKAGE MUST BE KEPT TOGETHER. BUT THE EUROPEAN COUNCIL WAS PRETTY HOPELESS AS A NEGOTIATING FORUM. THE HEADS OF GOVERNMENT KNEW ABOUT THEIR OWN POSITIONS BUT UNDERSTOOD LITTLE ABOUT THOSE OF OTHERS. HE DID NOT WISH TO SAY ANYTHING ABOUT THE PREPARATION OF THE BRUSSELS EUROPEAN COUNCIL. THAT WAS A MATTER FOR THE GERMANS. IT WAS UP TO THEM TO SET OUT THE BROAD LINES.

9. IN HIS FINAL INTERVENTION, DELORS IDENTIFIED ONLY TWO SERIOUS PROBLEMS - CEREALS AND THE STRUCTURAL FUNDS. ON CEREALS THE PRICE HAD BEEN FIXED TOO HIGH IN THE 1960'S BUT HE WAS SURE A SOLUTION COULD BE FOUND. THE GERMANS MUST BE GIVEN SOME SATISFACTION OVER SET-ASIDE. THERE MUST BE A PROPER BALANCE BETWEEN THE POWERS OF THE COUNCIL AND THOSE OF THE COMMISSION, LEAVING THE COMMISSION THE CAPACITY TO ACT WHEN IN-YEAR CHANGES WERE NEEDED. ON THE STRUCTURAL FUNDS HE WAS LESS OPTIMISTIC. THE ONLY PERSON AT COPENHAGEN WHO HAD REALLY UNDERSTOOD THE COMMISSION'S IDEAS FOR A COMMON ECONOMIC AREA HAD BEEN PAPANDEOU, ALTHOUGH KOHL HAD AT LEAST BEEN HELPFUL, UNLIKE THE OTHER NORTHERNERS.

COMMENT.

10. I SPOKE AFTERWARDS TO SCHEER (WHOSE CONFIDENCE SHOULD BE RESPECTED), MENTIONING TO HIM THE VIEW THAT WE HAD HAD FROM VILLEMUR (PARIS TELNO 1273), THAT THE DANISH PAPERS WERE NO LONGER ON THE TABLE AND ONE WOULD HAVE TO START AGAIN ON THE BASIS OF THE COMMISSION'S ORIGINAL APPROACH. WAS HIS OWN DELPHIC OFFERING AT THE LUNCH A REFLECTION OF THAT LINE. IF SO THERE WOULD BE PLENTY TO WORRY ABOUT. SCHEER SAID THAT HE WAS JUST OFF TO PARIS TO DISCUSS PRECISELY THAT. HE WELL UNDERSTOOD THE NEGATIVE REACTIONS THERE WOULD BE IN LONDON AND OTHER CAPITALS IF THE FRENCH GOVERNMENT FIRMED UP ON THAT LINE (WITH ITS IMPLICATION OF A FRANCO-GERMAN POSITION IN THE MAKING TO BE RAMMED DOWN OTHERS' THROATS).. NOTHING HAD YET BEEN DECIDED AND HE HIMSELF WAS FIRMLY OPPOSED TO SUCH AN APPROACH.

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OF 111705Z DECEMBER 87

INFO PRIORITY OTHER EUROPEAN COMMUNITY POSTS

*Completely worthless
assurances, if our
other information is
correct.*

FROM COPENHAGEN TO BRUSSELS: THE GERMAN VIEW

SUMMARY

1. GERMANS ARE MAKING THEIR OWN ASSESSMENT OF PARTNERS' POSITIONS AND PLAN TO LAUNCH REVISED PRESIDENCY COMPROMISE. WILL HOLD BILATERALS, POSSIBLY INCLUDING HEAD OF GOVERNMENT LEVEL. ASSURANCES THAT THERE WILL BE NO PRIVATE COOKING WITH THE FRENCH. QUESTION IS, HOW FAR WIL KOHL EXERT HIMSELF OVER AGRICULTURE?

DETAIL

2. I CALLED ON LAUTENSCHLAGER, AUSWAERTIGES AMT, AND STAVENHAGEN, CHANCELLERY, ON 10 DECEMBER. THE FORMER WAS RELUCTANT TO MAKE FORECASTS, OR EVEN TO OFFER MUCH COMMENT. CAREFUL ANALYSIS OF ALL PARTNERS' POSITIONS WAS REQUIRED. BILATERAL CONSULTATIONS WOULD START - INFORMALLY - IN THE MARGINS OF THE 14 DECEMBER FAC. COPENHAGEN HAD AT LEAST HELPED TO ENCOURAGE MUTUAL AWARENESS OF NATIONAL POSITIONS BUT ALL MEMBER STATES WOULD HAVE TO MOVE IF THERE WAS TO BE AGREEMENT IN FEBRUARY. STAVENHAGEN WAS CAUTIOUS TOO, COMMENTING THAT THERE WOULD NEED TO BE MOVEMENT FROM COPENHAGEN POSITIONS BY EVERYONE, BUT BALANCES WERE COMPLEX AND DELICATE, WHICH WAS WHY TIME HAD RUN OUT IN COPENHAGEN. THE INTERNAL POLITICAL SITUATION WAS ALSO DELICATE: KOHL WOULD BE REMINDED OF THAT WHEN HE MET THE LAENDER PRIME MINISTERS ON 17 DECEMBER.

3. IN A CONVERSATION WITH ECONOMIC COUNSELLOR THE SAME EVENING, TRUMPF (AUSWAERTIGES AMT) WAS MORE FORTHCOMING. HE CONFIRMED THE SCHEDULE OF MEETINGS AS GIVEN BY UNGERER (UKREP BRUSSELS TELNO 4241). THE GERMAN PLAN WAS TO PRODUCE BY 18 JANUARY A PRESIDENCY COMPROMISE, WHICH WOULD TAKE ACCOUNT OF NATIONAL POSITIONS AND WOULD BE THE DANISH PRESIDENCY COMPROMISE IN REVISED FORM. WITHOUT REVEALING KNOWLEDGE OF THE TEXT IN UKREP BRUSSELS TELNO 4238 WE ASKED IF A FRANCO-GERMAN COMPROMISE PROPOSAL COULD BE EXPECTED. TRUMPF SAID THE TIME FOR THAT WAS PAST. THEY COULD HAVE PUT FORWARD A JOINT PROPOSAL AT COPENHAGEN. SPEAKING PERSONALLY (PLEASE PROTECT) HE VOLUNTEERED CONFIRMATION OF THE ASSESSMENT IN UKREP BRUSSELS

TELNO 4194 THAT KOHL'S TACTICS HAD MADE A FRANCO-GERMAN PROPOSAL OR JOINT POSITION IMPOSSIBLE. WE WERE NOW ENTERING A GERMAN PRESIDENCY, NOT A FRANCO-GERMAN ONE. KOHL WAS LIKELY TO MAKE A ROUND OF CALLS ON SELECTED HEADS OF GOVERNMENT - THE 'CHEERLEADERS' ON EACH MAIN SUBJECT. THIS WAS HIS REASON FOR POSTPONING THE SUMMITS WITH THE UK AND ITALY. THE AUSWAERTIGES AMT HAD ARGUED AGAINST POSTPONEMENTS BUT THE WEIGHT OF PROTOCOL AND PLANNED DECLARATIONS ON NON-EC SUBJECTS SURROUNDING THE ITALIAN MEETING HAD LEAD GERMAN MINISTERS TO CONCLUDE THAT DECKS HAD TO BE CLEARED FOR EC-RELATED ACTION. (KOHL'S PERSONAL INVOLVEMENT HAS NOT BEEN CONFIRMED IN OTHER CONTACTS BUT SEEMS PLAUSIBLE).

4. FIRST SECRETARY (AGRICULTURE) SPOKE TO GENSKE (MINISTRY OF AGRICULTURE), WHO SAID IT WAS TOO EARLY TO SAY WHETHER THE GERMAN PRESIDENCY WOULD PERSIST WITH THE COMPROMISE TABLED BY THE DANES. HE GAVE REPEATED ASSURANCES THAT ALL PARTNERS WOULD BE FULLY CONSULTED BILATERALLY WITH NO ATTEMPT TO SEW UP A SECRET DEAL WITH ONE OR TWO MEMBER STATES. HE INSISTED THAT THE KEY TO AGREEMENT ON AGRICULTURE WAS A POWERFUL SET-ASIDE PACKAGE AND ARGUED WHEN CHALLENGED THAT THIS WOULD INDEED BE SUFFICIENT TO DEAL WITH SURPLUSES EC-WIDE. HE WOULD NOT, HOWEVER, ASSENT TO THE PROPOSITION THAT GERMANY COULD ACCEPT SET-ASIDE TOGETHER WITH AUTOMATIC STABILISERS IN THE BELIEF THAT THE FORMER WOULD BE SO EFFECTIVE AS TO MAKE THE LATTER REDUNDANT. STABILISERS WERE SIMPLY TOO SUDDEN AND TOO BRUTAL.

5. MEANWHILE KIECHLE HAS BEEN SOUNDING OFF TO THE PRESS, SAYING THAT THE BRITISH COULD NOT BOTH EXPECT A REBATE AND DEMAND MAJOR SAVINGS IN THE AGRICULTURAL SECTOR. THE FEDERAL REPUBLIC COULD NOT BE EXPECTED TO REMAIN THE MAJOR NET CONTRIBUTOR AND GIVE UP VITAL NATIONAL POSITIONS AT A COST TO QUOTE GERMAN AGRICULTURE ALONE UNQUOTE. OTHERS MUST NOT THINK THAT GERMANY COULD BE BLACKMAILED BECAUSE OF THE PRESIDENCY. HIS ONLY HINT AT COMPROMISE WAS TO SAY THAT GERMANY MIGHT SHOW SOME FLEXIBILITY ON PRICES. GENSKE CONSIDERED THIS A SIGNIFICANT SHIFT, EVEN THOUGH KIECHLE MADE CLEAR THAT HE WAS NOT THINKING OF PRICE CUTS ON THE SCALE PROPOSED BY THE COMMISSION.

COMMENT

6. TEMPTATIONS ABOUND FOR THE GERMANS TO TAILOR PRESIDENCY COMPROMISES TOO FAR TO THEIR NATIONAL INTERESTS. THE FACT OF NO JOINT FRANCO-GERMAN PROPOSALS OBVIOUSLY DOES NOT MEAN THAT THE FRENCH DO NOT CONTINUE TO HAVE AN INSIDE TRACK. I THINK HOWEVER THAT NOW THAT GERMANY IS ABOUT TO TAKE THE CHAIR, KOHL WILL MAKE A GENUINE ATTEMPT TO FIND THE AREA OF AGREEMENT. IN THE BUNDESTAG HE HAS TAKEN CREDIT FOR PROPOSING THE EXTRA EUROPEAN COUNCIL. HIS

PRESTIGE IS NOW BOUND UP IN ITS SUCCESS. ELECTIONS IN BADEN-WURTTENBURG (MARCH) AND SCHLESWIG-HOLSTEIN (MAY) LOOM AS BIG HURDLES, POSSIBLE TOO HIGH TO PERMIT PAINFUL AGRICULTURAL DECISIONS. THE FEBRUARY DATE FOR THE EUROPEAN COUNCIL HOWEVER GIVES US THE BEST CHANCE.

7. THE MAIN DANGERS I SEE ARE TWOFOLD AND RELATED. FIRST, KOHL WILL STILL BE MORE CONSCIOUS OF THE IMPERATIVES OF GERMAN AGRICULTURE THAN OF THE REQUIREMENTS OF OTHER PARTNERS. THUS HE WILL WANT TO GIVE MAXIMUM WEIGHT TO SET-ASIDE WHILE STILL TRYING TO GET AWAY WITH MINIMAL CONCESSIONS ON PRICES AND STABILISERS. SECONDLY, BECAUSE OF HIS LACK OF GRASP OF IMPORTANT DETAIL, HE WILL NOT ALWAYS BE ABLE TO TELL GOOD FROM BAD ADVICE ABOUT PARTNERS' POSITIONS OR WHAT THEY WILL ACCEPT. AS AND WHEN HE COMES TO LONDON, PATIENT IF FIRM DISCUSSION WITH KOHL OF ALL THE ELEMENTS IN THE PACKAGE WILL BE TIME WELL SPENT.

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TELNO 693

OF 111430Z DECEMBER 87

INFO IMMEDIATE UKREP BRUSSELS

INFO ROUTINE COPEN BONN PARIS

YOURTELNO 278 TO COPENHAGEN:

FOREIGN AFFAIRS COUNCIL. 14/15 DECEMBER: LOBBYING

SUMMARY:

1. ACTION TAKEN WITH APPROPRIATE MFA DEPARTMENTS. ITALY REJECTS THE DANISH PRESIDENCY TEXT AS A BASIS FOR FURTHER NEGOTIATION ON EC FINANCES: MAY RAISE SERVICES IF COMMISSION REPORT ON URUGUAY PROVOKES OTHER INTERVENTIONS: BELIEVES A POLITICAL COMPROMISE WILL HAVE TO BE FOUND ON RADIATION LEVELS IN LIQUID FOODSTUFFS.

DETAIL:

FOLLOW-UP TO EUROPEAN COUNCIL

2. FIRST SECRETARY (ECONOMIC) SPOKE AS INSTRUCTED. CANGELOSI (DGAE I) SAID ITALY HAD CLEARLY REJECTED THE DANISH PRESIDENCY TEXT AT THE COUNCIL. IT WAS NOT AN ACCEPTABLE BASIS FOR FURTHER DISCUSSION IN 3 AREAS, THE FOURTH RESOURCE, THE STRUCTURAL FUNDS, AND THE UK ABATEMENT. ITALY WAS PREPARED TO PAY MORE BUT ONLY ON AN EQUITABLE BASIS. THE FOURTH RESOURCE MUST BE GNP BASED AND GNP SHARES MUST BE CALCULATED ON THE SAME BASIS FOR ALL MEMBER STATES. ITALY COULD NOT BE THE ONLY COUNTRY PAYING ON THE STRENGTH OF ITS BLACK, AS WELL AS ITS TAXABLE, ECONOMY. THE ITALIANS WERE GRIEVED THAT, DESPITE GORIA'S AUTUMN TOUR OF EC CAPITALS, NO ACCOUNT HAD BEEN TAKEN OF THEIR POSITION BY THE PRESIDENCY NOR, UNTIL THE LAST MOMENT, BY THE COMMISSION. CANGELOSI THEN PRODUCED A PAPER IN FRENCH WHICH HE SAID THE COMMISSION HAD CIRCULATED VERY LATE IN THE COUNCIL. ITALY REGARDED THIS TEXT AS A SUITABLE BASIS ON WHICH TO CARRY WORK FORWARD. IT PROPOSED A GNP BASED FOURTH RESOURCE AND THE DOUBLING OF AT LEAST THE REGIONAL FUND.

3. CANGELOSI SAID THE UK ABATEMENT SHOULD BE TEMPORARY AND DEGRESSIVE. ALTHOUGH HE LISTED ITALY'S CONTRIBUTION TO THE ABATEMENT AMONG THE UNFAIR BURDENS WHICH OTHER MEMBER STATES WERE TRYING TO LOAD ONTO ITALY, HE APPEARED TO ATTACH LESS IMPORTANCE TO THIS THAN THE DIFF TAX AND THE EFFORTS TO EXCLUDE ITALY FROM

BENEFITING FROM INCREASES IN THE STRUCTURAL FUNDS.

4. ASKED ABOUT AGRICULTURAL STABILISERS, CONGELOSI INDICATED THAT ITALY EXPECTED TO BE ABLE TO LIVE WITH ANY OUTCOME ACCEPTABLE TO FRANCE AND GERMANY. (COMMENT: THIS DOES NOT OF COURSE MEAN THAT WHEN A FINAL PACKAGE BEGINS TO EMERGE ITALY WILL NECESSARILY REFRAIN FROM TOUGH LAST MINUTE BARGAINING WHERE A PARTICULAR INTEREST IS AT STAKE E.G. WINE). CANGELOSI CONCLUDED BY SAYING THAT GENSCHER NOW HAD WELL ON BOARD ITALY'S REQUIREMENTS ON THE FOURTH RESOUC. (GENSCHER AND ANDREOTTI MET IN ROME ON 7 DECEMBER IN CONNECTION WITH THE INAUGURATION OF NEW HEADQUARTERS FOR THE GOETHE INSTITUTE). ITALY WAS CONFIDENT THAT THE GERMAN PRESIDENCY WOULD NOT PROCEED ON THE BASIS OF THE DANISH TEXT WHICH, HE REPEATED, WAS UNACCEPTABLE TO ITALY. MISS ELMES LEFT WITH CANGELOSI A COPY OF THE PRIME MINISTER'S STATEMENT IN THE HOUSE ON 8 DECEMBER.

URUGUAY ROUND

5. UGUCCIONI (DGAE V) SAID ITALY ATTACHED IMPORTANCE TO THIS ITEM. IF THERE WAS SOME DISCUSSION FOLLOWING THE COMMISSION'S REPORT ITALY WOULD PROBABLY RAISE SERVICES. THEY HAD ACCEPTED THE COMMUNITY PAPER BUT WERE NOT HAPPY WITH THE 4 BASIC CONCEPTS IN IT. IN PARTICULAR THEY BELIEVED A VERTICAL APPROACH WOULD HAVE BEEN PREFERABLE TO THE HORIZONTAL APPROACH ADOPTED. THERE WAS A RISK THAT PROGRESS HORIZONTALLY WOULD BE DELAYED BY DIFFICULTIES AFFECTING ONLY ONE SECTOR. THEY WERE ALSO CONCERNED ABOUT OVERLAP IN SECTORS SUCH AS TRANSPORT ALREADY SUBJECT TO OTHER INTERNATIONAL AGREEMENTS AND CONVENTIONS.

EC/YUGOSLAVIA COOPERATION COUNCIL

6. UGUCCIONI EMPHASISED THE IMPORTANCE ITALY ATTACHED TO THIS MEETING. THE ITALIANS WERE REASONABLY HAPPY WITH THE AGREEMENTS REACHED BETWEEN THE EC AND YUGOSLAVIA. BUT ITALY'S POSITION AS A MAJOR MARKET FOR YUGOSLAV GOODS AND CONCERN FOR THE POSSIBLE CONSEQUENCES OF CURRENT ECONOMIC DIFFICULTIES IN A NEIGHBOURING STATE MEANT THAT THEY WOULD CONTINUE TO MONITOR EC/YUGOSLAV RELATIONS CLOSELY.

FOOD AID REGULATION

7. UGUCCIONI TOOK NOTE BUT SAID HE THOUGHT THAT THIS ITEM WAS NO LONGER ON THE COUNCIL AGENDA. HE KNEW THE UK HAD HAD A RESERVE ON THE PARLIAMENT'S PROPOSAL FOR A 6 MONTH EXTENSION BUT ASSUMED THIS MUST NOW HAVE BEEN LIFTED.

POST CHERNOBYL: RADIOACTIVITY IN FOODSTUFFS

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8. MANTOVANI (DGAE VII) TOOK NOTE OF THE UK POSITION ON LIQUID FOODSTUFFS. HE THOUGHT A COMPROMISE WOULD HAVE TO BE FOUND ON THE LEVELS. THE ARGUMENTS WERE NOT ENTIRELY BASED ON SCIENTIFIC ADVICE BECAUSE DECIDING BETWEEN 10 PERCENT AND 100 PERCENT CONTAMINATION WAS TO SOME EXTENT A POLITICAL JUDGMENT. THIS MEANT IN EFFECT FINDING A POLITICAL COMPROMISE ON THE FIGURES. HE ADDED THAT HE PERSONALLY THOUGHT THE COMMISSION HAD ASSUMED TOO READILY THAT THE FRENCH WOULD BE EASIER TO MOVE THAN THE GERMANS AND NOTED THAT WE THOUGHT OUR PREFERRED FIGURES WOULD HELP THE FRENCH SETTLE.

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TO IMMEDIATE FCO

TELNO 952

OF 161740Z DECEMBER 87

AND TO IMMEDIATE UKREP BRUSSELS

AND TO PRIORITY EUROPEAN COMMUNITY POSTS

FRAME GENERAL

FOLLOW UP TO COPENHAGEN: GERMAN PLANS

1. AT A LUNCH FOR EC AMBASSADORS GIVEN BY MY DANISH COLLEAGUE TODAY, IT WAS NOTICABLE THAT GENSCHER

(A) SPOKE MAINLY ABOUT GERMAN PLANS AS PRESIDENCY-DESIGNATE:

(B) UNTIL PROMPTED, DID NOT SAY MUCH ABOUT DOMESTIC POLITICAL FACTORS OR PRESSURES:

(C) WAS WARY ABOUT WHAT WOULD BE THE GERMAN PRESIDENCY'S STARTING POINT (BUT JELONEK EMPHASISED THAT THEY WOULD NOT START FROM A TABULA RASA):

(D) SPOKE AS IF FOREIGN MINISTERS AND NOBODY ELSE WOULD BE COORDINATING THE BUSINESS OF THE EC IN PREPARATION FOR THE BRUSSELS SUMMIT IN FEBRUARY.

2. MY HUNCH IS THAT GENSCHER HAS DECIDED TO THROW HIMSELF WHOLE-HEARTEDLY INTO THIS WORK, PARTLY IN ORDER TO KEEP OTHERS OUT (THIS INCLUDES HIS PARTY RIVAL BANGEMANN) AND PARTLY BECAUSE HE SEES A FAIR CHANCE OF THE BRUSSELS SUMMIT ACHIEVING A RESULT WHICH WILL BRING CREDIT TO THE FRG AND TO GENSCHER PERSONALLY.

BULLARD

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TO IMMEDIATE FCO

TELNO 4366

OF 161650Z DECEMBER 87

INFO PRIORITY COPENHAGEN

INFO ROUTINE EUROPEAN COMMUNITY POSTS, STRASBOURG

FRAME ECONOMIC

EUROPEAN PARLIAMENT PLENARY SESSION, STRASBOURG 16 DECEMBER :
COPENHAGEN EUROPEAN COUNCIL - INTERVENTIONS BY DELORS

SUMMARY

1. DELORS LESS THAN APOCALYPTIC ABOUT PROSPECTS FOR THE BRUSSELS EUROPEAN COUNCIL, BUT STRESSES NEED FOR FOREIGN AFFAIRS COUNCIL AND CONCLAVE TO TAKE DECISIONS. NEED TO RETHINK EUROPEAN UNION (PERHAPS ONLY WITH THOSE WHO WANT IT) IF ALL FAILS. AN APOLOGIA FOR THE COMMISSION'S LATE COMPROMISE PROPOSALS AT COPENHAGEN, AND PROMISE OF A RECTIFYING LETTER ON THE 1988 BUDGET NEXT WEEK.

DETAIL

2. AFTER THE DANISH PRIME MINISTER HAD REPORTED TO THE PLENARY ON THE FAILURE OF THE COPENHAGEN EUROPEAN COUNCIL (REPORTED SEPARATELY) DELORS GAVE HIS PREPARED SPEECH (TEXT BY FAX TO WALL, ECD(I)). 1992 AND THE SINGLE MARKET WERE THE INCENTIVE FOR BUILDING EUROPE, BUT THE MOMENTUM COULD BE LOST THANKS TO RIGIDITY FROM MEMBER STATES. DELORS NOTED PROGRESS AT COPENHAGEN ON THE CAP, WITH AGREEMENT ON THE NEED TO ADAPT PRODUCTION TO DEMAND, DEFEND RURAL LIFE/FAMILY FARMING, AND OPERATE A FIRM EXTERNAL POLICY. AGRICULTURE MINISTERS HAD DONE WELL IN DEFINING STABILISERS. THE EUROPEAN COUNCIL HAD TAKEN NOTE OF THAT AND GAVE DUE WEIGHT TO SET-ASIDE ALONG WITH SELECTED MEASURES FOR SMALL FARMERS, INCLUDING INCOME AIDS. BUT CEREALS HAD PROVED TOO DIFFICULT: PROBLEMS INCLUDED THE GUARANTEE THRESHOLD, THE RESPECTIVE ROLES OF THE PRICE MECHANISM AND PENALTIES, AND THE COMMISSION'S IMPLEMENTING POWERS. THE EUROPEAN COUNCIL HAD DISAGREED OVER THE SUM AVAILABLE TO THE EC UNTIL 1992. AND PARTICULARLY OVER THE FOURTH RESOURCE, WHERE 2 MEMBER STATES BLOCKED ALL PROGRESS (COMMENT: WHEN ASKED, THE CHRISTOPHERSEN CABINET SURMISED THAT DELORS MIGHT HAVE MEANT ITALY AND DENMARK, THOUGH BELGIUM AND PORTUGAL HAD BOTH REFUSED TO LET ITALY OFF THE HOOK AT COPENHAGEN). ON THE STRUCTURAL FUNDS, NATIONAL POSITIONS VARIED FROM WANTING AN INCREASE OF 40 PERCENT UP TO DOUBLING. BIDS FOR THE OWN RESOURCES CEILING VARIED FROM 1.10 PERCENT TO 1.4 PERCENT GNP. COPENHAGEN SEEMED TO GO BACK ON WHAT WAS AGREED AT

BRUSSELS. 'JUSTE RETOUR' HAD BECOME THE THEME. HEADS OF GOVERNMENT HAD BEEN SILENT ON THE EP PROPOSAL FOR AN INTER-INSTITUTIONAL AGREEMENT ON BUDGET MANAGEMENT, AND BARELY TOUCHED ON BUDGETARY IMBALANCES - MOST WANTED TO SEE THE PACKAGE AS A WHOLE BEFORE PRONOUNCING ON THE LATTER.

3. DELORS CRITICISED THE COMMUNITY'S WORKING METHODS FOR PUSHING TOO MANY DECISIONS UP TO THE EUROPEAN COUNCIL, AND HOPED THAT THE GERMAN FAC AND CONCLAVE WOULD FARE BETTER THAN THE DANES'. DESPITE THE APPARENTLY RELAXED ATMOSPHERE AT COPENHAGEN, TENSION WAS GREAT ON AGRICULTURE: THE DEBATE HAD BEEN DISTORTED. DELORS WON APPLAUSE BY CONCLUDING THAT IF AGREEMENT COULD NOT BE REACHED (HE DID NOT SAY WHEN), THERE WOULD BE A NEED TO RETHINK HOW TO ATTAIN EUROPEAN UNION WITH THOSE PREPARED TO ACCEPT BOTH ITS REWARDS AND ITS COSTS.

4. REPLYING TO COMMENTS BY MEPS, DELORS OBSERVED THAT THE SUMS IN DISPUTE WERE 11 BILLION ECU OVER 5 YEARS, IE 0.3 PERCENT OF COMMUNITY GNP. STUNG BY THE EP'S RESOLUTION CRITICISING THE COMMISSION FOR DILUTING ITS PROPOSALS AT COPENHAGEN, DELORS JUSTIFIED HIS ACTIONS AND NAMED A FEW NAMES. ON CEREALS, HE HAD TRIED TO BRIDGE TWO DIFFERENT CONCEPTS OF THE CAP IN MOVING TOWARDS DENMARK, FRANCE AND GERMANY BY INCREASING THE THRESHOLD BY 3 MILLION TONNES. FRANCE AND GERMANY HAD REFUSED TO GIVE THE COMMISSION THE NECESSARY IMPLEMENTING POWERS, SO HE HAD SUGGESTED GIVING THE AGRICULTURE COUNCIL ONE MONTH TO ACT BEFORE THE COMMISSION DID. ON THE STRUCTURAL FUNDS, HIS IDEA OF FIVE TIMES 1.2 BECU EQUALLED DOUBLING. AN OWN RESOURCES CEILING OF 1.3 PERCENT WAS TO BE UNDERSTOOD AS CALCULATED WITHOUT BUDGETISING THE EDF AND WITHOUT THE UK ABATEMENT. THE NEW METHOD OF CALCULATING OWN RESOURCES WAS DEFERRED FOR A YEAR TO MEED ITALIAN TECHNICAL AND POLITICAL CONCERNS. THE UK ABATEMENT FOR 1988 WAS IN LINE WITH FONTAINEBLEAU BECAUSE OF THE NEED FOR A TRANSITIONAL PERIOD. (COMMENT: DELORS FORGOT TO SAY THAT HIS LATE COMPROMISE BID WAS NO LONGER ON THE TABLE).

COMMISSION MEETING, 21-22 DECEMBER

5. RESPONDING TO THE EP RESOLUTION'S CALL FOR THE COMMISSION TO ENDORSE THE EP PROPOSAL FOR AN INTER-INSTITUTIONAL AGREEMENT ON BUDGET MANAGEMENT, DELORS SAID THAT THE COMMISSION WOULD RE-EXAMINE THE PROPOSAL NEXT WEEK AND TAKE A VIEW ON :-

- (A) FIXING OF SUB-CEILINGS
- (B) AUTONOMY OF EC FINANCES AND THE FOURTH RESOURCES
- (C) VAT MODULATION BY GNP

THE COMMISSION WOULD PRODUCE A RECTIFYING LETTER ON THE 1988 BUDGET

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ON 22 DECEMBER, DESPITE TWO DIFFICULTIES. TECHNICALLY, IT WAS NOT POSSIBLE TO FORECAST UP TO 1992 WITHOUT COMPROMISING WORK NOW UNDERWAY IN COREPER AND IN CAPITALS. POLITICALLY, THE COMMISSION HAD TO AVOID GIVING MEMBER STATES AMMUNITION TO USE AGAINST IT. FOR INSTANCE, IF THE COMMISSION EXCLUDED RECEIPTS FROM AN OILS AND FATS TAX FROM ITS CALCULATIONS, SOME WOULD SAY THAT THE COMMISSION HAD ABANDONED ITS PROPOSAL. IF THE COMMISSION DID NOT WRITE IN BIG ENOUGH FIGURES FOR THE STRUCTURAL FUNDS, IT WOULD BE CHARGED WITH CONTRADICTING ITSELF. THIS MEANT THAT THE RECTIFYING LETTER WOULD BE FESTOONED WITH FOOTNOTES AND RESERVES.

6. DELORS CONFIRMED THAT THE COMMISSION HAD GOT THE MESSAGE ABOUT TAKING EP WISHES SERIOUSLY (THE RESOLUTION IMPLIES THAT THE EP COULD SACK THE COMMISSION).

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TO IMMEDIATE FCO

TELNO 4365

OF 161645Z DEC 87

INFO PRIORITY COPENHAGEN

INFO ROUTINE BRUSSELS, THE HAGUE, ROME, DUBLIN, PARIS, BONN

INFO ROUTINE LUXEMBOURG, ATHENS, LISBON, MADRID, STRASBOURG

FRAME ECONOMIC

EUROPEAN PARLIAMENT PLENARY SESSION, STRASBOURG 16 DECEMBER: DEBATE
ON THE COPENHAGEN EUROPEAN COUNCIL.

SUMMARY.

1. SAFE SUMMARY BY SCHLUTER OF COPENHAGEN, WHICH HE TERMED A
DISAPPOINTMENT. MEPS DULY EXPRESSED EXASPERATION. STRONG EP PRESSURE
ON THE COMMISSION TO STICK TO ITS GUNS BUT TO TAKE UP AN EP PROPOSAL
FOR AN INTER-INSTITUTIONAL AGREEMENT ON BUDGET MANAGEMENT.
COMMISSION TO WRITE A RECTIFYING LETTER ON THE 1988 BUDGET NEXT
WEEK. JANUARY EP PLENARY TO 'DEFINE THE FINANCIAL FRAMEWORK FOR
1988'.

DETAIL.

2. THE DANISH PRIME MINISTER PROVIDED A MEASURED, FAIRLY GLOOMY
ANALYSIS OF THE COPENHAGEN EUROPEAN COUNCIL, TAKING CARE TO BLAME NO
PARTICULAR MEMBER STATE. THE DANISH PRESIDENCY HAD RECOGNISED THE
NEED FOR PAINFUL DECISIONS ON AGRICULTURE. THEY WERE INEVITABLE.
CAP REFORM MUST BE ACCOMPANIED BY STRICTER BUDGETARY DISCIPLINE OF
CAP EXPENDITURE AS AGREED IN 1984: BUT SUCH DISCIPLINE MUST NOT
PREDOMINATE OVER THE BASIC AIMS AND MEANS OF THE CAP. DISCIPLINE
MUST COMPLEMENT ACTUAL CAP REFORM. THE CAP SHOULD DETERMINE THE
CONTENT OF THE BUDGET. HE ATTRIBUTED THE FAILURE OF COPENHAGEN TO
LACK OF POLITICAL WILL. HE SAID NOTHING ABOUT HOW THE GERMAN
PRESIDENCY INTENDED TO PROCEED. DELORS SPOKE NEXT (REPORTED IN
M.I.F.T.)

3. DANKERT (NETHERLANDS, SOCIALIST, AUTHOR OF THE EP'S PROPOSED
INTER-INSTITUTIONAL AGREEMENT) CRITICISED THE DANISH PRESIDENCY FOR
ALLOWING THE EUROPEAN COUNCIL TO DOWNGRADE BOTH THE COUNCIL OF
MINISTERS AND THE EP. THE LATTER NEEDED COMMISSION HELP. WOULD IT
GET IT? KLEPSCH (FRG, CD LEADER) THOUGHT THAT NEITHER EP NOR
COMMISSION COULD DO MUCH MORE WORK BETWEEN NOW AND BRUSSELS THAN
THEY HAD ALREADY DONE. FAILURE THEN WOULD RE-OPEN THE QUESTION OF

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HOW TO GO ABOUT EUROPEAN UNION.

4. PROUT (UK, EDG LEADER) EXPRESSED GREAT THANKS FOR SCHLUTER'S EFFORTS AT THE EUROPEAN COUNCIL AND WELCOMED SOME PROGRESS. THE DEBATE NOW WAS NOT ABOUT WHETHER BUT HOW TO CONTROL EC SPENDING, CURB THE CAP AND PUT MONEY TO BETTER USES THAN STOCKS DISPOSAL. IF AT THE DOMESTIC LEVEL MINISTERS FAILED TO ACT AS THE COMMUNITY HAD FAILED, THEY WOULD BE SACKED. MINISTERS WERE ACCOUNTABLE TO THEIR NATIONAL ELECTORATES, BUT THE COUNCIL COLLECTIVELY WAS ACCOUNTABLE TO NO-ONE, AND THEREFORE HAD A SPECIAL DUTY TO DISCIPLINE ITSELF. LEADERSHIP WAS NEEDED.

5. MARTIN (UK, BLG LEADER) SAID THAT IF MRS THATCHER WAS HAPPY WITH COPENHAGEN, THAT WAS BAD NEWS FOR MOST PEOPLE IN EUROPE. THE EC SHOULD NOT JUST BE A FREE MARKET FOR CAPITAL. THE STRUCTURAL FUNDS SHOULD BE DOUBLED IN FIVE YEARS. CAP PRODUCTION MUST BE CUT AND THE CAP'S SHARE OF THE EC BUDGET REDUCED. EC FINANCES MUST BE PUT ON A SECURE FOOTING. THE REAL EUROPEAN COUNCIL AGENDA WAS TO PUT 16 MILLION EUROPEAN JOBLESS BACK TO WORK, RESPOND COHERENTLY TO JAPANESE ETC COMPETITION, AND APARTHEID AND ASSIST EAST/WEST DETENTE. BUT BRUSSELS WOULD NOT ADDRESS THESE ISSUES. MRS VEIL (FRANCE LIBERAL LEADER) WAS CAUSTIC ABOUT THE POLITICAL COOPERATION STATEMENTS ADOPTED AT COPENHAGEN: BETTER TO BE HONEST AND AGREE NOTHING THAN TO PRODUCE HOT AIR. PROGRESS ON THE INTERNAL MARKET WOULD BE BLOCKED IF THE DELORS PACKAGE REMAINED BLOCKED.

6. SCHLUTER REPLIED TO THE DEBATE. THE PRESIDENCY RECOGNISED EP RIGHTS IN THE BUDGETARY SPHERE. AFTER EUROPEAN COUNCIL DECISIONS, THERE MUST BE CONSULTATION WITH THE EP OVER IMPLEMENTATION. FEW MEMBER STATES DID NOT MAKE MAJOR MISTAKES AT COPENHAGEN. HE INVITED MEPS TO PRESS THEIR GOVERNMENTS FOR MOVEMENT. THERE WAS A DEMARCATION PROBLEM: SPECIALISED COUNCILS PUSHED UP TOO MANY COMPLICATED PROBLEMS TO HEADS OF GOVERNMENT, WHO SHOULD NOT HAVE TO ARGUE OVER THE PETTY CASH.

7. PANELLA (ITALY, INDEPENDENT) MADE A VENOMOUS ATTACK ON DELORS, WHOM HE SAW AS A TRANSPLANT TO THE COMMISSION FROM THE COUNCIL, LACKING EUROPEAN VISION, AND SPEAKING OUT OF TURN USING HIS OFFICE TO FURTHER OTHER INTERESTS. HE HOPED THAT THE COMMISSION GOT THE MESSAGE IN THE EP RESOLUTION THREATENING A MOTION OF CENSURE ON THE COMMISSION. DELORS REBUTTED THESE CRITICISMS WITH DIGNITY.

8. THE PLENARY ADOPTED A COMPROMISE RESOLUTION BY 279:8:16 VOTES, WITH ONLY THE EDA (GAULLIST AND FIANNA FAIL) DISSENTING. THE TEXT

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(BY MUFAX TO WALL ECDI) DEPLORES THE FAILURE OF COPENHAGEN, AND THE FACT THAT THE COMMISSION SUBMITTED POSSIBLE COMPROMISES DURING THE EUROPEAN COUNCIL WEAKENING ITS ORIGINAL PROPOSALS. SEEKS COMMISSION ENDORSEMENT OF THE EP PROPOSED INTER-INSTITUTIONAL AGREEMENT ON BUDGET DISCIPLINE: INVITES LORD PLUMB TO BRING AN ECJ ACTION AGAINST THE COUNCIL FOR FAILING TO SUBMIT THE 1988 BUDGET AND SUGGESTS THAT THE COUNCIL'S FAILURE TO ENSURE PROPER FINANCING OF EC POLICIES SHOULD BE PART OF THE EP CASE: CALLS FOR A RECTIFYING LETTER FROM THE COMMISSION FOR 1988: CALLS ON THE COMMISSION TO JOIN THE EP IN DEFINING THE FINANCIAL FRAMEWORK FOR 1988 AT THE 18-22 JANUARY PLENARY: AND REGARDS THE COMMISSION'S RESPONSE AS A TEST OF CONFIDENCE BETWEEN THE TWO INSTITUTIONS.

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