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COPY NO 1

21 April 1980

EUROPEAN COUNCIL, LUXEMBOURG
27/28 APRIL 1980

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FOREIGN AND COMMONWEALTH OFFICE
21 April 1980

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EUROPEAN COUNCIL, LUXEMBOURG
27/28 APRIL 1980

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

INTRODUCTION

1. This is the first European Council of the Italian Presidency, postponed from 31 March/1 April. The second will be in Venice on 12/13 June; the third of the year on 1/2 December under Luxembourg Presidency.

2. The Council will be dominated by the UK budget problem, though Iran (particularly) and Afghanistan could take up a certain amount of time.

3. The timetable for the meeting is at Annex A.

4. There are meetings of Finance, Foreign Affairs and Agriculture Councils on 21/22 April. Briefing may need to be supplemented after them.

AGENDA AND DOCUMENTATION

5. There is no formal agenda. The Presidency have proposed the following subjects for discussion. Relevant documents are shown under each item.

(1) Economic and Social Situation
Commission Paper. Discussion will cover also the Commission Report on the European Monetary Fund.

/(2)

(2) Convergence and UK Budget questions
Commission Papers of 5 February and 20 March.
Draft Presidency Conclusions.

(3) Energy
Commission Paper.

(4) Three Wise Men's Report
Interim Presidency report.

There will also be discussion of political cooperation subjects (in particular Iran, the Middle East and Afghanistan).

6. Each Head of Government is free to raise other subjects. It is now clear that the Council will discuss subjects which others regard as related to the budget. especially fish, energy and sheepmeat.(on all of which the Dublin Council recognised the need to reach rapid Community solutions) and CAP prices. The French have taken the position that any solution to the UK budget problem should be accompanied by solutions to other outstanding problems, especially CAP prices, sheepmeat and fisheries. Access for New Zealand butter and EMS may also be raised.

7. The order of discussion will be for the Council itself to settle. The Prime Minister can expect Signor Cossiga's support in getting the budget taken at an early stage and given priority (see para 14 below on tactics).

UK OBJECTIVES

8. Our main objective is to get firm decisions providing an adequate and durable reduction in the UK net contribution to the Community budget with effect from 1980, including agreement on a revised 1975 Financial Mechanism, supplementary Community expenditure in the United Kingdom and a commitment in principle on restructuring the budget; and to ensure that specific directives are issued to appropriate Community bodies for formal decisions and implementing action to be taken within a brief timescale.

/9.

9. On issues raised by others in relation to thebudget, our general objective is to deal with them on their merits and, in certain cases where we might make concessions, only to do so if we are getting satisfaction on the budget and to keep such concessions to the minimum.

10. Our objectives on other main items are:

(a) to avoid detailed discussion of the Wise Men's Report and to have the main decisions remitted to the June European Council;

(b) to limit as far as possible time spent on EMF:

(c) to avoid Commission proposals for a common energy policy getting entangled in the budget negotiations, but to make clear our willingness to work with our partners and to welcome indication of Commission thinking, while avoiding commitment until there has been an opportunity for careful study.

OBJECTIVES OF OTHER GOVERNMENTS

11. There is a general wish among all governments to get the budget out of the way so that the Community can tackle the major political and economic problems it faces externally, but in a way that enables them to claim they have protected Community principles. They want to leave the June Council free inter alia to prepare for the Venice Economic Summit. Some at least are seeking specific concessions to be won from us in areas of interest to them (for details see paras 26-33 below) while all will want, for domestic political reasons, to be able to point to some benefit to themselves from the Council. There may be scope for turning any linkages made by others to our account.

12. On the budget, while our partners are now seriously working for a settlement, they will want one that:

/(a)

(a) limits the cost to themselves;

(b) can be presented as communautaire;

(c) puts a time limit on any solution.

Italy and Ireland will be pursuing their frequently expressed wish not to have to contribute to a UK budget settlement. And Italy will be seeking to increase its receipts.

13. Our partners' main interest in Wise Men, EMF and Energy is that they flesh out the agenda so that the Council will be seen to discuss more than the budget and political cooperation. Their interest in these subjects may be less if Iran is a major item of discussion. The Benelux are disappointed that France and Germany have apparently agreed that the introduction of the EMF scheduled for 1981 should be postponed.

TACTICS

14. It will be essential to get the budget problem properly discussed early on the first day and firm guidance agreed on points which can then be turned into precise language by officials overnight. The more ground made on the first day the better.

15. By the time the Council meets there are likely to be draft Presidency Conclusions on the budget and related subjects. It may be necessary to remind other Heads of Government that, while we are ready to see progress on all issues in the same timescale, what we might agree to on the other subjects is closely related to the solution to the budget problem. The handling of CAP prices may be particularly difficult; the situation on the day cannot yet be foreseen.

16. Iran and the post-Afghanistan situation may compete for Heads of Government's attention at the expense of the budget problem. The best tactic might be to ensure that Foreign Ministers, all of whom are expected to be present, should tackle political cooperation subjects separately.

/SUMMARY OF BRIEFS

SUMMARY OF BRIEFS

ITEMS DEFINITELY FOR DISCUSSION

Economic Situation in the Community (Brief No 9)

17. On this occasion, this routine item will give an opportunity to explain the Government's economic strategy following the budget and our very poor economic prospects (eg. an expected 2% fall in GNP against up to 2% rise for most of the rest of the Community; Denmark is the only one of our partners expected to experience a fall in output other than the UK). There will also probably be the usual discussion of the world economic and monetary situation. In this context there may well be a suggestion that the European Council should give some kind of commendation to the Report of the Brandt Commission or endorse its proposal for a North/South summit of about 25 nations. We should seek to avoid both suggestions but need not stand out alone against them (Brief No 19).

18. The Presidency intend to consider the Commission report on EMF (Brief No 11) under this item. Heads of Government agreed in Dublin that the EMF should be set up on schedule (March 1981), but the French are unhappy about this timetable. They and the Germans are likely to be on the defensive. The French have suggested discussion of this item should be subsumed in discussion on the economic and social situation. Our main concern is that, if EMF is discussed, it should be after a first discussion on the budget problem. There is no reason to become closely involved in discussion ourselves and we could accept any likely consensus on the timetable. It is possible that it will give rise to consideration of our own attitude towards EMS (see para 33 below).

19. There may also be discussion under this item of the employment and social situation in the Community. The Dublin meeting called for ''specific measures on the employment problem''. None are ready for consideration. We and the Germans are critical of recent Commission proposals (Brief No 10).

/Budget/Convergence (Brief No 3)

20. The conclusions of the Dublin European Council pointed the way to a three part solution:

(a) revision of the existing Financial Mechanism;

(b) increased Community expenditure in the UK; and

(c) longer-term restructuring of the budget (the main aim of which would be to reduce the proportion absorbed by the CAP and to release resources for other Community policies).

The Commission's Paper of 20 March proposed a solution on these lines and contained detailed ideas on (b) including the proposal that extra expenditure should be on the basis of a new regulation under Article 235.

21. Work since the Council was postponed has proceeded on these lines. Our partners are not raising major issues of principle about the method and even the French are not contesting the principle of spending funds in this way. It will be desirable to leave as much of the running on the method and the availability of sufficientprojects and programmes in the UK to the Commission who are likely to give us firm support. The main battle will be over the amount, duration and ''dynamism'' of increased Community expenditure. Any solution must be both adequate and durable. So far indications are of a greater willingness to move towards us on the amount than on the other two aspects. It is likely to be necessary to make it clear that a fixed sum, three year solution is not acceptable and is a recipe for the re-emergence of the problem in the period leading up to the next election.

22. Our objective is to reach an agreement on the main aspects which cannot be unpicked later, even though the necessary legal instruments will have to be left to be worked out subsequently by Foreign/Finance Ministers.

/23.

23. It is not in our interest to raise the question of who pays for our solution until a solution has, in its broad lines, been agreed. Italy is prepared to contribute towards a refund to the UK under the revised 1975 Mechanism, but will expect to share in the benefits from any Community arrangements for additional expenditure. Ireland, on the other hand, will argue for exemption from any contribution towards our refund, or for equivalent compensation. A number of our other partners will be very reluctant to concede these points.

24. The existing 1% VAT ceiling provides enough room in 1980 to accommodate a solution to our problem and any likely increase in CAP prices. All Member States, except possibly Italy, whose position is not clear, and Ireland, want to avoid any commitment at this stage to raising the 1% ceiling and there will be no financial justification for forcing the issue on this occasion.

25. We also want a firm commitment by the Community to reduce the percentage of the budget going to agriculture. We have suggested bringing FEOGA Guarantee expenditure down to 55% of the total by 1986. It will be important to stress that this is the best way to ensure that the budget solution we need is indeed temporary. The firmer the Community's commitment to substantial restructuring the less likely a re-emergence of our problem becomes. The reverse is also true.

BUDGET RELATED ISSUES.

26. We should not concede formal linkage between the budget and the issues listed in para 6. But it may be necessary to make limited concessions in certain areas in order to obtain a satisfactory settlement on the budget; it will be important that ourpartners have some benefits to show from a solution to the budget problem. The handling of the individual items in any package is covered separately in succeeding paragraphs and the subject briefs, which may need to be supplemented later.

/CAP Prices/Economy Package

CAP Prices/Economy Package (Brief No 4)

27. The French have made it clear that they will not agree to a budget solution without UK concessions on CAP prices. The Irish and Dutch appear to make a similar link on prices. It is assumed by other Member States that there must be such a package. Without a budget solution, we should not agree to concessions on prices and should make it clear that a settlement on the one will depend on the other.

28. Tactics on this subject will depend on the outcome of the Agriculture Council on 21/22 April which will determine how the issue comes before the European Council.

Sheepmeat (Brief No 5)

29. Giscard will insist on agreement to a sheepmeat regulation which he can present as a victory for France if he is to go along with a budget solution. We are in a reasonably strong position on sheepmeat because the French have played their hand badly. The French refused to lift restrictions on mutton trade until there is a permanent Community regime for sheepmeat. Discussions on the regime have been blocked because of French insistence on intervention. We could accept some limited form of intervention so long as we derived a resource benefit and it was part of a settlement on the budget. We should not agree on sheepmeat without a settlement on the budget.

Fish (Brief No 6)

30. The French, Germans and others have mentioned fish as another linked subject. This could be more difficult for us but we recognise some reference in the communique is inevitable and, so long as it is in general terms, it would not be damaging to us. We are making some progress in negotiating an improved CFP internal regime but face contentious arguments on the allocation of quotas among Member States and access preference for UK fishermen. Fresh proposals from the Commission on quotas have been promised but are not yet on the table. It would be very damaging for the Government's

/relations

relations with the industry and Parliament (whose support during the CFP negotiations is essential) if our negotiating position were thought to have been prejudiced for the sake of the budget. We could, however, go along with general undertakings on progress with CFP negotiations. Work is continuing in the official group on acceptable language to all.

New Zealand Butter (Brief No 6A)

31. This subject has not so far been raised in the context of the European Council; and it is not in our interests that it should be. The Commission's proposals for post-1980 access are not now expected to be tabled in advance of the European Council. But France and Ireland have asked for it to be discussed at the Agriculture Council on 21/22 April. No overt attempts have been made to link this with the UK budget issue or the CAP price-fixing but it is possible that Giscard and Haughey in particular could try for language in the Council's conclusions which might prejudice subsequent discussion of the Commission proposals. We should reject this and say that the question of New Zealand butter needs to be considered on its merits in the appropriate Council machinery. On the substance we shall wish to say no more than is necessary to hold the position fully open pending such consideration, in the light of comments others may have made.

North Sea Oil Policy (Brief No 7)

32. The Dublin European Council recognised the need to reach rapid Community solutions to the problem of energy among other issues. Other Member States may seek a forthcoming statement about our North Sea oil policies as part of a solution to the budget problem. We must resist pressure for concessions of substance, but the negotiations may reach a stage where a helpful presentational statement on energy might help clinch a solution to the budget. Such a statement is annexed to Brief No 7. The text is not for negotiation. Whether or not the statement is used, the Prime Minister may wish to illustrate the constructive contribution of North Sea oil to Community objectives.

/European Monetary System

European Monetary System (Brief No 8)

33. The Germans and the Dutch have told us that joining the exchange rate mechanism or stating our intention to join shortly would have some bearing on the political climate surrounding the budget negotiation. Chancellor Schmidt has been particularly clear on this point, but has recognised privately that we are not going to join at present. Brief No 8 provides a line to take on this issue.

THREE WISE MEN'S REPORT AND THE NEW COMMISSION (Brief No 13)

Wise Men's Report

34. The Presidency will report that Foreign Ministers are still studying the Wise Men's Report and that a final report will go to the June European Council. The only substantive points to be taken in Luxembourg are that the Presidency of the Commission should be appointed six months in advance (para 35 below), which we can agree, and the Wise Men's recommendation that the number of Commissioners be reduced to one per Member State after enlargement on which we are sitting on the fence, the French and Italians being opposed and the Germans favourable. But the Dutch may also raise the possibility of consulting the European Parliament about the nomination of the new President, which we are against.

President of the Commission

35. The Italian Presidency propose to raise this. Mr Jenkins' term of office is up at the end of the year and his successor should be named at the time of the June Council. The main candidates are Gundelach (Danish - present agriculture Commissioner) and Thorn (Luxembourg Foreign Minister). We accept that the new President is likely to come from a small country and do not think that any candidates we have heard of are so good or bad as to demand that we take a position. Our interest is to say nothing, let others woo us and spin the process out until June.

/ENERGY

ENERGY (Brief No 12)

36. The Commission have circulated a paper giving their ideas for a Community Energy Policy initiative comprising price and tax harmonisation, and enhanced Community energy spending possibly funded by a combination of an oil import levy and a production tax. The ideas are not worked out in details and we shall want to avoid commitment. We also want to avoid these long term issues getting tangled up with the budget negotiations. Subject to that, we should not strike a negative note at what is likely to be a preliminary general discussion: we can welcome some aspects of the Commission's paper and agree to it being studied further.

37. If the subject of the Venice Economic Summit is raised in the energy context, we should say that our aim at Venice will be to focus discussion on broad issues of policy rather than targets.

POLITICAL COOPERATION (Brief No 14)

38. The main subject is likely to be Iran depending on what degree of agreement is reached at the Foreign Affairs Council on 21-22 April. Further topics will be Afghanistan and East-West relations. Here we will want the meeting to endorse and possibly develop the idea of neutral and non-aligned status for Afghanistan but simultaneously to make it clear that political and economic pressures on the USSR will need to continue until Soviet withdrawal from Afghanistan. On the Middle East a short statement may be proposed. Talks continue within the Nine about a Security Council Resolution to supplement Resolution 242, but no action is envisaged before 26 May (the deadline for the autonomy negotiations). The Heads of Government or Foreign Ministers may wish to give instructions on how these ideas should be pursued.

OTHER ITEMS WHICH MAY COME UP

39. No other subject seems likely to come up. But briefs on EC/Turkey (Brief No 17), Enlargement (Brief No 16) and Telematics (Brief No 15) are provided in case any of these subjects are raised.

FOREIGN AND COMMONWEALTH OFFICE
21 April 1980

ANNEX A

TIMETABLE OF EVENTS

Sunday 27 April

1500-1800	Kirchberg	First Session of the European Council.
1900		Separate dinners for Heads of State/Government and for Foreign Ministers, followed by separate informal conversations.
1900		Dinner for other members of delegations and possible Working Group meetings.
		UK delegation debriefing meeting.

Monday 28 April

0830	UK delegation briefing meeting.
0900	Foreign Ministers discuss Communique
0955	Family photograph
1000-1300	Second Session of the European Council.
1330	Buffet lunch for members of delegations remaining.
PM	Press Conference by the President of the European Council and the President of the Commission.

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25 April 1980

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NOTE BY FOREIGN AND COMMONWEALTH OFFICE

PRESIDENCY CONCLUSIONS

An additional brief on the Presidency Conclusions is attached. The Index of Briefs (Brief No 1) should be amended accordingly.

Foreign and Commonwealth Office

25 April 1980

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25 APRIL 1980

EUROPEAN COUNCIL, LUXEMBOURG
27/28 APRIL 1980

PRESIDENCY CONCLUSIONS :

DRAFT FRENCH TEXT ON COMMUNITY PRINCIPLES

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To ensure that any statement on general Community principles in the Presidency Conclusions is not based on objectionable parts of the French draft.

POINTS TO MAKE [If others raise the issue]

2. Perfectly content that the Conclusions of the European Council should contain a statement of basic principles.

3. Have difficulty, which we understand others share, with some aspects of French draft.

4. Officials should work out a suitable passage in the Conclusions taking account of French ideas to the extent acceptable to others.

BACKGROUND

References: A: French draft text on General Principles;

B: UKREP Tel No 2089 reporting COREPER discussion of 24 April;

C: Statement of Economics and Finance Council of 11 February.

is there a disposition of Community law which forbids it and the whole of the discussion within the Community since before the Strasbourg European Council has recognised the need to take account of these factors.

Paragraph 3, third sub-paragraph

5. We cannot accept that the CAP is the pre-condition in the agricultural sector of the free circulation of produce. Free circulation is a principle in its own right and is not dependent on the CAP.

Paragraph 3, fourth sub-paragraph

6. We can accept the French draft as it stands but it would be preferable if the reference were to Article 39 alone.

Paragraph 3, sixth sub-paragraph

7. This should be deleted on the grounds that it is inaccurate. In particular it takes no account of the arrangements for sugar imports from the ACP, Algerian Wine imports or the Community's concessions in the MTNs on eg. Hilton Beef, manufacturing beef and cheese, which are neither temporary nor subject to periodic review.

Paragraph 3, seventh sub-paragraph

8. This goes too far. If there has to be something about the Community's role as an agricultural exporter it would need to state that th eCommunity's ability to contribute to the food needs of the world, other than through food aid, must depend on its ability to export at competitive prices and not to do so on a heavily subsidised basis which disrupts third country and third world markets.

Paragraph 3, eighth and ninth sub-paragraphs

9. The language on the CAP here is weaker than the commitment in the Conclusions of the Eco Fin Council of 11 February. It needs to be at least as strong.

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10. We see no justification for the reference in the ninth sub-paragraph to family farms. We prefer the language of paragraph 2 of the section on the CAP in the draft Conclusions circulated by Ruggiero after the meeting of his Group on 2 April. This reads:

''The European Council recognised the need to maintain a prudent agriculture price policy such as to take account of the economic and budgetary situation as well as the need to ensure the maintenance of a reasonable income for farmers''.

Paragraph 4

11. This is a step back from previous European Council statements on convergence, which are also part of the acquis. The following extract from the Presidency Conclusions of the Dublin European Council is relevant:

''The European Council, reaffirmed the conclusions reached at their meetings in Brussels and Paris that achievement of the convergence of economic performance requires measures for which the Member States concerned are primarily responsible, that Community policies can and must play a supporting role within the framework of increased solidarity and that steps must be taken to strengthen the economic potential of the less prosperous countries of the Community''.

''To these ends the European Council expressed its determination to promote the adoption of measures to

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improve the working of Community policies, to reinforce those policies most likely to favour the harmonious growth of the economies of the Member States and to reduce the disparities between those economies. They further declared the need, particularly with a view to the enlargement of the Community and necessary provisions for Mediterranean agriculture, to strengthen Community action in the structural field''.

French Delegation

DRAFT SUMMARY OF CONCLUSIONS OF THE EUROPEAN COUNCIL

(UNOFFICIAL TRANSLATION)
(Original French version attached)

GENERAL PRINCIPLES

Taking up the questions raised by the British Government regarding the operation of the Community budget, the European Council established the following points:

1. No Member State is asking or proposing that the basic principles and rules of Community law as at present defined should be changed. They all affirm their confidence in the value of those principles and rules and their intention to ensure that they are observed.

2. This applies in particular to the budget.

a) Its financing is based on the existence of resources which belong to the Community in its own right and cannot be regarded as contributions from the Member States. These "own resources" are primarily made up of customs duties and agricultural levies. This reflects the fact that the Member States have chosen to base their enterprise on a common market, according preferential treatment to their industrial and agricultural products in relation to those from third countries. The resources are supplemented, in so far as is necessary, by drawing on VAT revenues, subject to a limit of 1%.

The "own resources" system is therefore not a means of sharing financial burdens among the Member States.

b) The resources as a whole are intended to provide for the financing of Community expenditure. Such expenditure is effected in pursuance of specific policies decided on by the Council.

c) No provision of Community law either provides for or justifies any allowance being made for a comparison between the expenditure effected in each Member State and the "own resources" derived from that State.

3. (1) This also applies to the Common Agricultural Policy. (2) Recalling the statements it has made on this point on several occasions the European Council solemnly reaffirms the importance it attaches to this policy, on which the livelihood and the future of a large part of the Member States' population depend.

(3) It recalls that, within the Community, the Common Agricultural Policy has a special character: it is the precondition, within the agricultural sector, for the free movement of goods.

(4) The policy must seek to achieve all the objectives assigned to it by Art 39 of the Treaty of Rome and observe the principles of free movement, unity of price, financial solidarity and Community preference.

(5) These principles, which are indivisible, must be upheld and reaffirmed.

(6) Community preference, being essential to the existence of a common market, can only be subject to limited, temporary derogations the justification for which requires reexamination from time to time.

(7) The Community must be able, through an active export policy for agricultural products and foodstuffs, to contribute to the satisfaction of ever-growing world food requirements and to participate fully in international trade in those products.

(8) It is within this general framework, especially in view of prospective enlargement, that we must continue the efforts we are already making to achieve structural improvement, and undertake determined action to

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establish greater control of the financial cost of the Common Agricultural Policy, particularly in the surplus sectors.

(9) This action must be based on more efficient management and a prudent price policy. It will be reinforced by the producers taking a greater share of responsibility for dealing with surpluses, with due regard for the importance of giving priority to exploitation of the Community's natural resources and ensuring that family-type holdings are maintained.

4. It is in the common interest that the opportunities for economic and social development of each Member State should be exploited to the full. Responsibility for the policies to be pursued with this end in view lies primarily with the States. But effective coordinati of those policies within the Community is essential. Action taken at Community level can and must promote those policies and reflect enhanced solidarity, with the aim in particular of reducing any disparities which may exist between the various regions of the Community, enabling those that are less prosperous to progress towards the economic and social achievements of the more advanced. It is therefore essential that in the future an increasing share of the Community's resources can be used to attain this objective.

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Mr Gorderough ✓ Mr ...
Mr ...
Mr ...

PROJET DE RELEVE DE CONCLUSIONS
DU CONSEIL EUROPEEN

PRINCIPES GENERAUX

En abordant l'examen des questions soulevées par la Gouvernement britannique à propos du fonctionnement du budget communautaire, le Conseil européen a fait les constatations suivantes :

1. Aucun Etat membre ne demande ni ne propose de modifier les principes et les règles de base du droit communautaire tels qu'ils sont actuellement définis. Tous affirment leur confiance dans la valeur de ces principes et de ces règles et leur volonté d'en assurer le respect.

2. Ceci s'applique en particulier au budget.

a) Son financement repose sur l'existence de ressources qui appartiennent en propre à la Communauté et qui ne peuvent être considérées comme des contributions des Etats membres. Ces ressources propres sont en premier rang constituées par les droits de douane et prélèvements agricoles. Ceci traduit le choix qu'ont fait les Etats membres de fonder leur entreprise sur un marché commun, privilégiant leurs produits industriels et agricoles par rapport à ceux des pays tiers. Ces ressources sont complétées, en tant que de besoin, par le recours à la TVA dans la limite de 1% .
Le système des ressources propres n'est donc pas un instrument de répartition de charges financières entre les Etats membres.

b) L'ensemble de ces ressources est destiné à assureer le financement des dépenses communautaires. Celles-ci sont effectuées en exécution de politiques spécifiques décidées par le Conseil.

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c) Aucune disposition du droit communautaire ne prévoit ni ne justifie que soit prise en considération une comparaison entre les dépenses effectuées dans chaque Etat membre et les ressources propres en provenance de celui-ci.

3. Ceci s'applique également à la politique agricole commune.

Rappelant les déclarations qu'il a faites à plusieurs reprises sur ce point, le Conseil européen réaffirme solennellement l'importance qu'il attache à cette politique dont dépendent la vie quotidienne et l'avenir d'une large partie de la population des Etats membres.

Il rappelle que la politique agricole commune a, dans la communauté, un caractère spécifique : elle est la condition dans le secteur agricole de la libre circulation des produits.

Cette politique doit répondre à l'ensemble des objectifs que lui assigne l'article 39 du Traité de Rome et satisfaire aux principes de la libre circulation, de l'unité des prix, de la solidarité financière et de la préférence communautaire.

Ces principes qui ont un caractère indivisible doivent être maintenus et réaffirmés.

Inhérente à l'existence d'un marché commun, la préférence communautaire ne saurait faire l'objet que de dérogations limitées, temporaires et dont la justification doit être réexaminée périodiquement.

La Communauté doit être en mesure, par une politique active d'exportation agro-alimentaire, de contribuer à la satisfaction des besoins alimentaires mondiaux sans cesse croissants et de participer pleinement au commerce international de ces produits.

C'est dans ce cadre d'ensemble qu'il convient de poursuivre, notamment dans la perspective de l'élargissement, l'effort d'amélioration structurelle déjà entrepris et d'engager une action résolue pour établir un meilleur contrôle

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du coût financier de la politique agricole commune, en particulier dans les secteurs excédentaires.

Cette action doit reposer sur une gestion plus efficace et une politique de prix prudente. Elle sera renforcée par une participation accrue des producteurs à la prise en charge des excédents, en tenant compte de l'intérêt qui s'attache à valoriser en priorité les ressources naturelles de la Communanté et à assurer le maintien des exploitations de type familial.

4. Il est de l'intérêt commun que les possibilités de développement économique et social de chaque Etat membre soient exploitées au mieux. La responsabilité des politiques à mettre en oeuvre dans ce but relève en premier lieu des Etats. Mais il est essentiel que ces politiques soient coordonnées efficacement au sein de la Communauté. Les actions mises en oeuvre au niveau communautaire peuvent et doivent soutenir ces politiques et exprimer une solidarité accrue, visant notamment à la réduction des disparités qui peuvent exister entre les diverses régions de la Communauté et permettant aux moins prospères de se rapprocher des réalisations économiques et sociales des plus avancées. Il importe donc qu'à l'avenir une part croissante des moyens d'action de la Communauté puisse être utilisée pour atteindre cet objectif.

long way back from earlier E. Unité statements

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COREPER (AMBASSADORS), 24 APRIL: EUROPEAN COUNCIL PREPARATIONS: CONVERGENCE AND BUDGETARY QUESTIONS

SUMMARY

1. FRENCH TEXT CRITICISED BY MAJORITY OF DELEGATIONS AND COMMISSION. IT WILL NEVERTHELESS BE PUT INTO EUROPEAN COUNCIL DOSSIER, ACCOMPANIED BY A RECORD OF THE MAIN CRITICISM MADE BY DELEGATIONS.

DETAIL

2. NANTEUIL INTRODUCED THE FRENCH TEXT AT LENGTH, STRESSING THAT A REAFFIRMATION OF PERMANENT COMMUNITY PRINCIPLES WAS PARTICULARLY APPROPRIATE AT A TIME WHEN THE EUROPEAN COUNCIL WAS AGREEING TO TEMPORARY LIMITED ASSISTANCE TO THE UK. THERE WAS THEN A TOUR DE TABLE. POSITIONS TAKEN BY MEMBER STATTES ON DIFFERENT SECTIONS OF FRENCH TEXT ARE RECORDED SUMMARILY BELOW. I SPOKE LAST AMONG NATIONAL DELEGATIONS, AFTER MANY OF OUR CRITICISMS HAD ALREADY BEEN MADE BY OTHERS. NOEL (COMMISSION) ALSO SPOKE HELPFULLY, AND AS A RESULT HAD HSI INTEGRITY GRATUITUOUSLY CRITICISED BY NANTEUIL.

GENERAL

3. ALL DELEGATIONS COULD AGREE TO A REAFFIRMATION OF BASIC COMMUNITY PRINCIPLES. BUT A NUMBER (BELGIUM, NETHERLANDS, GERMANY AS WELL AS THE UK) SAID THAT THE TEXT CONFUSED STATEMENTS OF PRINCIPLE WITH ASSERTIONS OF POLICY WHICH WERE NOT IN ALL CASES AGREED. GERMANY, BELGIUM, NETHERLANDS AND THE UK SAID THE TEXT WAS TOO ''INTROVERTED'': THE COMMUNITY'S OUTWARD-LOOKING NATURE AS EMBODIED IN ARTICLE 110 OF THE TREATY SHOULD BE REAFFIRMED. ONLY DENMARK AND IRELAND WHOLEHEARTEDLY SUPPORTED THE FRENCH TEXT. SEVERAL DELEGATIONS SAID THAT IT WAS FOR THE PRESIDENCY TO PRODUCE DRAFT CONCLUSIONS FOR THE EUROPEAN COUNCIL.

OWN RESOURCES

4. BELGIUM:- CRITICISED PARAGRAPH 2(C) AS TOO NEGATIVE. IT WAS LEGITIMATE TO TAKE ACCOUNT OF MEMBER STATES' NET CONTRIBUTIONS TO MEET EXCEPTIONAL CASES AND THE TEXT SHOULD SAY SO.
NETHERLANDS:- PARAGRAPH 2(A) WENT BEYOND A STATEMENT OF COMMUNITY

/PRINCIPLES.

PRINCIPLES.
LUXEMBOURG:- AGREED WITH BELGIUM ON 2(C) : THE TEXT SHOULD RATHER SAY THAT ''A COMPARISON OF CONTRIBUTIONS AND RECEIPTS DID NOT NECESSARILY REFLECT THE BENEFITS OF COMMUNITY MEMBERSHIP TO MEMBER STATES''.
GERMANY:--SUGGESTED A REFERENCE TO THE 1 PER CENT VAT LIMIT, BUT NETHERLANDS LUXEMBOURG AND OTHERS ARGUED THAT THIS WAS NOT A PRINCIPLE.
UK:- I SPOKE AS AGREED REJECTING FIRST SENTENCE (SECOND HALF) OF 2(A), LAST SENTENCE OF 2(A) AND 2(C), CITING 1974 DECLARATION ON UNACCEPTABLE SITUATIONS.
ITALY:- SUPPORTED UK AND CRITICISED 2(C). NET CONTRIBUTIONS RELEVANT TO ASSESSING ''UNACCEPTABLE SITUATIONS''.
COMMISSION:- 2(C) INACCURATE: CONTRADICTED BY ARTICLE 2 OF TREATY, ARTICLES 129- 131 OF ACCESSION TREATY AND NET TRANSFER CONCEPT IN FINANCIAL MECHANISM. LAST SENTENCE OF 2(A) ALSO INACCURATE: ECONOMIC INCIDENCE HAD BEEN A FACTOR IN CHOICE OF VAT AS AN OWN RESOURCE. MORE GENERALLY THE QUESTION OF FINANCIAL BURDENS COULD NOT BE IGNORED.

CAP
5. GERMANY:- FRENCH TEXT TOO WEAK ON ECONOMY MEASURES. CONCLUSIONS OF FEBRUARY ECO/FIN COUNCIL SHOULD BE REPEATED. THE EUROPEAN COUNCIL MUST DIRECT THE AGRICULTURE COUNCIL TO DECIDE ON PRICES AND ON AN ENLARGEMENT OF THE CORESPONSIBILITY LEVY.
BELGIUM:- THE REFERENCE TO ''EXPORT VOCATION'' A STATEMENT OF POLICY NOT PRINCIPLE AND NOT GENERALLY ACCEPTABLE. STATEMENT ON COMMUNITY PREFERENCE TOO NEGATIVE. SOME DEROGATIONS HAD BEEN AGREED MORE OR LESS PERMANENTLY IN RESPONSE TO IMPERATIVES OF COMMUNITY'S EXTERNAL POLICY. NETHERLANDS AND LUXEMBOURG :- COULD NOT ACCEPT ''EXPORT VOCATION'' OR TEXT ON COMMUNITY PREFERENCE, QUOTING ACP AND ASSOCIATION AGREEMENTS.
UK:- AGREED WITH BENELUX ON '' EXPORT VOCATION'' AND COMMUNITY PREFERENCE: IN PARTICULAR POLICY ON EXPORTS HAD TO TAKE ACCOUNT OF COSTS AND EFFECT ON WORLD MARKETS. REJECTED THE VIEW THAT FREE CIRCULATION DEPENDENT ON A COMMON POLICY, CITING EUROPEAN COURT RULINGS. REJECTED FIFTH SUB-PARAGRAPH ON ''INDIVISIBILITY''. SUPPORTED REFERENCE TO ECO/FIN COUNCIL CONCLUSIONS ON ECONOMICS. REJECTED LAST SENTENCE ON CORESPONSIBILITY LEVY AS PREJUDGING POLICY ISSUES BEFORE AGRICULTURE COUNCIL.
COMMISSION :- CRITICISED SENTENCE ON FREE CIRCULATION AS NOT IN ACCORDANCE WITH JUDGMENT OF THE COURT. FRENCH DOCTRINE ON COMMUNITY PREFERENCE NOT IN ACCORDANCE WITH ARTICLE 110.

CONVERGENCE
6. BELGIUM:- THIS SECTION SHOULD BE COMPLETED BY A REFERENCE TO

THE DYNAMIC DEVELOPMENT OF THE COMMUNITY, IE NEED FOR NEW POLICIES.
UK AND COMMISSION:- TEXT NOT STRONG ENOUGH. I REFERRED TO 1979 EUROPEAN COUNCIL CONCLUSIONS.
NETHERLANDS:- A REFERENCE TO ARTICLE 2 OF THE TREATY WOULD BE APPROPRIATE.

7. IN SUBSEQUENT DISCUSSION PRESIDENCY AGREED THAT FRENCH TEXT WOULD BE IN EUROPEAN COUNCIL DOSSIERS TOGETHER WITH NOTE OF DELEGATION'S COMMENTS ON IT.

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REF C

STATEMENT OF ECONOMICS & FINANCE COUNCIL OF 11 FEBRUARY

11.II.80

~~FINAL~~ FINANCIAL IMPLICATIONS OF THE COMMON AGRICULTURAL POLICY

I. The Council, bearing in mind the conclusions of the European Council in Dublin, took note of the proposals made by the Commission on 4 December 1979 for improving the common agricultural policy with a view to helping to balance the markets and streamlining expenditure. It approved the Commission's objective of resolving the specific problems arising, in the interests of safeguarding the common agricultural policy and its economic and social merits, while respecting its principles and taking account of current budgetary difficulties. This goal presupposed substantial savings and a prudent price policy.

II. The Council considered it to be desirable that the discussions on the Commission's proposals should be guided by the following principles:

1. An improvement of the common agricultural policy with the aim of considerably reducing the growth rate of agricultural expenditure was absolutely essential also in order to ensure that the 1% own resources limit was not exceeded, having regard to the resources required for other policies.

2. Subject to the examination of the assessment announced by the Commission of the foreseeable development of market organization expenditure in the event of its proposals

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being implemented and taking growth in expenditure over the last few years as a basis, it would be necessary to take measures leading to substantial savings, reaching the order of magnitude proposed by the Commission.

3. In this connection, the Council was of the opinion that the measures should be directed particularly at surplus products; it requested the Commission to see whether further savings might be achieved by means of the more efficient use of the market organization instruments.

III. The Council requested the Permanent Representatives Committee and the AGRI/FIN Working Party to continue examining the financial aspects of the improvement of the common agricultural policy and to report back to the Council at the very earliest opportunity, in preparation for further discussions.

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SECRET

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EHG(L)(80)3 COPY NO. 1

20 April 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

E C BUDGET CONTRIBUTION

Brief by HM Treasury

The Brief on the EC Budget Contribution is attached.

H M Treasury

20 April 1980

SECRET

INDEX TO BRIEF EHG(L)80(3)

INDEX (contd) Page

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

EC BUDGET CONTRIBUTION

Brief by HM Treasury

/Note: Additional briefing may need to be submitted following meetings of the Council of Ministers and other preparatory meetings during the week before the European Council./

OBJECTIVE

1. To achieve a satisfactory settlement on the UK net budget contribution. If this is unattainable, to achieve sufficient progress towards a final settlement in June to satisfy domestic opinion.

2. More specifically to achieve:

i) endorsement in principle of the Commission's proposal for a Regulation under Article 235 governing expenditure in the UK, including endorsement of the proposed categories of expenditure; and instructions to the Commission to bring forward a draft;

ii) agreement on the amount to be spent in the UK under the Article 235 Regulation in 1980;

iii) acceptance that the Regulation must last for 6 years;

iv) acceptance that the Regulation must provide for the amount agreed for 1980 to be "dynamised" for subsequent years;

v) confirmation that the constraints in the 1975 Financial Mechanism will be removed, and instructions to the Commission to bring forward a draft Regulation;

vi) commitment to the Community concentrating its efforts on restructuring the budget.

GENERAL POINTS TO MAKE ON THE BUDGET ISSUE AS A WHOLE

i) The Commission have prepared useful papers. Their revised figures show that the UK problem is even worse than was thought at Dublin. Net contribution in 1980 now estimated at 1683 (importer pays basis) or 1813 meua (exporter pays) on the basis of a lean budget proposed by the Commission and not yet accepted by the member Governments. The eventual outcome could be worse for us.

ii) The UK fully accepts its own primary responsibility for ensuring that its economy contributes to the overall performance of the Community, as agreed at Dublin. The Government is determined to turn the UK economy round and has embarked on firm policies which have been welcomed by our partners. The Budget on 26 March reaffirmed those policies. Public Expenditure cuts have bitten deeper than in other Community countries and mean that programmes are falling in real terms. The cuts have been unpopular but necessary. The Government will not be deflected from its course.

iii) But the Government must take account of rising popular resentment at the level of the UK net contribution to the EEC budget. Cannot gain acceptance for the necessary cuts in public expenditure while the contribution to Europe is so obviously inequitable. Very strong feeling by both major parties in Parliament. If a crisis is to be avoided, the net contribution question must be settled. This issue is hampering the development of the Community as a political force in a dangerous world.

iv) We believe a solution can be reached at this meeting. As to means, the Commission's proposals are acceptable. We agree that a solution lies in a combination of a revised Financial Mechanism and a new Regulation under Article 235 governing expenditure in the UK.

v) There now needs to be agreement on the amount to be provided for 1980; and on an arrangement to ensure that the solution reached by the Council lasts as long as the problem ie until the restructuring discussed at Dublin comes about. Otherwise the Council risks having to return to the UK problem again and again.

vi) The sooner restructuring can be achieved the sooner the UK net contribution problem will disappear. We suggest the Community should aim to reduce expenditure on the CAP guarantee section to 55% of the budget by 1986.

ARTICLE 235 REGULATION

Points to Make

i) We accept the approach of an Article 235 Regulation proposed by the Commission for the reasons given in their paper COM(80)50 of 30 January (Reference A).

ii) We accept that expenditure under this Regulation should "contribute to the realisation of the objectives of the Community" (paragraph 10 of the more recent Commission paper COM(80)147 of 20 March 1980 - Reference B). We are particularly glad to see Northern Ireland mentioned (paragraph 19 of Reference A). This Community expenditure would be of great assistance to the Government's efforts to restore the economy of that troubled province and enable it to play its rightful part in the Community. But increased Community expenditure in other assisted areas of the UK will be of considerable help to their development. Other possibilities mentioned by the Commission - eg measures to link the UK more closely to the rest of the Community - should also be of considerable interest to the EEC as a whole. We hope the Council will endorse the categories of expenditure proposed in the Commission paper COM(80)50 (Reference A). In accordance with the final paragraph of the paper, UK officials have discussed details of possible programmes with the Commission, and we believe there is a basis for a satisfactory arrangement. We note that the latest Commission paper COM(80)147, paragraph 11 (Reference B) says that "it is already evident that whatever resources the European Council may decide to provide for this purpose could be fully used in accordance with the principles and criteria set out".

iii) /If raised./ We fully understand the position of Italy and Ireland as the two less prosperous member-states than ourselves.

iv) The first question is the amount for 1980. The Commission's figures show that a reformed Financial Mechanism would reduce the UK's net contribution in 1980 by about 500 meua net. We would have received 250 meua under the existing Mechanism, so Member Governments would only have to find 250m of new money under this head. But the Commission's latest figures show an estimated UK net contribution in 1980 of 1683-1813 meua. So even after the Financial Mechanism relief, we would be left with a net contribution of around 1200-1300 meua.

v) We have re-examined our position in a spirit of compromise, as we undertook at Dublin. We are ready to be modest net contributors. The question is how to decide what is reasonable. We suggest that our net contribution should be lower than that of the next member state above the UK in prosperity after net contributions have been adjusted to take account of the revised UK net contribution. Our net budgetary contribution might appropriately be in the same ratio to the net contribution of that member state as the ratio between our respective GNP per head.

vi) The amount of expenditure in the UK under the Article 235 Regulation in respect of 1980 should be the sum required to reduce our net contribution to the agreed figure. It should be disbursed before April 1981 (see page 22).

The Problem of Future Years

vii) The second question concerns the years after 1980. We are concerned lest our net contribution could once again grow to inequitable proportions unless the Council takes steps at the outset to avoid this. Others will be anxious to ensure that we do not receive excessive benefit as restructuring takes effect. Having agreed a solution for 1980, we are sure our partners do not want to have to return to the problem. And if the UK is faced with the problem again before the next General Election all the issues concerning membership of the Community could be raised again.

viii) So we agree with the Commission that "it can be to the advantage of no-one to see an early recurrence of present difficulties" (COM(80)147 paragraph 14). We also agree that the period of operation of the new Regulation should be the same as the next period of operation of the Financial Mechanism, and that the legislation covering both actions should contain provision for a review well before their expiry. And we agree that "the aim of the review would be to examine the effectiveness of the actions taken in the framework of progress towards a better balance between Community policies and expenditure" (COM(80)147 paragraph 14).

ix) We propose that the two pieces of legislation should be reviewed after six years. This would follow the precedent of the existing Financial Mechanism, which provides for a review after six years. It would also allow the review to take account of progress towards restructuring the budget - we are proposing that 1986 should also be the target year for this. Finally, it should avoid the matter becoming a major issue at the next Election.

x) But over a six year period starting from 1980, there must be more than a simple provision for a flat rate of expenditure in the UK each year. This would place entirely on the UK the risks arising from inflationary pressures and the increase in the Community budget which, even within the 1% VAT limit, will inevitably rise along with the level of own resources. We believe these risks should be shared, rather than fall on the UK alone.

xi) We want to devise an objective formula directly related to the problem itself; one which ensures that we neither receive too little nor too much. We believe the best solution might be to provide in the new Regulation that in each year subsequent to 1980 expenditure under the Regulation will be carried out to the extent required to bring the UK's receipts per head up to the same proportion of the Community average as is implied by the amount agreed for 1980. This does not involve a "juste retour" since the UK would remain a net contributor.

xii) /If others express dislike of automatic formula7
How else can we avoid an early recurrence of the problem? The Commission are surely right in saying this would be to no-one's advantage.

xiii) /Fall-back position, possibly for second day7
Either accept provision for review of the amount payable in any year if our net contribution rises by more than /100 meua7 from the adjusted 1980 level.

OR propose the Commission study alternative ways of ensuring the problem does not re-emerge in future years, and report back. But insist that some way must be found.

Procedure

xiv) The Commission should bring forward a draft Regulation giving effect to what has been agreed. The draft should contain the Commission's proposals for the role of the Council and other Community institutions in administering the arrangements. But we must not create a new bureaucracy, and the expenditure must be quick-acting if the UK problem is to be alleviated.

DEFENSIVE

i) /Others may suggest that if the Article 235 Regulation provides for the amount of expenditure in each subsequent year to be such as to bring our receipts per head to the same proportion of the Community average as is implied by the sum agreed for 1980, the UK will have no interest in the outcome of Community policy and budget negotiations./ This is nonsense. As a full and responsible member of the Community, we shall continue to play our full part in these matters. We have already made a firm quantified proposal for restructuring the budget, which no other member state has done. And we shall continue to be affected by the growth of the Community budget because we would pay our GNP share of it under the reformed Financial Mechanism.

ii) /If the point at (i) is pressed/ We are prepared if this is essential to examine alternative formulae which would solve the problem and leave the UK with an obvious incentive on the receipts side also to have a financial interest in the development of Community policies. Propose that the Commission should examine such alternative possibilities.

BACKGROUND

1. Article 235 permits the Council to take measures to attain an objective of the Community, where the Treaty has not provided the necessary powers. The 1975 Financial Mechanism is itself a Regulation under this Article.

2. The Commission's proposal is for a new Regulation under Article 235 to provide for increased expenditure in the UK to "contribute to the realisation of the objectives of the Community" (paragraph 10 of COM(80)147 - Reference B). "The basic concept is of a special, temporary and ad hoc action in the shape of a number of expenditure programmes within regions of the UK" (paragraph 11 of COM(80)147).

3. The Commission propose that in the first instance special investment programmes in the assisted areas should be developed. But they suggest that to meet particularly serious cases, or where there is a special Community interest, programmes outside these areas could be assisted. We welcome this. For example it would enable programmes to tackle urban decay outside the assisted areas to be part-financed by the Community. We also endorse the Commission's belief (paragraph 11 of COM(80)147) that "whatever resources the European Council may decide to provide for this purpose could be fully used in accordance with the principles and criteria set out". In discussions with the Commission, we have established that there

is no shortage of UK programmes eligible for Community assistance. Northern Ireland is clearly one promising area, and was specifically mentioned by the Commission in their earlier paper COM(80)50 (Reference A).

Additionality

4. It is our firm intention that this new Community expenditure in the UK should not give rise to additional public expenditure in the UK. This is a delicate point with the Commission, though privately they are sympathetic. Overt debate of the additionality point would not help the Commission and should be avoided. If it is raised, we should point to the statement at paragraph 19 of Commission paper COM(80)50 (Reference A): "This additional contribution should help the UK in the efforts it is already making in some of these fields". We are pursuing detailed discussions within that framework. Unless our net contribution is reduced, our regional programmes may have to be cut.

Italy and Ireland

5. Italy and Ireland are likely to request compensation for their share of the UK's refund, except that Italy (but not Ireland) has said she is prepared to bear her share of the refund to the UK under the revised Financial Mechanism (this would be around 70 meua).

6. This is not strictly a matter for the UK, but it would be tactically wise to give some support to these countries early in the discussion if the point is raised.

7. The compensation could <u>either</u> be paid through increased expenditure in Italy and Ireland under A.235 Regulations on similar lines to the one proposed for the UK, <u>or</u> through an increase in the interest-rate subsidies they already enjoy through membership of the EMS exchange rate regime. The UK would contribute to the former but not the latter. The Commission prefer the latter channel and it is clearly better from our point of view; but the amount involved is not large (around 25 meua).

<u>Amount</u>

8. Most of our partners seem prepared to contemplate <u>total</u> relief to the UK of around 1000 meua, including the amount payable under the revised Financial Mechanism. If all restrictions in the existing Mechanism are removed, the Commission estimate that the UK would receive nearly 500 meua through this route in 1980. So total relief of 1000 meua would imply expenditure of a further 500 meua under the new Regulation.

9. Only the Dutch have been prepared to mention (without commitment) a figure as high as 1200 meua. Mr Jenkins appears

to have hinted at the possibility of a settlement at around 1150 meua. The last figure mentioned informally some weeks ago by the French was 750 meua: since then they have not been prepared to discuss a figure.

10. The Commission's March 1980 estimates of the net contributions of member states (COM(80)147 - Reference B) assume acceptance of the Commission's revised proposals for the 1980 budget, which have not yet been accepted by member states or the Parliament. To the extent that they are exceeded, the UK position would worsen.

11. The Commission's estimate of 1683 meua (importer pays basis) for the UK net contribution in 1980 may therefore prove to be too low. But on this basis, the formula at point (v) of the points to make (page 7 above) would lead to the UK net contribution for 1980 being adjusted down to 269 meua. This would put our net contribution in the same ratio to that of France as our respective GNP per head. The figures are given in detail at Table A on page 49, which also shows the effect on other member states of each increase or decrease of 100 meua in the UK net contribution from this starting point.

12. To achieve a UK net contribution of 269 meua in 1980, net expenditure under the new Regulation would need to be at least 920 meua this year.

13. The French may raise detailed reservations about the Commission estimates. Officials accompanying the Prime Minister will be supplied with detailed briefing for use if necessary.

Future Years

14. While our partners have in recent weeks seemed prepared to move towards us on the amount for 1980, they have not shown a similar readiness to take steps to prevent the UK problem from re-emerging in future years.

15. The Commission have said "It can be to the advantage of no-one to see an early recurrence of present difficulties" (COM(80)147 paragraph 14 - Reference B). They have proposed that the new measures to assist the UK should be limited in time "perhaps to 3 or 4 years", with provision for a review well before their expiry.

16. There is little possibility that restructuring of the budget (which in the longer term should remove the cause of the UK problem) can be successfully achieved within 3 or 4 years. Such a timescale might also coincide with the run-up to the next General Election. Since calendar year 1980 will be the first year covered by the Regulation, a period of 3 or 4 years would mean that the Regulation would expire at the end of 1982 or 1983.

17. The French have not even been prepared to go as far as the Commission. They are likely to argue that the problem is essentially temporary, and that the expenditure in the UK under Article 235 should be a fixed sum per year for 2 years with no provision for review. Others may be prepared to accept three (possibly four) years, but are likely to agree that the amount should be at a flat rate for each year.

18. On duration, the Regulation needs to last for at least 5 years (ie 1980-1984 inclusive) to avoid the whole question becoming a major issue in the next Election. But since the process of review will no doubt start well before the Regulation expires, the Regulation should last for six years to avoid any risk of the review clashing with the next Election. The Commission have proposed that the new Regulation and the revised Financial Mechanism should be reviewed at the same time. A review of both after six years would follow the precedent of the 1975 Financial Mechanism, which provided at that time for a review after six years. It would also enable the review to take account of progress towards the restructuring target for 1986 we have proposed.

19. As a fallback we could accept a review during the sixth year (ie in 1985). But any suggestion that the issue is a

purely temporary British problem should be rejected. It is a problem arising from failure to structure the budget in a properly balanced way, and should concern the Community as a whole. Short-term palliative solutions are wholly inappropriate.

20. The Commission have proposed that the review should examine the effectiveness of the action taken in the framework of progress towards a better balance between Community policies and expenditure within the budget. We can accept these general terms of reference.

"Dynamism"

21. If we get our way on the duration of the new Regulation, there remains the problem that a fixed annual sum could lead to the UK's net contribution again reaching unacceptable levels well before the arrangements are reviewed overall. Without some provision to "dynamise" the amount agreed for 1980, all the risks arising from inflation and other upward pressures on the Community budget would fall on the UK. The 1% VAT ceiling may limit these risks from 1981, but it will not eliminate them.

22. Equally if we get a sufficiently large amount to meet our needs, the others will want to ensure that budget restructuring, as it takes effect, does not put us into

surplus. The formula should be devised so as to ensure that the UK is paid neither too much nor too little; and leave the UK with a clear incentive to continue to take an interest in the outcome of Community financial policies (though we should repudiate the suggestion that we would not do so).

23. The formula we propose is that the Regulation should provide that, in each year subsequent to 1980, expenditure under the Regulation would be carried out to the extent required to bring the UK's receipts per head up to (but not above) the same proportion of the Community average as is implied by the amount agreed for 1980. This formula has not so far gained acceptance in the Community so it would be best to introduce it after a frank exposition of the problem and an invitation to our partners to help in the search for a solution.

24. If this formula proves unattainable, the Prime Minister will have three basic alternatives:

i) to invite the Community to reflect on our proposal and to consider it again at the next European Council;

ii) to suggest that the Commission should study our proposal and alternative possibilities, and report. The terms of reference of such a remit might be on the following lines: "The European Council invites the Commission to make proposals, before its next meeting in June, to ensure that the solution to the problem reached today does not result in a reappearance of a similar unacceptable situation in a later year during the period of operation of the proposed new regulation ";

iii) to say we are prepared to consider relying on flat rate payments each year at the level initially agreed, provided that level is sufficiently high. But there must also be a clear provision that the Council must review the amount payable, on the basis of a Commission proposal, if in any subsequent year before the general review of the Regulation the UK net contribution rose by more than 100 meua (say) above the adjusted level for 1980 (we could add "or falls" to make this more attractive). We would aim to tie the Council down as far as possible by writing into the Regulation that in acting on such reviews the Council (not just the Commission) must have regard to the principles underlying the settlement for 1980. We shall aim to get these set out in the Preamble to the Regulation itself.

25. If our partners will not accept any of these proposals (including (i) above) a position of impasse will be reached (see page 33).

26. If proposal (ii) - remit to the Commission - proves acceptable, we would aim to feed in our own suggestions for alternative formulae for achieving "dynamism". These would include:

i) A provision guaranteeing that the amount of expenditure in the UK each year will be equal to x% of the ex ante net UK budget contribution; <u>or</u>

ii) A provision that the UK net contribution would not exceed that of the next richest country /by more than Y meua/ whether that country's net contribution was positive or negative (this would provide a valuable safeguard for the UK, and would base the repayment to us on an objective criterion rather than a bargained formula); <u>or</u>

iii) A provision <u>indexing</u> the amount to be spent in the UK each year to some independent yardstick eg the level of budget expenditure. Such a formula could get round the objection to our preferred formula that it diminishes the incentive on the UK to take an interest in the financial outcome of Community policies. But it would not be so directly related to the problem: this could be a disadvantage to our partners as well as the UK.

Details of the Regulation

27. Once the European Council has reached agreement on the broad principles, it will be for the Commission to bring forward a Regulation to give effect to them. At this stage the French are likely to try:

i) to delay adoption of the Regulation by raising detailed points on its text - thus delaying disbursement of funds in the UK; and

ii) to restrict the benefit to the UK by insisting on a prominent role for the Council in administering the arrangements, and using their position on the Council to frustrate the operation of the scheme.

28. To guard against this as far as possible, it is important to establish certain general points at the outset:

i) the Regulation must be quick-acting. The agreed sum for 1980 must be disbursed in the UK before April 1981 (ie within the UK financial year 1980/81). The same principle should apply to subsequent years;

ii) we are prepared to consider any proposals the Commission may make for an appropriate role for the Council and other Community institutions in administering the Regulation, but we must avoid creating unnecessary bureaucracy. Once the European Council has agreed the amount payable and the scope of the Regulation, there will be no need to make these matters subject to Council approval;

iii) we need to avoid subsequent argument about such points as whether our contribution to our own relief under the new Regulation should be taken into account in assessing our relief through the Financial Mechanism (it should be); and whether our refunds under the Financial Mechanism in one year, plus supplementary expenditure under the new Regulation, should be taken into account in calculating our per capita receipts for the purposes of applying the Article 235 Regulation in the following year (they should not). These points will have to be followed up afterwards. It is important that the Prime Minister should make clear that we are not prepared to make an overall net contribution beyond a certain level.

FINANCIAL MECHANISM

Points to Make (ii(a) and (b) preferably to be introduced at a late stage)

i) We agree with the recommendations by the Commission for revision of the 1975 Mechanism (paragraph 8 of COM(80)50).

ii) It was agreed at Dublin that the adaptation of the Financial Mechanism could provide a basis for a solution to the problem. The Council should therefore ensure that the new Mechanism is fully effective. Any amounts provided under a new Article 235 Regulation will be predicated on the Financial Mechanism playing its full part. To ensure this, the Commission will no doubt bring forward a Regulation to give effect to the removal of the balance of payments and other constraints, as agreed at Dublin. In addition, to ensure that the provisions do not have an arbitrary effect at some future date, we suggest:

a) the criterion that the Member State seeking a refund should have a GNP per head less than 85% of the Community average is no longer appropriate. There is no logic in this particular number. The revised Mechanism should simply provide for the Member State to have below average GNP per head;

b) the Commission might also look critically at the other detailed provisions to see if they still make sense.

iii) The Regulation should provide for a review after 6 years, following the precedent of the 1975 Mechanism. The review should take account of the progress made towards restructuring.

Background.

1. The present financial mechanism was set up in 1975 and was the principal outcome of the 1974-75 "renegotiation". It was designed expressly to correct a situation in which "A member state's economy ... is forced to bear a disproportionate burden in the financing of the Community budget", thereby creating "conditions incompatible with the proper functioning of the Community".

2. The mechanism refunds to a member state part of its excess gross contribution, ie the amount by which its share in Community revenues (including customs duties and agricultural levies) exceeds its share in Community GNP. The qualifying conditions were designed to ensure that only the UK ever benefitted. In fact, we have not yet done so, because the transitional arrangements have so far limited the UK's gross contribution to a level below that at which it would qualify.

3. In 1980, the UK should qualify for a refund of around 250 meua. But for the existing financial mechanism to provide worthwhile and assured relief it needs to be stripped of several of the conditions and restrictions that it at present contains:-

i. the balance of payments condition, under which a member state only qualifies for a worthwhile refund if its balance of payments has been in cumulative deficit over the three previous years;

ii. the tranche system, under which the excess contribution is refunded only in part, not in full; and

iii. the 3 per cent limit, which restricts any refund to 3 per cent of the total budget.

On the basis of the Commission's proposal, the Dublin Council agreed that abolition of these constraints "could constitute a useful basis for a solution". There is no logic in any of these restrictions, which were simply designed to cut down the potential cost of the Mechanism to other member states.

4. For the UK to be sure of qualifying in an enlarged Community, it is also important to amend the qualifying criteria:

i. by raising the GNP per head criterion from 85 per cent to "below" the Community average; and

ii. by modifying the condition that our gross share of contributions have to exceed by more than 10% our share of Community GNP.

5. There are also a number of other detailed provisions which were inserted in 1975 in order to restrict the Mechanism. Now that the severity of our problem has been recognised they also might be reviewed. We believe the Commission may be sympathetic to us on this provided they get the right general guidance from the Council.

6. The solution to the UK problem as a whole is predicated on our being able to qualify for a refund under the revised Financial Mechanism. So there is no sense in retaining these restrictive qualifications. Their abolition would <u>not</u> be dangerous in the context of enlargement. None of the new member states is likely to be a substantial net contributor.

7. The continuing strength of sterling coupled with our sustained high inflation rate inflates our GNP relative to other Community countries and gives rise to a risk that even on a market exchange rate basis of calculation we could be caught by the 85% rule in an enlarged Community.

8. The mechanism is financed through the Community budget. The UK therefore contributes to its own refund. Any amended version would probably be financed in the same way. We can accept this, but it is only the <u>net</u> benefit we get under the Mechanism that counts towards alleviating our budget problem.

Handling

9. The Prime Minister's position should be that the modifications discussed at Dublin are agreed. All except possibly the French are likely to accept this. The new points about the 85% qualification and the Commission examining the other provisions should be raised at a relatively late stage. The French may try to insist that some of the restrictions be retained. But the Prime Minister should maintain that the whole discussion of the new Article 235 Regulation is predicated on the UK getting the full benefit of an unrestrained Financial Mechanism. (More detailed briefing on possible French arguments will be supplied to officials accompanying the Prime Minister.)

STRUCTURAL REFORM

Points to Make

i) We fully support the proposal by the Commission COM(79)680 - Reference C) that a larger proportion of budgetary spending should be devoted to the improvement of structures. We note that the Commission will draw the attention of the Community to any failure to achieve a better balance between Community policies, and we urge the Commission to do this promptly and firmly (paragraph 6 of COM(79)680).

ii) We suggest that the Community should aim to reduce the proportion of the budget spent through the CAP guarantee section to 55% by 1986. The Commission should be invited to develop proposals to this end. Our calculations show that such a target would permit expenditure through the CAP guarantee section to maintain its value in real terms between now and 1986, when the expected growth of "own resources" (within the 1% ceiling) is taken into account. At the same time, it would permit a considerable expansion of expenditure through the existing (and possibly new) structural funds, including the CAP guidance section.

Background

1. The Commission urged the principle of structural reform in their paper COM(79)680 (Reference C). The Italians subsequently suggested there should be targets. We are now suggesting a target of 55% by 1986 for the proportion of the budget taken by the CAP guarantee section. This was one of the 6 points put to Sig Cossiga (reference D).

2. On reasonable assumptions about the growth of own resources (2% growth per year), and assuming that the 1% VAT ceiling is held, this target would still permit expenditure through the CAP guarantee section to be maintained in real terms, as the following table shows:-

(1980 Meua)

	1980 Budget COM(80)45	1986 Budget if Own Resources grow at 2% a year in real terms
Own Resources Ceiling	17,755	20,000
Total Budget	14,538	20,000
CAP Guarantee	$\boxed{10,400}$	
55% of total Own Resources	9.765	$\boxed{11,000}$

3. Estimates of the effect of enlargement on own resources and CAP costs suggest that it would still be possible to reduce the CAP guarantee share of the budget to 55% by 1986 without reducing the absolute level of CAP support for the existing Nine.

"LINKAGE"

Points to Make

i) The UK does not propose any "package deal". In our view our budget case rests on its own merits; and the other major issues currently facing the Community (eg CAP prices) should also be considered on their merits.

ii) But if other member states find it convenient to consider the major issues together, we do not object. We want to make progress on all the major issues, including our net contribution.

Background

Our line is that each of the current major issues should be considered on its own merits, but we are prepared to consider them at the same time if others want this. The French have increasingly been making a link between the budget issue and other major Community problems. If they choose to do this, we can use it to our advantage. We are prepared to allow some concessions (but not on all the issues concerned) provided we get a satisfactory budget settlement. [See separate briefs on agricultural prices, sheepmeat, fish and energy.] But if there is no agreement on our budget contribution, we should ensure that there is no agreement on the CAP price fixing or on sheepmeat.

DEADLOCK

Points to Make

In the event of failure to achieve the objectives on pages 1 and 2 above, or to open up any prospect of agreement, the Prime Minister could make a statement including the following points:

i) The response to the requests for equitable treatment put forward by the UK have been a sad reflection on the Community's ability to achieve the harmonious development required by the Treaty of Rome; and to be an effective, united force in its relations with the rest of the world.

ii) The UK is ready to continue the negotiations in a spirit of compromise if our partners are equally ready. But the failure to make substantial progress at this meeting will have hardened opinion in the UK.

iii) The economic prospects of the UK - let alone our overwhelming case for equitable treatment - make it intolerable for the UK to continue to bear this rapidly rising burden. There must be a solution to this issue at a political level through the normal process of Community discussion between partners.

iv) The UK has no intention of leaving the Community, boycotting its Institutions, or accepting any status other than that of a full member. But it is the essence of the Community to demonstrate a spirit of solidarity. The financial burdens placed on us are excessive and they cannot be squared with the undertaking given when we negotiated our accession. The failure to fulfil this undertaking will certainly lead to the British Government coming under considerable domestic pressure to withhold part of our contribution; and we shall with the greatest reluctance need to consider this possibility after the June Council if a satisfactory settlement is not reached there. Meanwhile we shall not spare our efforts to reach such a settlement.

DEFENSIVE POINTS

/Note: In addition to the points covered below, a Technical Annex to this brief will be supplied to all senior officials attending the European Council. This will cover further detailed points that may come up./

North Sea Oil

i) The UK's budget claim is based on the proposition that with the third lowest income per capita in the Community, we should not be the largest per capita net contributor to the Community budget. Whatever the facts of the case on North Sea oil, this is an inequitable, politically unacceptable and unsound basis for the financing of Community expenditure on common policies.

ii) North Sea oil's contribution to the UK economy is fully captured in the figures for GNP per head, which is generally recognised as the best available measure of capacity to pay in any context whether international or domestic. Obviously North Sea oil is a benefit to the UK; but we are not the only country with natural resources and unlike some other natural resources such as good agricultural land, oil is a wasting asset.

iii) North Sea oil contributed two and a half per cent of British GNP in 1979. Even at peak production in the mid-1980s we estimate that it will contribute only 6%. This is less than natural gas contributed to the Dutch economy in 1976-77 (6.5%); it is less than the share of UK GNP accounted for by construction, or by agriculture and food production. There are no grounds for supposing that it will alter the UK's relative position in the Community of Nine in terms of GNP per head at any stage in the life of the North Sea oilfields.

iv) Indeed Commission forecasts show that despite the benefit of North Sea oil, the immediate prospect for the UK economy is the bleakest in the Community. It faces a marked contraction of output (2% according to the Commission), compared with increases of over 2% forecast for Germany and France. Only the Danish economy is also expected to decline, but by a much smaller percentage than that of the UK.

v) The UK remains a predominantly manufacturing and trading country and a substantial consumer of oil. It is still a net importer of oil (and even at peak production will only be a small exporter). Its industries and consumers pay the full market price for oil and thus suffer as much as those in other member states from the depressive effects of higher oil prices. While we are net importers the effect of the dramatic increase in the price of oil has therefore been negative both on our balance of payments and on the resources available for domestic use in the economy.

vi) The rise in oil prices has transferred income from UK consumers to the oil companies (higher profits) and the Government (higher tax revenues). The increased Government revenues have been at the expense of consumer spending power and there has been no resource gain to the economy as a whole.

vii) In the immediate future the increase in PRT revenues will in any case be largely offset by the loss in other tax revenues resulting from the lower level of economic activity which higher oil prices have helped to bring about.

UK Trade Patterns and the Community Budget

/It is often alleged that our high contribution to the EC Budget is our own fault for importing too much from outside the Community./

i) Excessive payments to the EC account for only one-third of our budget problem - the greatest part arises from the low level of Community expenditure in the UK.

ii) Any suggestion that we are not 'playing the Community game' is without foundation. Our scrupulous implementation of 'Community preference' gives Community exporters a competitive edge in the UK market. We cannot compel traders not to buy outside the Community; it would contravene Article 110 of the Treaty.

iii) Even if it were possible overnight to switch 5% of our imports from non-EC (and EFTA) to EC sources the reduction in duty payments would probably be only some 140 meua (£90m). The reductions in our total contribution would be even less since we (and other EC members) would have to pay more VAT.

iv) Since 1973 the proportion of our trade with the Community has increased steadily. By contrast, the original six are now doing less of their trade with the rest of the EC, as the following table shows:-

All imports from EC as % total imports

	1972	1978
UK	31.6	38.0
EC(9)	52.2	50.8

v) It is not true, as has been alleged, that the fall in the proportion of UK imports from outside the Community is explained by lower imports of OPEC oil.

vi) The shift in UK imports to EC sources has been particularly marked for food (where the scope for further shifts is virtually exhausted; see notes to attached table). But all product groups, with the exception of fuels, have been affected. (The figures for transport are erratic and the figures conceal a sharp rise in the UK share immediately prior to entry. For example in 1969 the UK share was 42% and in 1977 it was 54%.)

		UK: % share of imports from EC	
SITC		1972	1978
0, 1	Food	32.4	42.9
3	Fuels	18.0	14.0
2+4	Raw Materials	11.0	14.1
5, 6, 8	Manufactures (exc. Transport)	28.3	39.6
7	Transport	52.3	51.1
	Total	31.6	38.0

vii) Imports of oil still account for 11.6% of UK total imports as compared with 11.7% in 1972. For the EC as a whole, oil imports were 11.7% of total imports in 1972, and 16.3% in 1978.

viii) The rise in other countries' oil bills is not the main reason for the shift in the pattern of their imports away from EC sources. The share of manufactured imports coming from the rest of the Community fell steadily between 1968 and 1978, especially in France and Germany (see table attached).

Background

It is true that the UK is a heavy importer from third countries. This reflects in part our high overall import propensity relative to eg Germany and France. But the main reason is that a relatively high proportion of our imports come from outside the Community:-

% Imports from outside the EC 1978

	UK	EC
Total imports	62	50
Imports of manufactures	60	40

But this is not the whole story. Nor do we accept the implication that our Budget problem is one that we can solve for ourselves.

Table 1

Imports from EEC as percentage of total imports

	1968	1972	1978	Change 72-78
France	52.7	56.0	51.4	-4.6
Italy	41.4	49.2	44.7	-4.5
Germany	47.3	53.9	50.1	-3.8
Belgium/Luxembourg	63.0	71.1	69.0	-2.1
Netherlands	61.7	62.3	57.4	-4.9
Denmark	46.4	45.9	49.4	+3.5
Ireland	66.3	69.3	73.4	+4.1
UK	26.1	31.6	38.0	+6.4
EC average	46.1	52.2	50.8	-1.4

Source: SEC(79) 1578 Commission "supplementary information"

Table 2

Imports of Manufactures from the EEC as a percentage of total imports of manufactures

	Transport and Machinery (SITC 7)			Other Manufactures (SITC 5,6,8)		
	1968	1972	1978	1968	1973	1978
France	71.1	72.4	65.8	72.0	74.2	68.3
Italy	69.6	74.2	71.8	39.2	36.0	37.5
Germany	63.7	66.1	59.6	58.8	61.7	56.0
Belgium/Luxembourg	83.2	85.0	82.3	68.2	76.1	74.3
Netherlands	77.3	79.5	72.9	80.1	80.5	74.4
Denmark	59.7	60.1	56.6	52.7	49.0	52.9
Ireland	87.0	81.3	74.6	82.1	81.2	80.9
UK	43.8	52.3	51.1	25.9	28.3	39.6
EC average	66.9	69.9	64.8	58.2	61.6	60.6

Source : SEC (79) 1578 Commission "Supplementary information"

Table 3

Agriculture

Imports of food from the EEC as a percentage of total imports of food (SITC 0+1)

	1968	1972	1978
France	33.7	41.2	47.1ø
Italy	36.9	49.7	58.3
Germany	48.1	55.6	56.8ø
Belgium/Luxembourg	56.5	69.1	74.0
Netherlands	34.4	47.6	47.1
Denmark	24.1	24.3	36.8
Ireland	42.1	47.3	71.4
UK	29.7	32.4	42.9ø
EEC Average	38.0	46.7	52.9

Source: SEC(89) 1578 Commission "Supplementary Information"

ø Comparable figures for "indigeneous products"

(imports from outside EC as % total)	1973	1976	1978
UK	45	28	27
Germany	Not available		31
France			28

Source: MAFF

Indigenous products: all products excluding goods not produced in EC, goods for which EC is net importer, and products covered by treaty obligations (eg. N. Zealand butter, ACP sugar).

Approach of the 1% VAT Limit on Own Resources

i) The question whether the Community should have access to increases sources of revenue is a general problem quite separate from the immediate issue of the UK's excessive net budget contribution. It does not affect the present discussion.

ii) The implications of the 1% limit may need to be faced by the Community before long. When the time comes, we shall need to appraise carefully all areas of Community expenditure. For example, the high cost of the present way the CAP is financed will need close scrutiny. It would certainly be illogical, unfair and unnecessary to single out in advance one area of Community expenditure such as the amount spent in the UK under the new Article 235 Regulation.

Background

1. The Own Resources Decision limits Community revenue to the total of agricultural levies and customs duties, with the product of a 1% rate of VAT Own Resources as the balancing source of funds; in consequence, it establishes a ceiling on expenditure. This is being approached. Our latest estimate is that the limit will probably not bite this year, but could do so in 1981.

2. Expenditure on the CAP guarantee section, implementing existing Council decisions, is running at a significantly higher level in 1980 than anticipated. This higher level of expenditure will reduce the margin for new expenditure within the ceiling. The French may argue that, as a result, there is no room within the Community's financial resources for measures involving additional expenditure in the UK. Our line should be that all Community policies will have to be appraised as the ceiling approaches, including the CAP where member states are currently pressing for measures that would increase budget expenditure. If it is agreed as a matter of equity that our net contribution should be reduced, it should not be assumed that, out of the whole range of Community policies, this one has to be sacrificed to the 1% ceiling.

The 1970 Undertaking

The 1970 undertaking was as follows:-

> "Should unacceptable situations arise within the present Community or an enlarged Community, the very survival of the Community would demand that the Institutions find equitable solutions."

> Source: Commission Communication to the Council GB/33/70 (Annex) of 13 November 1970, entitled "The Financial Arrangements in an Enlarged Community"

This undertaking was endorsed by the Council itself. A meeting of COREPER Deputies on 4 November 1970 decided to transmit the Commission Paper to us. The Chairman of the Deputies expressed the Community's agreement with the general lines of the Paper's conclusion and in particular their endorsement of paragraph 20. The Council's final imprimatur was also made clear in the version of the Paper (GB/33/70) handed to us which was described in the rubric as a Communication forwarded "following examination by the Council".

The Undertaking is not a Treaty obligation. But it constitutes a firm political commitment by the Six which they did not seek to withdraw at the time and can hardly repudiate now.

Article 2 of the Treaty of Rome

"The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it."

FIGURES

The following tables are attached:

TABLE	A	:	Net Contributions to the Allocated Budget
"	B	:	The UK's Budget Problem in 1980
"	C	:	Analysis of UK Budgetary Position
"	D	:	Country Fact Sheet.

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TABLE A

NET CONTRIBUTIONS TO THE 1980 ALLOCATED BUDGET (Importer Benefits basis for MCA's)

	March Commission estimates	Revised Net Contributions*	Effect of 100 Meua change in UK net contribution on net contributions of other member states	
			If all members contribute	If Italy and Ireland do not contribute
UK	-1683	-269	∓100.0	∓100.0
Germany	-1116	-1677	±39.7	±46.3
France	+ 41	-382	±29.9	±35.0
Italy	+ 754	+568	±13.2	± nil
Netherlands	+ 358	+254	± 7.4	± 8.6
Belgium	+ 469	+392	± 5.4	± 6.3
Denmark	+ 388	+344	± 3.1	± 3.6
Ireland	+ 502	+482	± 1.1	± nil
Luxembourg	+ 287	+284	± 0.2	± .2

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* To bring the UK net contribution into the same relationship with the French as the respective UK and French GNP per head.

\- = net contribution

\+ = net benefit

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NOTES TO TABLE A

The table:-

1. Starts from the latest Commission estimates of net allocated contributions to the 1980 Community Budget. If the total Budget is larger than in the latest Community proposals eg because of higher agricultural expenditure, the UK net contribution is likely to be larger.

2. Uses the "importer benefits" treatment of MCA's although the UK still considers the "exporter benefits" basis the correct one. The previous Commission figures of September 1979 for the net UK contribution were 1552 meua (importer benefits) or 1814 meua (exporter benefits). The corresponding figures are now 1683 and 1813 meua. The figure of 1683 assumes MCA's of 130 meua paid to exporters of food to UK; this is probably too high and the 1683 should be brought much closer to 1813 meua.

3. Assumes a new UK net contribution which is about 70% of the French contribution, after allowing for the effect on the French contribution of the redistribution of part of the UK net contribution. UK GNP is about 70% of French GNP.

4. Assumes that the reduction of the UK net contribution is achieved through the reformed Financial Mechanism and increased Community expenditure on approved purposes in the UK under an Article 235 regulation of the kind proposed by the Commission. But about 250 meua of the difference between 1683 meua and a revised net UK contribution may be due under existing Community regulations because of a UK claim under the Financial Mechanism as it now stands.

5. Shows how much greater or smaller each country's revised net contributions would be if the UK were to accept a net contribution 100 meua greater or smaller than that indicated by the GNP relationship with France. Two sets of figures are shown, on the alternative assumptions (a) that all member states contribute to financing the redistribution of the UK's present net contribution,

and (b) that Italy and Ireland do not contribute. The latter arrangement may be suggested. Thus for every 100 meua <u>decrease</u> in the UK net contribution, the German net contribution would <u>increase</u> by 39.7 meua if all eight partners are participating, or by 46.3 meua if Italy and Ireland are not required to share the burden.

 TABLE B

THE UK'S BUDGET PROBLEM IN 1980

Source: Figures based on Commission document 19.3.80

UK GNP share: 17%

UK GNP per head as % EEC average approximately 79%

UK population share: 21½%

	meua	eua per head	UK as % EC	UK per head as % EC
TOTAL CONTRIBUTIONS	2908	52.3	21.1	98*
TOTAL RECEIPTS				
Importer benefits MCAs	1225	22.0	8.9	41.4
Exporter benefits MCAs	1095	19.7	7.9	36.7
NET CONTRIBUTION				
Importer benefits MCAs	1683	30.3		
Exporter benefits MCAs	1813	32.6		

CHANGE TO UK BUDGETARY CONTRIBUTIONS

IF

A. Payments and Receipts in line with GNP share

	meua	As % Net contribution: exporter pays (1813)	As % Net contribution: importer pays (1683)
Excess contribution	564	31	33.5
Deficient receipts			
exporter benefits MCAs	1249	69	
importer benefits MCAs	1119		66.5

B. Payments and Receipts per head in line with EEC average

	meua	As % Net contribution: exporter pays (1813)	As % Net contribution: importer pays (1683)
Contributions shortfall	56	-3.1	-3.3
Deficient receipts			
exporter benefits MCAs	1869	103.1	
importer benefits MCAs	1739		103.3

* UK contribution in 1980 is 24% greater than our GNP share. This accounts for 565 meua or about ⅓ of our net contribution.

TABLE C

ANALYSIS OF UK BUDGETARY POSITION

Commission document (19.3.80) does not provide breakdown of contributions and receipts. Detailed information comes from earlier Commission papers.

Contributions: from Draft Budget. Consistent with latest figures.

	meua	EUA per head	UK as % EC	UK per head as % EC
Agricultural levies	431	7.7	19.8	92.1
Customs duties	1473	26.5	26.0	120.9
VAT	1162	20.9	17.4	80.9
Other (incl contribution to unallocated budget)	-158	-2.8	21.0	100
TOTAL	2908	52.3	21.1	98.1

Receipts: Latest detail comes from Reference Paper (Sept. 1979) not consistent with latest figures. Relative shares unlikely to have changed significantly.

	UK as % EC	UK per head as % EC
CAP Guarantee	7.6	35.4
Structural Funds: Total	20.6	96.9
Guidance	15.1	70.2
Regional Fund	27.0	125.6
Social Fund	25.0	116.3
Investment Energy, Industry	12.2	58.8
Other	16.7	77.9

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Country Fact Sheet

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TABLE D

	UK	Germany	France	Italy	Netherlands	Belgium	Denmark	Ireland	Luxembourg
<u>INCOME</u>									
GNP as % EEC(9):1979	16.3	31.8	23.8	13.6	6.3	4.9	2.7	0.6	0.2
forecast 1980	17.0	31.1	24.1	13.7	6.1	4.7	2.5	0.7	0.2
GNP per head as % EEC (9):1979									
at market exchange rates	78	135	115	61	118	124	138	50	122
at purchasing power parities	91.8	118.5	113.5	72.2	107.7	108.9	118.8	62.3	110.1
<u>BUDGETARY: 1980</u>									
<u>Net contribution</u>: MEUA									
exporter benefits MCAs	-1813	-1073	+100	+658	+394	+479	+428	+540	+287
importer benefits MCAs	-1683	-1116	+ 41	+754	+358	+469	+388	+436	+287
<u>Gross contributions</u>:									
as % EEC(9) of which:	21.1	29.8	19.0	11.9	8.7	6.2	2.4	0.9	0.12
levies	19.8	19.5	12.8	20.6	14.7	10.4	1.6	0.4	0.0
duties	26.0	30.2	14.6	9.7	9.5	6.5	2.4	1.1	0.1
VAT	17.4	32.8	24.7	10.9	6.1	4.5	2.6	0.9	0.2
per capita meua	55	71	51	30	90	91	67	40	49
as % EC average	98	127	92	54	161	163	121	71	88
<u>Gross Receipts</u>:									
On an importer pays basis:									
as % of EEC(9)	8.9	21.7	19.2	17.4	11.3	9.6	5.2	4.5	2.2
per capita meua	22	49	50	42	111	134	140	192	(849)
as % of EEC average	41	92	79	80	209	253	263	362	(1602)
On an exporter pays basis:									
as % of EEC(9)	7.9	22.0	19.7	16.7	11.5	9.7	5.5	4.8	2.2
per capita meua	20	50	51	40	113	135	147	203	(849)
as % of EC average	37	93	96	76	214	255	278	384	(1602)

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*BLEU is Belgium and Luxembourg

Country Fact Sheet **SECRET**

	UK	Germany	France	Italy	Netherlands	BLEU*	Denmark	Ireland	EEC(9)
COMMON AGRICULTURAL POLICY	MILLION UNITS OF ACCOUNT: COMMISSION REFERENCE PAPER FOR 1979 AND MAFF ESTIMATES OF 1979 TRADE COSTS (EXCLUDES EFFECT OF ARTICLE 131)								
Exporter benefits MCAs									
Budget flows	-1513	-410	+197	+274	+525	+35	+490	+412	
Non-budget flows	-271	-527	+720	-1055	+960	-280	+815	+620	
Total	-1784	-937	+917	-781	+1485	-245	+1305	+1032	
Importer benefits MCAs									
Budget flows	-784	-549	-36	+544	+369	+3	+259	+195	
Non-budget flows	-1000	-388	+953	-1325	+1116	-248	+1046	+837	
Total	-1784	-937	+917	-781	+1485	-245	+1305	+1032	
TRADE WITH EEC(9)									
% imports from EEC(9)									
total 1972	31.6	53.9	56.0	49.2	62.3	71.1	45.9	69.3	52.2
1978	38.0	50.1	51.4	44.7	57.4	69.0	49.4	73.4	50.8
1979(Q1-Q3)	40.8	49.9	50.3	45.0	56.7	63.9	50.4	74.9	50.8
manufactures 1972	37.1	63.1	72.4	68.3	80.1	79.8	53.3	81.2	64.7
(SITC 5-8) 1978	44.3	57.3	67.3	66.4	73.8	77.4	54.4	78.2	62.2
food 1972	32.4	55.7	41.2	49.7	47.6	69.1	24.3	47.3	46.7
(SITC 0,1) 1978	42.9	56.8	47.1	58.3	47.1	74.0	36.8	71.4	52.9
TRADE WITH UK									
Exports to UK 1978									
as % total exports	-	6.3	7.7	9.3	8.0	5.9	15.1	48.6	6.3
as % total imports	-	10.8	7.6	4.7	5.3	3.7	2.3	3.5	38.0
Imports from UK 1978									
as % total imports	-	4.4	5.9	4.0	7.1	9.1	14.3	67.3	5.7
as % total exports	-	9.0	6.5	3.3	5.1	5.9	2.5	5.6	37.8

References

A : Commission Paper COM(80)50 of 31 January 1980

B : Commission Paper COM(80)147 of 20 March 1980

C : Commission Paper COM(79)680 of 21 November 1979

D : Six Points given to Sig Cossiga

HM Treasury
20 April 1980

EHG(L)(80)3 REFERENCE A

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 50 final

Brussels, 5th February 1980

CONVERGENCE AND BUDGETARY QUESTIONS

(Communication from the Commission to the Council)

CONVERGENCE AND BUDGETARY QUESTIONS

I. INTRODUCTION

1. At its meeting on 29/30 November the European Council reached certain conclusions on convergence and budgetary questions. Those examined in this communication are:

> "The Council re-affirmed the conclusions reached at their meetings in Brussels and Paris that achievement of the convergence of economic performance requires measures for which the Member States concerned are primarily responsible, that Community policies can and must play a supporting role within the framework of increased solidarity and that steps must be taken to strengthen the economic potential of the less prosperous countries of the Community.
>
> To these ends the European Council expressed its determination to promote the adoption of measures to improve the working of Community policies, to reinforce those policies most likely to favour the harmonious growth of the economies of the Member States and to reduce the disparities between these economies. They further declared the need, particularly with a view to the enlargement of the Community and necessary provisions for Mediterranean agriculture to strengthen Community action in the structural field.
>
> The European Council has carried out a thorough examination of the problem of the British contribution to the Community budget. It was agreed that the Commission's proposals concerning the adaptation of the financial mechanism could constitute a useful basis for a solution which would respect Community achievement and solidarity. This solution should not result in raising the 1 per cent VAT ceiling. In addition, the Commission is requested to pursue the examination of proposals for developing supplementary Community measures within the United Kingdom which will contribute to greater economic convergence; and which will also lead to a greater participation by the United Kingdom in Community expenditure. The Commission is asked to make proposals which will enable the Council of Ministers to pursue the search for appropriate solutions to be reached at the next meeting of the European Council."

2. The above conclusions of the Dublin European Council were consistent with the proposals which the Commission put to the Council on 21 November (COM(79) 680).

II. STRUCTURAL QUESTIONS

3. In its Communication to the Council of 21 November the Commission had already drawn attention to the need to strengthen structural and general investment policies within the Community. It has submitted a variety of proposals to the Council covering such key areas as energy, transport and industrial development. The Commission now urges the Council to reach rapid agreement on the proposals which it made on 30 November designed to help balance the agricultural markets and stabilize expenditure. The price proposals for the market year 1980-81 should be examined by the Council with the same objective in mind.

4. There are a number of other actions of particular relevance to the issues already raised by certain Member States. The Commission believes that the Council should give rapid consideration to them.

5. First the Council should pursue the new policy of rural regional investment programmes which was inaugurated by the adoption of the Mediterranean package in 1978 and 1979. In this respect, the Commission put to the Council in March 1979 a further series of structural proposals building on the principles developed in the Mediterranean package. The adoption of these proposals would virtually complete the regulations necessary for the implementation of the new five-year programme in the agricultural structural field based on the expenditure of 3 600 million ECU over the period 1980-1984.

6. Second the Council needs to consider how it can give effect to the declared willingness of the European Council to continue to strengthen the economic potential of the less prosperous countries. One method would be to take further steps designed to direct a greater volume of Community resources to those Member States. In this context the Commission has recently proposed that as regards the second tranche of the New Community Instrument a wider interpretation of infrastructure proposals~~ which it made on 30~~ November ~~designed to help balance the~~

should apply to priority regions or to zones affected by economic difficulties, and that this should cover in particular some carefully selected housing projects. The Commission believes that in considering this proposal the Council could also consider increasing the volume of resources currently available to certain Member States participating in the European Monetary System for use as interest rebates. A specific regulation to give additional resources for regional development in these countries (on the lines of the programmes discussed in more detail in Section IV B) and to improve the working of Community policies, could be considered as a first move to give more help to the less prosperous members of the Community.

7. Actions of this kind on the part of the Council would be in line with the Commission proposal to the European Council that the rate of increase in structural and general investment policies should in future be significantly greater than the rate of increase in the size of the Community budget overall. The conclusions of the European Council, which are also consistent with the Resolution of the European Parliament on the draft 1980 budget, lead the Commission to re-affirm this proposition. If during the budgetary process this principle is not respected, the Commission undertakes to draw the attention of the Institutions to the situation without delay. The Commission will bear these aspects fully in mind in bringing forward its budgetary proposal for 1980 and will seek to go further in subsequent years.

III. THE FINANCIAL MECHANISM

8. As regards the United Kingdom's share of financing the Community budget, the Commission in its proposals of 21 November invited the Council to consider certain adaptations to the existing Financial Mechanism. In particular the Commission recommended the removal of the balance of payments limitation and suggested that the European Council in Dublin should define the conditions under which two further restrictions on the operation of the Mechanism could be lifted, i.e. the tranche system of repayment and the ceiling of 3% of the budget. The European Council agreed that these proposals "could constitute a useful basis for a solution". Since under the present Regulation the operation of the Financial Mechanism is due to be reviewed in 1981, the Commission proposes in the light of the European Council's conclusions, that an adapted Mechanism

should be a part of the solution to the problems of the United Kingdom over the Community budget, on the basis that its period of operation should cover the same period as that of such supplementary measures for expenditure as may be agreed.

IV. SUPPLEMENTARY COMMUNITY MEASURES FOR THE UNITED KINGDOM

9. In its proposals of 21 November, the Commission also stated that any measures on the expenditure side of the budget relating to the United Kingdom should be "special temporary and ad hoc". The Commission reaffirms the views and indications set out in part III of its November communication. It points out that the scope of the measures proposed, and therefore the speed of the solution, will depend very largely on the volume of resources which the European Council agrees should be devoted to them. As regards the basis of supplementary measures, different approaches are possible.

(A) Use of existing Community instruments

10. One possibility would be to enlarge certain Community funds by attributing extra resources to the United Kingdom over a defined period.

11. The two instruments which come to mind are the Social Fund and the Regional Development Fund. As regards the Social Fund, expenditure on projects in the Member States under the Fund regulations is not governed by quota arrangements and the actual shares in expenditure have been very variable. This has in the past arisen partly as a result of the internal economic policies followed by Member States. The Commission hopes that the United Kingdom will be able to draw the maximum benefit from the Fund in future years; it also draws attention to the possibilities open to the steel sector within the framework of the European Coal and Steel Community.

12. In the case of the Regional Fund, a distinction must be drawn between the 'quota' and 'non-quota' sections. Any changes in the shares laid down in the basic Fund regulation would require formal modification by the Council on a Commission proposal. Quota shares could be changed either within the existing Regional Fund, or by an increase in the total resources available to it. Whilst an addition of resources to the Regional Fund would enable the absolute amounts to other Member States to be maintained, it would of course give rise to a reduction in their percentage shares. As in the case of the Social Fund, even relatively modest increases in the Regional Fund, if devoted wholly to the United Kingdom, would give rise to a disproportionate percentage share. This could remove much of the balance within the Fund achieved only after long and arduous negotiations with the Member States.

13. The non-quota section of the Regional Fund was set up by the Council at 5% of the full Fund. An increase in the resources available to the non-quota section would also require a formal modification to the regulation concerned. Whilst some increase in the total size of the non-quota section could certainly be envisaged, it is clear that it would only be possible to make very limited adjustments within the existing endowment.

14. For these reasons, the Commission believes that to increase expenditure on an ad hoc basis from either the Regional or Social Fund within a single Member State would have a seriously distorting effect on policies of major importance to the Community as a whole.

(B) <u>A Council Regulation based on Article 235</u>

15. In the light of these considerations, the Commission believes that a Council Regulation governing expenditure within the United Kingdom and based on Article 235 of the Treaty, is a preferable option. However, the Commission stresses that to avoid wasteful use of Community resources any system of additional expenditure on this basis would need to be placed within a coherent framework and in line with existing and new Community policies. It would be necessary to ensure that the

solution adopted made a positive contribution, not only to the immediate problem of budgetary imbalance, but also to the promotion of economic convergence in the longer term.

Here the Commission recalls the emphasis given by the European Council at Dublin to the need for complementarity between the role of the Member States themselves in adopting policies designed to bring about convergence of economic performance, and the role of the Community in supporting such policies.

16. Thus an approach based on Article 235, rather than one within the existing structural funds, needs to be placed firmly within the framework of Community structural policies. Additional expenditure should be clearly identified as being consistent with the policy directions already adopted by the Community in respect of the structural Funds, and therefore with two basic principles.

17. First there needs to be an approach to expenditures based on specific programmes. The concept of indicative programmes within which specific project expenditures are undertaken, has played an important role in the quota section of the Regional Fund, leading to the adoption of programmes for each Member State in May 1979. It has been taken further in the non-quota section of the Regional Fund and was also established in the Regulation for the interest rebate subsidy scheme in respect of the European Monetary System. It would therefore be appropriate that in a solution based on Article 235, Community expenditure be clearly established as a contribution to clearly defined programmes.

18. Second there should be a component related to specific regions or problem areas. The Community has developed such an approach in all of its major structural expenditure. This is evident in the case of the Regional Fund, but is of major importance also in the Social Fund where half of expenditures are based on a specifically regionalized approach. Within the structural part of the Common Agricultural Policy, the development of a strong regional basis has been the main new policy element of recent proposals and decisions in this field.

These developments should be seen in the light of the Community's over-riding interest in promoting the convergence of its economies, and it would therefore be consistent with this interest that additional expenditures should be territorially defined.

19. The Commission therefore suggests an approach based upon a number of specific programmes in which the Community could participate, and from which it could as a whole draw benefit. These should in the first instance be directed to specially disadvantaged regions or problem areas. Programmes for regions of Community-wide interest such as Northern Ireland, or for those suffering from special industrial problems or from remoteness, could provide an appropriate framework for a scheme of expenditures based on Article 235. These programmes could in certain cases cover expenditure on such sectors as those mentioned in the Commission's communication of 21 November 1979 (exploitation of coal resources, measures to promote transport infrastructure), as well as those designed to link the United Kingdom more closely to the rest of the Community and to facilitate intra Community trade. The Commission believes that these programmes could be further broadened to cover certain problems such as urban decay which, while constituting a major factor of regional disadvantage, occur in parts of the United Kingdom. This additional contribution should help the United Kingdom in the efforts it is already making in some of these fields.

20. Within this approach the basic Regulation could:

- specify the amount and duration of assistance
- define the regions or problem areas to be assisted
- set out the procedure for agreement to the programmes between the Commission and the Member State concerned
- define the rate of Community participation and the kinds of infrastructure and other investment eligible for assistance within the regions or problem areas
- contain provision for a review before the expiry of the assistance (see paragraph 21).

21. The Commission believes that it will be necessary to agree on a review procedure well before the expiry of the measures for supplementary expenditure within the United Kingdom. The purpose of this review would be to examine the effectiveness of the actions taken in respect of the United Kingdom as regards both the Financial Mechanism and the special measures, in the framework of progress towards a better balance between Community policies and of expenditure within the Community budget.

V. CONCLUSION

22. In this paper the Commission has suggested a framework for the Community measures requested by the European Council in the fields of convergence and the budget. The Council will now wish to consider these ideas. Real progress will anyway need to be made towards a better balance within Community policies, in terms of stabilizing expenditure on surpluses under the agricultural policy, strengthening the existing structural policies, and establishing policies whose need is not questioned but on which the Council have not yet succeeded in reaching agreement.

In the meantime the Commission proposes to work out with the Member States concerned the details of possible programmes which might fit into the framework of the kind suggested. Formal proposals for regulations under Article 235 will come forward as and when appropriate.

EHG (L)(80)3

REFERENCE B.

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 147 final

Brussels, 20th March 1980

CONVERGENCE AND BUDGETARY QUESTIONS

Communication from the Commission
to the European Council
(31st March - 1st April 1980)

COM(80) 147 final

CONVERGENCE AND BUDGETARY QUESTIONS

I. INTRODUCTION

1. The Commission has sent to the Council two communications in which it outlined what is considered to be the major elements necessary to deal with certain questions which have arisen over strengthening the Community contribution to the convergence of Member States' economic policies; and to resolve the problems that have arisen with regard to the United Kingdom over the Community budget (COM(79)680 and COM(80)50).

2. These problems arise in part over the financing and in part over expenditure from the Community budget. The proposals made by the Commission correspond to both of these aspects as well as to certain wider convergence matters of concern to less prosperous Member States of the Community.

3. The purpose of this communication is to bring together in a single document the proposals that the Commission has made, and thus to enable the European Council to give its views on the major questions which must now urgently be resolved if the cohesion of the Community is to be safeguarded. It will be for the Commission subsequently to submit the necessary draft legislation to the Council and the European Parliament for it to be adopted following the normal Community procedures. The Commission has also updated the figures for financing and expenditure from the budget given in the reference paper of 12 September 1979, and the results are annexed to this communication.(1)

II. PRINCIPLES

4. The Commission consider it to be appropriate to reiterate the fundamental principles that must be respected in any attempt to resolve these convergence and budgetary questions. First, the decisions which the European Council is invited to take have to be seen in the context of the need for Member States themselves to contribute to greater integration within the Community. At the same it is necessary to achieve a better balance between the Community's policies overall in the interests of creating a dynamic Community capable of making a real contribution to the prosperity of its members. Second, any measures which are agreed should, while contributing to a reduction of the major structural problems of the economies of the Member States concerned, be consistent with the interests of the Community in general, and its economic and social policies in particular. Third, the institutional processes and procedures of the Community must be scrupulously observed. Fourth, any solution must be found within the Community budget and must respect the integrity of the Community's system of own resources; its objective must not be to put a Member State in a position of juste retour in respect of the Community budget.

(1) See also SEC(80)394 and SEC(80)428

III. CONVERGENCE

5. The Commission has in its earlier communications pointed to the need for a better balance between Community policies. It has, for example, urged that the Council reach early agreement on certain proposals in the agricultural structural field. It has invited the European Council to endorse the principle that the rate of increase in expenditure on general investment and structural policies should be greater than the rate of increase in the size of the budget and has undertaken to draw the attention of the Institutions to the situation if this principle is not respected.

6. In the context of the present budgetary issue, the Commission has proposed that extra resources be devoted to the less prosperous Member States in order to ensure that solutions to the immediate problem do not undermine the policies which must be adopted for the longer term. The Commission considers that one effective and administratively simple method would be to make further use of the system of interest rebates set up in conjunction with the European Monetary System and at present applied to certain loans from the European Investment Bank and the New Community Instrument. The Commission has also said that it would be willing to consider a specific regulation to give additional resources for regional development to these countries and to improve the working of Community policies. Since the amount and scope of such extra resources is currently related to the resolution of the present budgetary problem, it would be premature to present more formal proposals at this stage.

IV. FINANCIAL MECHANISM

7. The Financial Mechanism was introduced in 1976 by Council Regulation 1172 on a proposal of the Commission. Its objective was to ensure that the operation of the system of own resources should not, through the play of particular circumstances, place a disproportionate burden on Member States, such as to jeopardise progress towards the convergence of Member States' economies. The decision on the Financial Mechanism made provision for a review of its operation in 1981. The Commission has now proposed that the present examination should constitute the review provided for and that certain of the constraints on the operation of the mechanism should be removed.

8. The Commission proposes, therefore, that the balance of payments constraint referred to in Article 4 be removed. It further believes that the European Council could define the conditions under which the tranche system of repayment (Article 3) and the ceiling of 3% of the budget (Article 6) could be eliminated. Thus amended, the Financial Mechanism would in the Commission view, be able to play

the role intended for. In financial terms, and on the basis of its budget proposals for 1980, the Commission now estimates that the complete application of these proposals would result in a payment to the United Kingdom in respect of 1980, of 600 MEUA gross (495 MEUA net).

V. SUPPLEMENTARY COMMUNITY MEASURES

9. The European Council at Dublin requested the Commission to make proposals for developing supplementary Community measures within the United Kingdom. In its communication of 5 February the Commission stated both what the nature of such measures should be and what could constitute an appropriate legal basis. It may be helpful to add certain considerations on both these aspects.

10. The Commission has proposed that the legal basis of such measures should, as was the case with the introduction of the Financial Mechanism in 1975, be based on Article 235 of the Treaty. Certain legal considerations in this respect were outlined in the Commission's communication of 31 October 1979 (COM(79)620), and these remain appropriate in the present context. In particular, the use of Article 235 requires that the measures in question should contribute to the realisation of the objectives of the Community. Moreover the use of Article 235 as the basis of the necessary legislation ensures that the approval of the Council and the opinion of the European Parliament will be sought through the normal Community procedures.

11. The basic concept is of a special, temporary and ad hoc action in the shape of a number of expenditure programmes within regions of the United Kingdom, which would be part-financed by the Community. The programmes must be clearly defined and must respond not only to the aim of increasing United Kingdom participation in Community expenditure, consistently with the objectives of Community policies, but also to the general Community interest and to the need for convergence of its economies. From the work which the Commission has undertaken on possible programmes, it is already evident that whatever resources the European Council may decide to provide for this purpose could be fully used in accordance with the principles and criteria set out.

12. The regions within which special investment programmes could be developed should in the first instance be those at present covered by the Regional Development Programmes provided for in the regulation establishing the European Regional Development Fund. Nevertheless to meet particularly

serious cases,or where there is a special Community interest, financial participation by the Community would also be possible in certain programmes outside these areas. The regional framework comprises a response to the need at the level of the United Kingdom and the Community to reduce disparities between regions, and to contribute to the resolution of some of the major structural problems.

13. Within the regions thus identified, the Community could contribute to public expenditure on economic and social infrastructure on the basis of a coherent planning process between the Community and the Member State. The programmes submitted by the Member State would be of a pluriannual nature, and would provide the economic and financial information necessary to enable decisions to be taken on the most appropriate areas within them for Community financial participation. A consultative procedure would be developed under which the Council would be formally associated with the examination of each programme.

VI. DURATION

14. The proposals which the Commission has made include ideas for an adapted Financial Mechanism and for certain measures of a special and temporary nature to respond to the particular problems which now face the United Kingdom. In its communication of 21 November 1979 the Commission suggested that whatever measures were adopted should be limited in time (perhaps to three or four years); and in its communication of 5 February the Commission added that this period might coincide with the next period of operation of the Financial Mechanism. Legislation covering both actions should contain provision for a review well before their expiry. The aim of the review would be to examine the effectiveness of the actions taken in the framework of progress towards a better balance between Community policies and expenditure within the budget. It can be to the advantage of no one to see an early recurrence of present difficulties; and it will be for the European Council to see that decisions are taken and followed through which will lead to the better balance between policies which is required.

Table 1a: Estimates and results for 1979 for expenditure, receipts and balances broken down by Member State
(MCAs paid by exporting Member States on behalf of importing Member State re-charged to importing Member States)

COUNTRY	Expenditure for Categories I-V		Financing (including Art. 131)		Balance (Expenditure-Financing)	
	Estimate	Result	Estimate	Result	Estimate	Result
	1	2	3	4	5	6
A. In mEUA						
B	1,209	1,335[1]	871	940	+ 338	+ 395
DK	551	709	327	329	+ 224	+ 380
D	2,837	2,858	3,992	4,288	- 1,155	- 1,430
F	2,285	2,730	2,607	2,808	- 322	- 78
IRL	463	647	98	102	+ 365	+ 545
I	2,333	2,279	1,579	1,745	+ 754	+ 534
L	269	233[2]	18	18	+ 251	+ 215
N	1,323	1,595	1,251	1,307	+ 72	+ 288
UK	1,764	1,597	2,291	2,446	- 527	- 849
Total	13,034	13,983	13,034	13,983	0	0
B. As %						
B	9.3	9.6	6.68	6.72	+ 2.6	+ 2.9
DK	4.2	5.1	2.51	2.35	+ 1.7	+ 2.8
D	21.8	20.4	30.63	30.67	- 8.8	- 10.3
F	17.5	19.5	20.00	20.08	- 2.5	- 0.6
IRL	3.6	4.6	0.75	0.73	+ 2.8	+ 3.9
I	17.9	16.3	12.11	12.48	+ 5.8	+ 3.8
L	2.0	1.7	0.14	0.13	+ 1.9	+ 1.6
N	10.2	11.4	9.60	9.35	+ 0.6	+ 2.0
UK	13.5	11.4	17.58	17.49	- 4.1	- 6.1
Total	100	100	100	100	0	0

[1] including 459 m EUA for European Community administrative expenses

[2] including 202 m EUA for European Community administrative expenses

Table 1b: Estimates and results for 1979 for expenditure, receipts and balances broken down by Member State

(MCAs not re-charged)

COUNTRY	Expenditure for Categories I-V		Financing (including Art. 131)		Balance (Expenditure-Financing)	
	Estimate	Result	Estimate	Result	Estimate	Result
	1	2	3	4	5	6
A. In mEUA						
B	1,239	1,368	871	940	+ 368	+ 428
DK	782	837	327	329	+ 455	+ 508
D	2,974	3,002	3,992	4,288	- 1,018	- 1,286
F	2,517	2,927	2,607	2,808	- 90	+ 119
IRL	676	764	98	102	+ 578	+ 662
I	2,060	1,943	1,579	1,745	+ 481	+ 198
L	269	233	18	18	+ 251	+ 215
N	1,480	1,713	1,251	1,307	+ 229	+ 406
UK	1,037	1,196	2,291	2,446	- 1,254	- 1,250
Total	13,034	13,983	13,034	13,983	0	0
B. As %						
B	9.5	9.8	6.68	6.72	+ 2.8	+ 3.1
DK	6.0	6.0	2.51	2.35	+ 3.5	+ 3.7
D	22.3	21.5	30.63	30.67	- 7.8	- 9.2
F	19.3	20.9	20.00	20.08	- 0.7	+ 0.8
IRL	5.1	5.4	0.75	0.73	+ 4.4	+ 4.7
I	16.3	13.9	12.11	12.48	+ 3.7	+ 1.4
L	2.1	1.7	0.14	0.13	+ 2.0	+ 1.6
N	11.4	12.2	9.60	9.35	+ 1.7	+ 2.8
UK	8.0	8.6	17.58	17.49	- 9.6	- 8.9
Total	100	100	100	100	0	0

[1] including 459 m EUA for European Community administrative expenses

[2] including 202 m EUA for European Community administrative expenses

? Aid on top.

PRIME MINISTER

1. 1552 and 1683 meua were arrived at by the Commission after excluding from the payments of each member certain unallocated items, mainly the overseas aid of the Community. The footnote to the table of net contributions which was in the Dublin briefing showed separately these "unallocated" aid elements. They were then forecast at 87 meua for 1979 and 127 meua for 1980 for the UK.

2. But if the French change the reference point to our actual payments at the end of the transition, there is no longer any logic in the "unallocated" elements. For the calculation of our transitional relief under Article 131 (and for the purposes of the present Financial Mechanism) all our payments counted and there was no unallocated aid element. If the new philosophy is that we are "extending the transition" the Article 131 basis is the right one.

3. In the table the figure for 1979 (and 1980) is on a different basis from the figures for earlier years. Correcting the 1979 figure for the latest Commission Forecast we have:-

1977 + 126	(i.e. gain)	) including aid
1978 - 407	(inc aid). -228	)
1979 - 849 plus 87 for aid = -936		

4. The averages are then:-

i	3 years 1977-9	:	406
ii	2 years 1978-9	:	672

5. The 2 year average of 672 looks too high. But if we were guaranteed 672 for 1980 and the next 2 years, including our contribution to EEC aid it would look better. The latest estimate for our contribution to EEC aid in 1980 is 157. So 672 including our aid obligations is equivalent to 672-157 = 515 if we are left to bear our aid share on top. And aid expenditure is rising.

/ 6.

6. One argument for a 2 year average is that the transition period was in 2 parts: 5 years and then a final 2 years.

7. The French may not have taken the point about aid. They seemed to be regarding our 1979 payment as 850 meua, not 850 + 87 meua.

Ktc

(KC)
28/4/80

GPS 3000Z CONFIDENTIAL

CONFIDENTIAL
FRAME GENERAL
DESKBY 260830Z
FM UKREP BRUSSELS 252145Z APRIL 80
TO IMMEDIATE FCO
TELEGRAM NUMBER 2120 OF 25 APR
INFO IMMEDIATE ROME, PARIS, BONN.
INFO PRIORITY COPENHAGEN, THE HAGUE, DUBLIN, LUXEMBOURG
INFO SAVING BRUSSELS.

EUROPEAN COUNCIL: CONVERGENCE.

1. FOLLOWING IS TEXT OF PRESIDENCY NOTE TO THE EUROPEAN COUNCIL, MINUS ANNEX II (FRENCH TEXT ON GENERAL PRINCIPLES) AND ANNEX IV (RESULTS OF THE AGRICULTURE COUNCIL) WHICH HAVE ALREADY BE COMMUNICATED TO YOU - THE FIRST BY HAND OF FRANKLIN AND THE SECOND IN OUR TELNO 2051.

2. RESIDENT CLERK: PLEASE ENSURE DISTRIBUTION TO MEMBERS OF EUROPEAN COUNCIL DELEGATION AS SOON AS POSSIBLE:

BEGINS:-

1. THE ECO/FIN COUNCIL MEETING ON 21 APRIL AND THE FOREIGN AFFAIRS COUNCIL MEETING ON 22 APRIL COMPLETED PREPARATIONS FOR THE EUROPEAN COUNCIL'S DISCUSSIONS ON THE ITEM ''CONVERGENCE AND BUDGETARY QUESTIONS'', TAKING AS A BASIS A NOTE DRAWN UP BY THE CHAIRMAN OF THE PERMANENT REPRESENTATIVES COMMITTEE.

AT ITS MEETING ON 21, 22, 23 AND 24 APRIL, THE AGRICULTURE COUNCIL CONTINUED THE EXAMINATION OF THE COMMISSION PROPOSALS ON THE FIXING OF AGRICULTURAL PRICES FOR 1980/1981 AND RELATED MEASURES AND THOSE RELATING TO CHANGES IN THE COMMON AGRICULTURAL POLICY TO HELP BALANCE THE MARKETS AND STREAMLINE EXPENDITURE.

2. IN THE PRESENT NOTE THE PRESIDENCY SUMMARIZES THE LATEST POSITION IN THE DISCUSSIONS ON THESE AREAS FOLLOWING THESE COUNCIL MEETINGS. IT WOULD ALSO DRAW ATTENTION HERE TO THE FACTORS MENTIONED IN POINT 17.

1.

/BASIC PRINCIPLES

I.

BASIC PRINCIPLES.

3. THERE IS A CONSENSUS THAT, AT THE BEGINNING OF ITS CONCLUSIONS ON CONVERGENCE AND BUDGETARY QUESTIONS, THE EUROPEAN COUNCIL SHOULD REAFFIRM A NUMBER OF BASIC PRINCIPLES.

4. A TEXT, DRAWN UP BY THE PRESIDENCY IN THE LIGHT OF THE COUNCIL'S DISCUSSIONS ON THIS MATTER ON 22 APRIL, IS GIVEN IN ANNEX I.

A TEXT PRESENTED TO THE COUNCIL BY THE FRENCH DELEGATION IS GIVEN IN ANNEX II. ANNEX III CONTAINS A SUMMARY OF THE DISCUSSION ON IT IN THE PERMANENT REPRESENTATIVES COMMITTEE.

II.

BUDGETARY QUESTIONS.

5. THERE ARE THREE MAIN FACTORS IN THE PROBLEM OF THE UNITED KINGDOMS PART IN FINANCING THE COMMUNITY BUDGET: TRADE WITH THE COMMUNITY ACCOUNTS FOR A SMALLER PROPORTION OF THE UNITED KINGDOM'S FOREIGN TRADE THAN IT DOES FOR THE OTHER MEMBER STATES: EAGGF GUARANTEE SECTION EXPENDITURE IN RECENT YEARS HAS INCREASED TO A GREATER EXTENT THAN WAS EXPECTED: AND EXPENDITURE ON OTHER COMMUNITY POLICIES HAS NOT YET RISEN TO A SATISFACTORY LEVEL.

6. THE SIZE OF THE NET BALANCE OF THE UNITED KINGDOM'S PART IN FINANCING THE 1980 BUDGET - TOGETHER WITH THE OTHER MEMBER STATES' - HAS BEEN FORECAST BY THE COMMISSION IN TWO SETS OF FIGURES, BASED ON ALTERNATIVE METHODS OF ALLOCATING MONETARY COMPENSATORY AMOUNTS. SOME DELEGATIONS HAVE DRAWN UP SIMILAR FORECASTS ON THE BASIS OF DIFFERENT PARAMETERS, SUCH AS THE INCLUSION OF CARRY-OVERS FROM 1979 AND DIFFERENT METHODS OF CHARGING ADMINISTRATIVE EXPENDITURE. THESE FORECASTS HAVE BEEN COLLATED IN A SEPARATE NOTE.

7. THE COUNCIL'S DISCUSSIONS ON 21 AND 22 APRIL RESULTED IN A CONSENSUS WHEREBY, IN ORDER TO DEAL WITH THE PROBLEMS POSED BY THE SITUATION OF THE UNITED KINGDOM AND AS PART OF AN OVERALL SOLUTION, TWO SERIES OF MEASURES ARE TO BE CONSIDERED. ADJUSTMENT OF THE FINANCIAL MECHANISM INTRODUCED IN 1976 AND ADOPTION OF ADDITIONAL COMMUNITY MEASURES TO HELP THE UNITED KINGDOM.

FINANCIAL MECHANISM.

8. FROM THE COUNCIL'S DISCUSSIONS A CONSENSUS HAS EMERGED IN FAVOUR OF DISCONTINUING:

- THE LIMIT ON REPAYMENTS IN THE EVENT OF A POSITIVE BALANCE OF PAYMENTS:

- THE SYSTEM OF REPAYMENT BY TRANCHES:

- THE CEILING OF 3 PER CENT OF THE BUDGET:

SOME DELEGATIONS HOWEVER ARE ASKING FOR THIS CEILING OF 3 PER CENT OF THE BUDGET TO BE REPLACED BY AN ANNUAL CEILING IN ABSOLUTE TERMS.

ACCORDING TO THE COMMISSION'S ESTIMATES BASED ON ITS BUDGET PROPOSALS FOR 1980, THE DISCONTINUATION OF THE THREE LIMITS WHICH IT HAS PROPOSED (POSITIVE BALANCE OF PAYMENTS, REPAYMENT BY TRANCHES, 3 PER CENT CEILING) WOULD MEAN A PAYMENT TO THE UNITED KINGDOM FOR 1980 OF AROUND 600 MEUA GROSS (495 MEUA NET).

ADDITIONAL COMMUNITY MEASURES.

9. THE COMMUNITY HAS REACHED A CONSENSUS IN FAVOUR OF ADOPTING, IN THE FORM OF A REGULATION BASED ON ARTICLE 235, ADDITIONAL COMMUNITY MEASURES TO HELP THE UNITED KINGDOM. SUCH MEASURES SHOULD BE COMPATIBLE WITH THE OBJECTIVES OF THE COMMUNITY POLICIES FOSTERING THE CONVERGENCE OF ECONOMIES AND BE CONSONANT WITH THE GENERAL INTERESTS OF THE COMMUNITY.

10. THERE IS ALSO A CONSENSUS THAT THE CRITERIA FOR THE ELIGIBILITY OF PROGRAMMES WILL HAVE TO BE SPECIFIED IN THE BASIC REGULATION.

11.1. HOWEVER, THERE IS AS YET NO AGREEMENT ON THE PROCEDURE TO BE FOLLOWED FOR THE IMPLEMENTATION OF THE ADDITIONAL MEASURES. THE EUROPEAN COUNCIL COULD REQUEST THE COMMISSION TO PROPOSE A SUITABLE PROCEDURE IN CONNECTION WITH ITS PROPOSAL FOR THE BASIC REGULATION, WHICH IN ANY EVENT WOULD HAVE TO BE ADOPTED BY THE COUNCIL UNANIMOUSLY.

12. THE COUNCIL DECIDED TO LEAVE THE QUESTION OF THE OVERALL BUDGET FOR SUCH MEASURES TO THE EUROPEAN COUNCIL.

/DURATION.

DURATION.

13. THERE IS A CONSENSUS THAT THE TWO MEASURES ENVISAGED (AMENDED FINANCIAL MECHANISM AND ADDITIONAL COMMUNITY MEASURES) SHOULD LAST FOR THE SAME PERIOD AND THAT THIS PERIOD SHOULD BE LIMITED.

14.1 HOWEVER, IT HAS NOT BEEN POSSIBLE TO REACH AGREEMENT ON THE LENGTH OF THIS PERIOD.

14.2 THE UNITED KINGDOM DELEGATION HAS REQUESTED THAT THE TWO MEASURES SHOULD BE LAID DOWN, WITH A REVIEW CLAUSE, FOR A PERIOD OF AT LEAST SIX YEAR.

14.3. IN THE COMMISSION'S VIEW, THE ADJUSTMENT OF THE FINANCIAL MECHANISM SHOULD APPLY FOR A PERIOD OF THREE TO FOUR YEARS, WITH A REVIEW TAKING PLACE AT A SUFFICIENT INTERVAL BEFORE IT EXPIRY.

14.5 THE PRESIDENCY HAS SUGGESTED THAT THE FORMULA PROPOSED BY THE COMMISSION BE ASSESSED IN THE LIGHT OF THE MEDIUM-TERM TREND TOWARDS DIVERSIFICATION OF COMMUNITY EXPENDITURE, ESPECIALLY THROUGH STRUCTURAL AND INVESTMENT POLICIES. IN THE VIEW OF THE PRESIDENCY, IT IS ONLY IN THE CONTEXT OF SUCH DIVERSIFICATION AND THE ROUNDING, IN THE MEDIUM TERM, OF COMMUNITY POLICIES THAT A LASTING SOLUTION CAN BE FOUND TO THE PROBLEM OF THE UNITED KINGDOM'S SHARE OF THE COMMUNITY BUDGET.

III.

CONVERGENCE

15.1. SOME DELEGATIONS HAVE EXPRESSED THE VIEW THAT THE EUROPEAN COUNCIL SHOULD, IN ACCORDANCE WITH THE CONCLUSIONS OF ITS DEUBLIN MEETING, MAKE KNOWN ITS POSITION ON CERTAIN MEASURES AIMED AT PROMOTING A GREATER CONVERGENCE OF THE ECONOMIC PERFORMANCES OF THE MEMBER STATES: THEY HAVE REFERRED TO THE FOLLOWING COMMISSION PROPOSALS.

15.2. THE COMMISSION HAS INVITED THE EUROPEAN COUNCIL TO ADOPT THE PRINCIPLE THAT THE RATE OF INCREASE IN EXPENDITURE FOR INVESTMENT PURPOSES AND FOR STRUCTURAL MEASURES SHOULD BE APPRECIABLY HIGHER THAN THE RATE OF GROWTH OF THE BUDGET.

15.3 THE COMMISSION HAS ALSO PROPOSED THAT SPECIAL RESOURCES BE CHANNELLED TO THE LESS PROSPEROUS MEMBER STATES BY INCREASED USE OF THE INTEREST REBATE SYSTEM, BY GRANTING EXTRA RESOURCES FOR REGIONAL DEVELOPMENT IN THOSE COUNTRIES AND BY IMPROVING THE OPERATION OF COMMUNITY FUNDS.

IV.

FINANCIAL CEILING

16. THE QUESTION OF THE CEILING OF 1 PER CENT OF VAT HAS BEEN RAISED DURING THIS PREPARATORY DISCUSSION. SOME DELEGATIONS HAVE STATED CATEGORICALLY THAT THERE CAN BE NO QUESTION OF THIS CEILING BEING EXCEEDED. OTHERS HAVE OBSERVED THAT THIS CANNOT BE MADE A PRINCIPLE. THEY REGARD IT AS A LIMIT WHICH WILL CERTAINLY HAVE TO BE OBSERVED IN THE CASE OF THE UNITED KINGDOM'S PROBLEM (SEE THE CONCLUSIONS OF THE EUROPEAN COUNCIL MEETING IN DUBLIN) BUT MUST NOT BE REGARDED AS HARD AND FAST IN THE OVERALL CONTEXT WITH A VIEW TO THE FUTURE DEVELOPMENT OF COMMUNITY POLICIES.

V.

OTHER PROBLEMS

17.1 BEARING IN MIND THE CONCLUSIONS OF THE EUROPEAN COUNCIL IN DUBLIN, IN VIEW ALSO OF THE PRECONDITION INVOLVED FOR ONE DELEGATION AND OF THE FACT THAT- IN THE PRESIDENCY'S OPINION- A NUMBER OF OTHER PROBLEMS MUST BE SETTLED, THERE APPEARS TO BE A NEED FOR A CONSENSUS TO BE REACHED ON THE IMPORTANT MATTERS CURRENTLY UNDER DISCUSSION IN THE AGRICULTURAL SECTOR (PRICES FOR THE NEW MARKETING YEAR, ADJUSTMENT MEASURES, ORGANIZATION OF THE MARKET IN SHEEPMEAT).

17.2 THE AGRICULTURE COUNCIL'S CONTRIBUTION ON THESE MATTERS IS GIVEN IN ANNEX IV.

ONE DELEGATION HAS SAID THAT THIS CONTRIBUTION DOES NOT PROVIDE THE EUROPEAN COUNCIL WITH SUFFICIENTLY PRECISE AND SPECIFIC MATERIAL TO WORK ON FOR ALL THE AGRICULTURAL PROBLEMS IN QUESTION AND HAS REITERATED THE PRECONDITION WHICH IT SET IN THIS CONNECTION.

18. THE PRESIDENCY WOULD ALSO EMPHASIZE THE IMPORTANCE TO SEVERAL DELEGATIONS OF ADOPTING GUIDELINES AND A TIMETABLE FOR THE FISHERIES POLICY AND OF MAKING HEADWAY TOWARDS COMMUNITY SOLUTIONS IN THE FIELD OF ENERGY.

/BASIC PRINCIPLES

BASIC PRINCIPLES

(TEXT DRAWN UP BY THE PRESIDENCY)

THERE IS A CONSENSUS THAT AT THE START OF ITS DISCUSSIONS ON CONVERGENCE AND BUDGETARY QUESTIONS THE EUROPEAN COUNCIL SHOULD REAFFIRM CERTAIN BASIC PRINCIPLES.

THESE PRINCIPLES COULD BE AS FOLLOWS:

1. THE COMMUNITY SHALL HAVE AS ITS TASK, BY ESTABLISHING A COMMON MARKET AND PROGRESSIVELY APPROXIMATING THE ECONOMIC POLICIES OF MEMBER STATES, TO PROMOTE THROUGHOUT THE COMMUNITY A HARMONIOUS DEVELOPMENT OF ECONOMIC ACTIVITIES, A CONTINUOUS AND BALANCED EXPANSION, AN INCREASE IN STABILITY, AN ACCELERATED RAISING OF THE STANDARD OF LIVING AND CLOSER RELATIONS BETWEEN THE STATES BELONGING TO IT.
(TEXT OF ARTICLE 2).

2. THE ACHIEVEMENTS OF THE COMMUNITY ARISING FROM THE IMPLEMENTATION OF THE TREATIES MUST NOT BE WEAKENED OR CALLED INTO QUESTION. THE EUROPEAN COUNCIL HERE REAFFIRMS IN PARTICULAR THE PRINCIPLES GOVERNING THE COMMON AGRICULTURAL POLICY, THE COMMON COMMERCIAL POLICY AND THE SYSTEM OF OWN RESOURCES:

- THE COMMON AGRICULTURAL POLICY IS FUNDAMENTALLY IMPORTANT SINCE ON IT DEPEND THE EVERYDAY LIFE AND THE FUTURE OF A LARGE PART OF THE POPULATION OF THE COMMUNITY. IT MUST FULFIL ALL THE OBJECTIVES SET FOR IT IN ARTICLE 39 OF THE TREATY OF ROME:

- THE COMMON COMMERCIAL POLICY IS THE EXPRESSION OF A COMMUNITY WHICH IS OPEN TO THE OUTSIDE WORLD IN ALL SECTORS AND WHOSE FUNCTION IT IS TO EXPORT. IT IS THE MEMBER STATES' OBJECTIVE TO CONTRIBUTE THROUGH THIS POLICY, THEREBY SERVING THE COMMON INTEREST, TO THE HARMONIOUS DEVELOPMENT OF WORLD COMMERCE, TO THE PROGRESSIVE ABOLITION OF RESTRICTIONS ON INTERNATIONAL TRADE AND TO THE LOWERING OF CUSTOMS BARRIERS:

- OWN RESOURCES ARE INTENED TO PROVIDE THE FINANCE FOR COMMUNITY POLICIES. THEY ARE THE COMMUNITY'S OWN AND CANNOT BE REGARDED AS CONTRIBUTIONS FROM THE MEMBER STATES.

3. IT IS IN THE NATURE OF THE COMMUNITY TO EVOLVE THE MOVE AHEAD. IT IS THEREFORE NECESSARY TO MAKE USE OF THE POSSIBILITIES WHICH THE TREATIES PROVIDE FOR DEVELOPING COMMON POLICIES IN ORDER TO FACE UP TO THE CHALLENGES OF THE 1980'S AND, BY REDUCING THE DISPARITIES BETWEEN THE ECONOMIES OF THE MEMBER STATES, TO ENCOURAGE HARMONIOUS ECONOMIC GROWTH. THE EUROPEAN COUNCIL IS CONVINCED THAT IN THIS WAY NOT ONLY WILL MEMBER STATES EXPERIENCE NEW FORMS OF MUTUAL SOLIDARITY, BUT EXISTING SOLIDARITY WILL THEREBY BE STRENGTHENED.

/4. WHILE

4. WHILE THE MAIN RESPONSIBILITY FOR A GREATER CONVERGENCE OF ECONOMIC PERFORMANCES LIES WITH THE MEMBER STATES, COMMUNITY POLICIES CAN AND MUST PLAY A SUPPORTIVE ROLE IN THE CONTEXT OF INCREASED SOLIDARITY. TO THIS END, A GREATER EFFORT WILL HAVE TO BE MADE TO STRENGTHEN THE ECONOMIC POTENTIAL OF THE LESS PROSPEROUS MEMBER STATES.

5. IN ACCORDANCE WITH THE CONCLUSIONS OF THE PARIS SUMMIT OF 1914, THE COMMUNITY INSTITUTIONS SHOULD SEEK TO AVOID A SITUATION WHEREBY, DURING THE PROCESS OF CONVERGENCE OF THE MEMBER STATES' ECONOMIES, SITUATIONS ARISE WHICH ARE UNACCEPTABLE TO A GIVEN MEMBER STATE AND INCOMPATIBLE WITH THE PROPER FUNCTIONING OF THE COMMUNITY (1).

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(1) SOME DELEGATIONS THINK THIS POINT WOULD BE BETTER PLACED IN THE INTRODUCTION TO PART II OF THE NOTE FROM THE PRESIDENCY.

ANNEX III

SUMMARY OF THE EXCHANGE OF VIEWS HELD BY THE PERMANENT REPRESENTATIVES COMMITTEE ON THE FRENCH DELEGATION'S '' DRAFT SUMMARY OF CONCLUSIONS''

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1. ON 24 APRIL 1980 THE PERMANENT REPRESENTATIVES COMMITTEE HELD A DETAILED EXCHANGE OF VIEWS ON THE ''DRAFT SUMMARY OF CONCLUSIONS OF THE EUROPEAN COUNCIL - GENERAL PRINCIPLES'' SUBMITTED BY THE FRENCH DELEGATION AT THE FOREIGN AFFAIRS COUNCIL MEETING ON 22 APRIL.

2. ALL THE DELEGATIONS, TO A VARYING DEGREE, APPRECIATED THE BASIC REASONING WHICH LAID STRESS ON CERTAIN FUNDAMENTAL PRINCIPLES OF THE BUILDING OF THE COMMUNITY.

3. A NUMBER OF COMMENTS WERE MADE ON THE TEXT, THE CHIEF OF WHICH WERE AS FOLLOWS:

4.
(A) CERTAIN POINTS WERE PRESENTED AS FUNDAMENTAL PRINCIPLES WHEREAS THEY WERE IN FACT POLITICAL OPTIONS. FOR EXAMPLE: THE FOOD-EXPORTING FUNCTION, THE CONTINUANCE OF FAMILY-TYPE FARMING, AND THE CEILING OF 1 PER CENT OF VAT:

/(B) IT

(B) IT SHOULD BE REMEMVERED THAT, ALONGSIDE THE IDEA OF COMMQNITY PREFERENCE, THE TREATY ALSO CONTAINED THE PRINCIIPLE OF OPENNESS TO THE OUTSIDE (APTICLE 110), A PRINCIPLE WHICH UNDERLAY THE POLICIES FOLLOWED, FOR INSTANCE, IN GATT, THE LOME CONVENTION AND IN THE AGREEMENTS WITH THE MEDITERRANEAN COUNTRIES:

(C) THE REFERENCE TO A MORE EFFECTIVE CURB ON THE FINANCIAL COST OF THE AGRICULTURAL POLICY DID NOT SEEM TO SOME DELEGATIONS TO CARRY MUCH CONVICTION, ESPECIALLY IN VIEW OF THE ECO/FIN COUNCIL'S RESOLUTION OF FEBRUARY 1980, WHICH OUGHT TO BE REAFFIRMED:

(D) ONE DELEGATION FOUND IT HARD TO AGREE TO AN ACTIVE EXPORT POLICY FOR AGRICULTURAL FOODSTUFFS IF THIS HAD TO BE SUBSIDIZED EITHER THROUGH ITS COST TO THE COMMUNITY BUDGET OR THROUGH ITS EFFECT ON WORLD MARKETS:

(E) WITH REFERENCE TO PARAGRAPH 2(C), WHERE IT IS STATED THAT NOTHING IN COMMUNITY LAW GAVE GROUNDS FOR ENTERTAINING ANY COMPARISON BETWEEN EXPENDITURE IN EACH MEMBER STATE AND OWN RESOURCES DERIVED FROM IT, THE COMMENT WAS MADE THAT THE CONCEPT OF RELATIVE SHARES DID FEATURE IN THE DECISION OF 21 PARIL 1970 AND THAT THERE WAS PROVISION FOR SUCH A COMPARISON UNDER THE FINANCIAL MECHANISM:

(F) AS REGARDS PARAGRAPH 4, SOME DLEGATIONS THOUGHT THAT, IN ADDITION TO CO-ORDINAATING ECONOMIC AND SOCIAL DEVELOPMENT POLICIES, IT WAS IMPORTANT THAT THE COMMUNITY SHOULD COMMIT ITSELF TO UNDERTAKING FURTHER POLICIES, THIS IN THEIR EYES BEING AN AIM WHICH WAS AS RELEVANT AS OTHER FACTORS TO CONVERGENCE IN THE ECONOMIES OF THE MEMBER STATES.

ENDS

FCO ADVANCE TO:
FCO - SPRECKLEY FITZHERBERT
TSY - ASHFORD

BUTLER [ADVANCED AS REQUESTED]

FRAME GENERAL
ECD (I)

Prime Minister

1. The Commission have now drawn our attention to a revised figure for our 1978 contribution published by them, which allows for an Article 131 refund in respect of 1978 made in the first quarter of 1979. That reduces the 1978 figure from 407 to 228 without changing any other figure.

2. So the run of Commission figures for our contributions on an importer pays basis is now:

1976	- 90
1977	+ 126
1978	- 228
1979	- 849
1980 (forecast)	-1683

3. As you know, the 1979 (and 1980) figures are on a different basis from the earlier figures but it is likely to do more harm than good to trouble the Council with this. We shall have to make sure we are comparing like with like in the detailed negotiations. But taking the figures as they stand the averages are:

1977/79	- 317
1978/79	- 539

KEC

K Couzens

27 April 1980

e 1a: Expenditure, receipts and balances broken down by Member State for 1980 -
original estimates(1) and revised estimates - MCAs paid by exporting Member States (on behalf of importing Member States) recharged to importing Member States

	Expenditure for Categories 1 - V		Financing		Balance (Expenditure-Financing)	
	Estimate		Estimate		Estimate	
	original	revised	original	revised	original	revised
	2	2	3	4	5	6
A. In MEUA						
B	1.460	1.320 (2)	922	851	+ 538	+ 469
DK	651	715	368	327	+ 283	+ 388
D	3.471	2.994	4.578	4.110	- 1107	- 1116
F	2.917	2.655	3.037	2.614	- 120	+ 41
IRL	573	626	137	124	+ 436	+ 502
I	2.621	2.395	1.750	1.641	+ 871	+ 754
L	312	303 (3)	20	16,5	+ 292	+ 287
N	1.629	1.555	1.270	1.197	+ 359	+ 358
UK	1.561	1.225	3.113	2.908	- 1552	- 1683
Total	15.195	13.788	15.195	13.788	0	0
B. As%						
B	9,6	9,6	6,07	6,17	+ 3,5	+ 3,4
DK	4,3	5,2	2,42	2,37	+ 1,9	+ 2,8
D	22,8	21,7	30,12	29,81	- 7,3	- 8,1
F	19,2	19,2	19,99	18,96	- 0,8	+ 0,3
IRL	3,8	4,5	0,90	0,90	+ 2,9	+ 3,6
I	17,3	17,4	11,52	11,90	+ 5,8	+ 5,5
L	2,0	2,2	0,13	0,12	+ 1,9	+ 2,1
N	10,7	11,3	8,36	8,68	+ 2,3	+ 2,6
UK	10,3	8,9	20,49	21,09	-10,2	-12,2
Total	100	100	100	100	0	0

(1) Estimates from the "Reference Paper on Budgetary Questions", Doc. COM(79) 462 final of 12.9.79
(2) Including 552 m EUA for EC administrative expenses
(3) Including 281 m EUA for EC administrative expenses

1683
1552
(131)

[illegible] 1b: [illegible]diture, [illegible] [illegible]ances broken down by member State in 1980
original estimates and revised estimates
– [illegible] not re-charged

Country	Expenditure for Categories I – V		Financing		Balance Expenditure-Financing	
	Estimate		Estimate		Estimate	
	original	revised	original	revised	original	revised
	1	2	3	4	5	6
A. In mEUA						
B	1.472	1.330 (2)	922	851	+ 550	+ 479
DK	738	755	368	327	+ 370	+ 428
D	3.530	3.037	4.578	4.110	- 1048	- 1073
F	3.018	2.714	3.037	2.614	- 19	+ 100
IRL	650	664	137	124	+ 513	+ 540
I	2.484	2.299	1.750	1.641	+ 734	+ 658
L	312	303 (3)	20	16,5	+ 292	+ 287
N	1.692	1.591	1.270	1.197	+ 422	+ 394
UK	1.299	1.095	3.113	2.908	- 1814	- 1813
Total	15.195	13.788	15.195	13.788	0	0
B. As%						
B	9,7	9,7	6,07	6,17	+ 3,6	+ 3,5
DK	4,9	5,5	2,42	2,37	+ 2,5	+ 3,2
D	23,2	22,0	30,12	29,81	- 6,9	- 7,8
F	19,9	19,7	19,99	18,96	- 0,1	+ 0,7
IRL	4,3	4,8	0,90	0,90	+ 3,4	+ 3,9
I	16,3	16,7	11,52	11,90	+ 4,8	+ 4,8
L	2,1	2,2	0,13	0,12	+ 2,0	+ 2,1
N	11,1	11,5	8,36	8,68	+ 2,7	+ 2,8
UK	8,5	7,9	20,49	21,09	- 12,0	- 13,2
Total	100	100	100	100	0	0

(1) Estimates from the "Reference Paper on Budgetary Questions", Doc. COM(79)462 final of 12.9.1979
(2) Including 552 m EUA for European Community administrative expenses
(3) Including 281 m EUA for European Community administrative expenses

EHG(L)(80)3 REFERENCE C

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 680 final

Brussels, 21 November 1979

CONVERGENCE AND BUDGETARY QUESTIONS

(Communication to the European Council - Dublin, 29 and 30 November 1979)

COM(79) 680 final

COMMUNICATION TO THE COUNCIL

CONVERGENCE AND BUDGETARY QUESTIONS

I. INTRODUCTION

The Commission has made two communications to the Council of Ministers (COM(79) 462 of 12 September and COM(79)620 of 31 October) analysing certain problems connected with economic convergence and budgetary matters within the Community. On the basis of these communications there has been extensive discussion within the institutions of the Community, including the European Parliament, in Member States and by public opinion generally. The Commission believes that the moment is now right to propose to the Council the approach and decisions which will be necessary if present difficulties are to be resolved.

2. These difficulties cover a number of inter-related questions, including some concerned with the Common Agricultural Policy. These need to be dealt with on their merits, and are the subject of a separate paper by the Commission for the European Council. The present communication deals with the Community budget, both as concerns convergence and the particular problems which have arisen for the United Kingdom.

II. THE STRUCTURE OF THE COMMUNITY BUDGET

3. The Commission believes that a larger proportion of budgetary spending should be devoted to the improvement

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of structures and to general investment purposes within the Community. Such expenditure was envisaged in the Commission's latest three-year forecast to rise from 14% in 1980 to 22% in 1982 on the assumption that market support expenditure for agriculture would rise over the period at around 6% a year.

4. On expenditure within the agricultural sector, the Commission pointed out in its communication of 31 October that an increasing number of measures had been adopted in recent years to strengthen market support arrangements for Mediterranean products and to improve the incomes of the producers concerned. The Commission will do all it can to secure the rapid execution of these and other measures and the rapid adoption by the Council of further measures in other agricultural sectors of particular interest to Italy and Ireland. This should lead to a better balance in the pattern of agricultural production as a whole.

5. In the view of the Commission, the approach suggested by the Italian Government of fixing objectives for a rising proportion of Community expenditure devoted to structures and general investment purposes over a period is useful. The achievement of such objectives will depend on the ability of the Community to bring agricultural expenditure under control. Moreover the significance of the effects will be relatively small so long as present limitations on the size of the budget remain.

/6. In

6. In the light of these considerations the Commission invites the European Council to endorse the principle that to achieve a better balance between Community policies, the rate of increase in expenditure on structural and general investment policies should from 1980 onwards be significantly greater than the rate of increase in the size of the Community budget. If during the budgetary process this principle is not respected, the Commission undertakes to draw the attention of the Institutions to the situation without delay.

III. BUDGETARY DIFFICULTIES

7. The Commission believes that the achievement of a better balance within the budget will, together with other factors mentioned in its communication of 31 October, eventually solve most of the present difficulties of the United Kingdom in respect of the Community budget. But it recognises that for the immediate future there is a serious problem.

8. The transitional period for the United Kingdom, Ireland and Denmark was designed to permit the gradual integration of these Member States into the system of Community financing. The Commission believes that this approach was and remains right. In consequence such further measures as may be agreed should be temporary in nature. The necessary resources should be found from within the budget.

9. The Commission believes that any solutions adopted should not only be Community solutions but designed to

/strengthen

strengthen the cohesion and solidarity of the Community. They should conform to two basic principles. First they should respect the integrity of the own resources system. Second they should not have as their objective to put a Member State in a position of "juste retour" in respect of the Community budget.

10. In its reference document of 12 September the Commission forecast that the United Kingdom's financing share would rise sharply over her forecast share of Community GNP between 1979 and 1980. The main reason is that payments under the transitional arrangements set out in Article 131 of the Accession Treaty will come to an end.

11. One simple way of approaching the problem thus created would be to create a new ad hoc mechanism to compensate for any British contribution of full own resources going beyond a predetermined percentage increase in a given year. In its communication to the Council of 31 October, the Commission indicated that if no percentage increase over 1979 were allowed, the forecast share of the United Kingdom in financing the 1980 budget would be reduced by some 500 MEUA gross (390 MEUA net). But unless the British contribution were to be frozen at a given level, the arrangement would have diminishing impact.

12. A more promising approach would be to adapt the existing Financial Mechanism. The Commission recalls that when the Heads of State and Government agreed in principle to create the Mechanism in 1974, they had expressly in mind

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the Community declaration during the accession negotiations that "if unacceptable situations were to arise the very life of the Community would make it imperative for the Institutions to find equitable solutions". At its meeting in Strasbourg of June 1979, the European Council requested the Commission to examine the extent to which the Mechanism could play its part in 1980 and fulfil the objectives assigned to it.

13. For the reasons set out in the Commission's reference document of 12 September, payments made under the Mechanism as at present constituted could scarcely solve the problem. The Commission believes that the qualifying criteria for the operation of the Mechanism remain a valid measure of the relative prosperity of Member States within the Community and should remain unchanged. But to enable the Mechanism to fulfil more closely the role assigned to it, the Commission recommends removal of the limitation that if there were a balance of payments surplus the calculation of the excess contribution must be related solely to VAT. This would produce a payment of 300 MEUA gross (250 MEUA net) in respect of 1980 whether or not there was a balance of payments surplus. But as the United Kingdom will anyway find itself in payments deficit in 1979 and almost certainly in 1980, the Commission further recommends that the European Council in Dublin should define the conditions under which the two further restrictions on the operation of the Mechanism could be lifted. These are the tranche system which provides that only a part of the excess

/contribution

contribution is reimbursed; and the ceiling of 3% of the budget . If these restrictions were also removed, payments under the Mechanism in respect of 1980 would rise from 300 MEUA gross to some 630 MEUA gross (520 MEUA (net). *

14. There would be difficulty in any approach designed to combine a system of limiting increases in the British share of financing the budget with improvements in the operation of the Financial Mechanism. This is because the reduced share of financing which would result from any such limitation would logically have to be used in applying the Financial Mechanism. Payment under the Financial Mechanism would therefore be reduced by the amount resulting from the limitation.

15. This difficulty would not exist for arrangements affecting the expenditure side of the budget. Such arrangements would have to flow from the strengthening of Community policies which are necessary to improve the cohesion of the Community and are therefore central to the interest of the Community as a whole. It would be possible to envisage special, temporary and ad hoc measures which would ensure a greater participation by the United Kingdom in a number of Community policies and which would increase the present low level of Community expenditure in the United Kingdom. Such arrangements which would need

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* These figures, which were contained in COM(79)620 were based on exchange rates of mid-August 1979.

need to be in full conformity with the principles set out in paragraphs 8 and 9, could, for example, take the form of immediate assistance for exploitation of coal resources, measures to promote transport infrastructure, and some agricultural improvement schemes. If the United Kingdom were to join the European Monetary System an interest rebate system in respect of Community loans could comprise one vehicle for such payments.

16. If this approach were to be pursued, the Commission would stress that any contribution should be made on the basis of the Community budget and should be limited in time (perhaps three or four years). The volume of resources to be found must necessarily be settled by discussion within the Council.

17. So far only short and medium term solutions to the problems of convergence and the budget have been discussed. But as the European Parliament has pointed out, the existing policies of the Community are insufficient to bring about the degree of convergence between the economies of the Member States which is necessary for the progress and cohesion of the Community. The Commission believes that the European Council should bear this longer term consideration in mind when examining the proposals in this paper.

EHG(L)(80)3 REFERENCE D

UNITED KINGDOM BUDGET PROBLEM

(THE SIX POINTS)

1. The communique of the Dublin European Council provided the framework for a possible solution. There are not issues of principle outstanding. A satisfactory settlement might contain the following elements.

2. First, the removal of the existing constraints on the operations of the Financial Mechanism. The Regulation embodying this Mechanism (1172/76) should be extended with the existing clause replaced by a new one with a similar timescale ie a review not later than the end of the sixth year.

3. Second, there must be supplementary measures, as foreseen in the Dublin communique, leading to greater participation by the United Kingdom in Community expenditure. We can decide on the method or methods in the light of the Commission's proposals. They would be subject to review at the same time as the Financial Mechanism.

4. Thirdly, we are willing to accept that the United Kingdom should be a modest net contributor to the Community Budget. The combination of the Financial Mechanism and the improved receipts in the UK from Community expenditure should be devised in such a way that the UK would remain a modest net contributor not only for 1980 but in future years.

5. The United Kingdom believes that its net contribution should be below that of the Member State having the next highest GNP per head in the Community. The difference should be at least proportionate to the difference in levels of GNP per head.

6. For the medium term, the European Council should instruct the Commission to make proposals for achieving a better balance within the Community budget and ensuring that, by 1986, the proportion devoted to the Common Agricultural Policy (FEOGA Guarantee Section) would not exceed 55 per cent of the total. The Council should take account of the effect of implementing such proposals on the United Kingdom's net contribution at the time of the review of the Financial Mechanism and the supplementary measures.

7. I hope you can agree that this would represent a reasonable compromise and will be willing to consult our partners on this basis.

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L)(80) 3 ADDENDUM COPY NO 1

24 April 1980

EUROPEAN COUNCIL, LUXEMBOURG
27/28 APRIL 1980

EC BUDGET CONTRIBUTION

Note by H M Treasury

A commentary on the Presidency note on budget estimates for 1980 is attached.

H M Treasury
24 April 1980

BUDGET ESTIMATES FOR 1980: COMMENTARY ON THE PRESIDENCY NOTE

Points to Make - General

1. i) We accept that discussion of the UK problem must be on the basis of a statistical analysis which we can all agree to work with.

ii) No-one can predict with certainty the exact scale of net transfers through the Community Budget in 1980. As in other years there will be unforeseen special factors and anomalies which affect the final outcome.

iii) The Council needs a broad central estimate, which captures the overall tendency of each Member States' net position. That is what the Commission, from its authoritative position, has produced.

iv) As the note by the UK which forms Annex II to the Presidency document makes clear, we believe that the Commission's estimates may well understate Britain's likely net budgetary contribution. They certainly ignore the substantial non-budgetary costs which the UK, as a net importer of food, incurs through the operation of the CAP.

v) Despite these reservations, we are prepared to use the Commission figures set out in Annex I as a basis for discussion. But if others press their reservations, we shall necessarily have to press ours. In that case, the Council's attention would be diverted from finding a solution to the problem of Britain's excessive net contribution. This could be disastrous because the problem must be solved.

vi) In fact most of the points now raised were discussed last autumn. At Dublin we decided the only practical course was to agree to use the Commission figures as a basis, despite the reservations we may each have had. The only practical course now is to do the same.

Background

1. The latest Commission estimates for 1980 have been prepared using the same methods as were employed in drawing up last September's "reference paper" (COM(79)462). The European Council accepted the "reference paper" figures as the basis for its discussions in Dublin.

2. The UK has always maintained that the MCAs paid on UK food imports are properly to be regarded as a benefit to the exporting Member State. On that basis the correct figure for the UK's net contribution in 1980 is that in the final column of Annex I - 1813 MEUA. Moreover, as the UK note at Annex II points out, experience so far this year provides no justification for assuming that the UK will have any negative MCAs in 1980. In that case the estimate of 1813 MEUA would be appropriate even on an importer-benefits basis, If the Commission are proved over-optimistic in their assumptions about the CAP economies and the level of the 1980 agricultural price-fixing, the figure would be still higher (and the French are among those arguing against the proposal for economies). So the UK's willingness to negotiate on the basis of the Commission's lower "importer-benefits" figure is in itself a significant concession on our part.

3. Our latest estimates put the likely non-budgetary costs of the CAP to the UK in 1980 at around £300-£400 million (c 450-600 MEUA).

DETAILED COMMENTS

I UK note on MCAs and agricultural economies (Annex II)

This is self-explanatory and should be defended.

II "Carry-overs" (reports) from 1979 to 1980 (Annex III)

Points to Make

i) The UK believes that the "carry-overs" recorded in Annex III should be disregarded.

ii) If the Commission succeeds in tightening up its estimating procedures, these "carry-overs" will prove to be a special temporary factor, which will not recur in 1981 or later years. They can therefore have no place in estimates which are intended to show the pattern of net transfers in a "normal" year.

iii) When Member States' contributions towards the cost of financing these "carry-overs" are taken into account, as they must be, then their impact on the overall net positions becomes almost negligible. The UK's net contribution would fall by less than 1½% (24 MEUA). France's net receipts would rise by 8 MEUA. Changes of that order are insignificant in relation to the problem that the Community has to tackle.

Background

1. The problem of "carry-overs" arises because the Community Budget and the accounts relating to the Budget of a particular year are not statements of cash flows occuring during the calendar year. In the case of certain appropriations, notably the structural funds, it is possible to carry forward unspent appropriations into the following year to meet delayed claims. Such "carry-overs" have been financed by the contributions made in the previous

year and they are eventually charged to the Budget of the year of origin regardless of the fact that the expenditure may not be met until the following year.

2. When the Commission made the estimates in the September "reference paper" they ignored the problem of the "carry-overs" from 1979 to 1980 on the grounds that there would be similar "carry-overs" from the 1980 payment appropriations into 1981 and that the two sets of "carry-overs" could be regarded as cancelling each other out. The issue has arisen now because in the new Budget proposals for 1980 on which the latest estimates are based the Commission claims to have made a much more accurate forecast of the payment appropriations needed in the 1980 Budget. If their confidence in the tightness of their estimates proves justified, there would be no offsetting "carry-overs" from 1980 to 1981 to match the 900 MEUA carried forward from 1979.

3. But it would be wrong to suggest, as the French have done in their calculations in Annex V, that the full amount of the "carry-overs" should be deducted from the net contribution estimates to arrive at correct figures for 1980. As Mr Tugendhat made clear at the Finance Council on 21 April, any calculations of net transfers must take into account the contributions made by individual Member States to the cost of financing "carry-overs".

4. The net effect of the "carry-overs" (calculated by deducting the figures in the last column of Annex III from those in the penultimate column) is as follows:

	MEUA
Belgium	- 36
Denmark	+ 2
Germany	-129
France	+ 8
Ireland	+ 61
Italy	+122
Luxembourg	+ 1
Netherlands	- 53
UK	+ 24

III Administrative expenditure (Annex IV)

Points to Make

i) What is at issue is the disproportionate burden imposed on the UK by the Community's budgetary arrangements, not the effect that they have on the countries where the bulk of the Community's institutions are sited ie Belgium and Luxembourg.

ii) The Community's administrative expenditures are part of the budget and have to be financed. To the extent that the UK contributions under the own resources system are excessive, our contributions to the administrative expenditures are excessive and must be taken into account in the figures.

iii) So far as Belgium and Luxembourg are concerned, the expenditures in question undoubtedly bring substantial benefits to their economies. They improve their balance of payments position and inject additional demand into their economies at a time of low economic activity when the resources concerned might otherwise be unemployed.

iv) Indeed, the budgetary figures for administrative expenditure may actually understate the gain to the Belgian and Luxembourg economies. Both countries benefit considerably, particularly on the invisible account, from increased investment by foreign companies which would not otherwise be sited in the two countries and through the expenditure of the many foriegn visitors associated with the Community institutions.

v) Why, if no economic benefits flow from the presence of Community institutions in their countries, are the

Member States concerned so keen to retain them? Witness the recent strenuous arguments between France and Luxembourg over the European Parliament.

Background

1. The Belgians and the Franch (see Annex V) have criticised the Commission's figures for net contributions on the grounds that they include Community expenditure on administration as a receipt by the Member State in which it takes place. They argue that it is not a resource transfer to the recipient country because all the Member States benefit from the activities financed - not just the Member State where the action occurs. They suggest that this expenditure should be removed from the calculation. The effect of this would be to reduce the UK net contributions by 182 MEUA (to 1501 MEUA on an importer-benefits attribution of MCAs and 1631 MEUA on an exporter-benefits basis - see Annex IV)

2. There is some logic in this argument, but:

i) The UK contributes to the cost of this expenditure through the Own Resources system. Very little of the money involved will find its way back to Britain. So there is undoubtedly a substantial transfer of resources; and,

ii) The countries which play host to the Community institutions clearly believe that they do receive a special benefit as a result of these transfers. Prestige considerations alone would hardly account for their enthusiasm to retain them.

IV **The French Estimates of Net Contributions** (Annex V)

Points to Make

i) The UK cannot accept that the French estimates of net contributions constitute a more accurate guide to transfers through the Community Budget than the Commission's estimates in Annex I.

ii) The deductions for "carry-overs" made in column B of Annex V completely ignore the contributions that Member States make to the financing of this expenditure (see comments on Annex III).

iii) The removal from the allocated Budget of the whole (col D) or 50% (col C) of the Community's expenditure on administration is likewise unacceptable. The resource transfers involved in running the Community's institutions cannot be ignored in any calculations of budgetary transfers (for detailed arguments see commentary on Annex IV). The 50% allocation in column C is entirely arbitrary and cannot be justified.

iv) The implication of the French estimates - that the UK's true net contribution is substantially lower than the Commission figures would suggest - is quite unwarrented. We believe that the other factors set out in our own note (Annex II), which suggest that the Commission figures if anything under-estimate our net contribution, are of considerably greater substance. But we are prepared to accept the Commission figures as the basis for discussion.

Background

1. The deduction of "carry-overs" in column B of the table with no account taken of financing is simply wrong, as the Commission have said. Even if it were valid to include the "carry-overs" in an assessment of 1980 net contributions (which

we dispute), the effect, allowing for both the expenditure and its financing (as one must) would not be dramatic as the following table shows:-

Revised "importer-benefits" figures

	MEUA
Belgium	+433
Denmark	+390
Germany	-1245
France	+ 49
Ireland	+563
Italy	+876
Luxembourg	+288
Netherlands	+305
UK	-1659

The UK's net contribution would diminish by only 24 MEUA.

2. The removal from the allocated budget of 50% of administrative expenditure is obviously put forward as an arbitrary compromise. We do not accept the need for such a compromise (see comments on Annex IV) and it has no logical basis. If we did accept it, the overall UK net contribution after the adjustments in columns B and C of the French table (and after correcting column B as in paragraph 1 above) would be 1568 MEUA on the "importer benefits" basis - 115 MEUA below the Commission figure. Full removal of administrative expenditure from the calculations would bring the UK contribution down to 1477 MEUA.

3895

Luxembourg, 21 April 1980
(22.04).

Note from the Presidency

Subject: Convergence and budgetary questions
- budget estimates for 1980

The size of the net balance of Member States' contributions to the 1980 budget has been the subject of a number of forecasts, which the Presidency has collected together in this note.

- Annex I gives the forecasts established by the Commission in its communication to the European Council dated 21 March 1980;
- Annex II contains the United Kingdom delegation's comments on these forecasts;
- Annex III compares the balances resulting from Annex I and the 1979 appropriations carried forward, and shows how the latter are financed;
- Annex IV sets out the balances for 1980 net of Community operating expenses;
- Annex V consists of a summary table drawn up by the French delegation.

The Presidency hopes that these forecasts will enable delegations to form a balanced view of the budgetary questions under examination.

ANNEXE I

Prévisions budgétaires 1980 - Soldes par Etat membre

en MUCE

	MCM réimputés aux Etats membres importateurs			MCM sans réimputation		
	Dépenses	Financement	Solde	Dépenses	Financement	Solde
Bel.	1.320	851	+ 469	1.330	851	+ 479
DK.	715	327	+ 388	755	327	+ 428
Deut.	2.994	4.110	- 1.116	3.037	4.110	- 1.073
France	2.655	2.614	+ 41	2.714	2.614	+ 100
IRL	626	124	+ 502	664	124	+ 540
Italy	2.395	1.641	+ 754	2.299	1.641	+ 658
Lux.	303	16,5	+ 287	303	16,5	+ 287
Neth.	1.555	1.197	+ 358	1.591	1.197	+ 394
UK	1.225	2.908	- 1.683	1.095	2.908	- 1.813
	13.788	13.788	---	13.788	13.788	---

ANNEX II

United Kingdom comments concerning its net contribution in 1980

The United Kingdom delegation has drawn attention to a number of factors which could lead to its net contribution to the Community Budget in 1980 being higher than foreseen in the Commission's estimates of 20 March, annexed as Tables 1a and 13 to document COM(80)147.

In the first place, the Commission's estimate of Monetary Compensatory Amounts to be paid on imports into the United Kingdom (put at 130 MEUA) assumes a negative MCA averaging 3% throughout the year. The United Kingdom delegation takes the view that, given the current level of sterling and the UK's policy on phasing out negative MCAs, this assumption is no longer realistic or appropriate.

Accordingly, even on an importer-pays attribution of MCAs the UK's net contribution is likely to be of the order of 1813 MEUA.

Second, the United Kingdom delegation notes that its net contribution in 1980 would also be increased above the level forecast by the Commission, in the absence of measures being adopted by the Council to produce savings in agricultural expenditure of the order proposed by the Commission.

PREVISIONS DES SOLDES 1980, REPORTS DE CREDITS 1979 ET LEUR FINANCEMENT

Pays	Soldes 1980 MCM réimputés aux E.M. importateurs	Soldes 1980 MCM sans réimputation	Reports de crédits 1979	Financement des reports
B	+ 469	+ 479	20	56
DK	+ 388	+ 428	24	22
D	- 1.116	- 1.073	144	273
F	+ 41	+ 100	182	174
IRL	+ 502	+ 540	69	8
I	+ 754	+ 658	231	109
L	+ 287	+ 287	2	1
N	+ 358	+ 394	27	80
UK	- 1.683	- 1.813	217	193
Total	-	-	916	916

PREVISIONS DES SOLDES DU BUDGET GENERAL
PAR ETAT MEMBRE 1980

Soldes sans dépenses de fonctionnement des Communautés en MUCE

Pays	Après imputation des MCM	Avant réimputation des MCM
B	− 28	− 18
DK	+ 408	+ 448
D	− 869	− 826
F	+ 199	+ 258
IRL	+ 506	+ 544
I	+ 850	+ 754
L	+ 6	+ 6
N	+ 429	+ 465
UK	− 1.501	− 1.631
Total	0	0

ANNEXE V

TABLEAU REVISE DES SOLDES BUDGETAIRES DES ETATS MEMBRES EN 1980

(présenté par la délégation française) (1)

en MUCE

	A Compte non tenu des reports	B compte tenu des reports et dépenses de fonctionnement imputés en totalité aux Etats du siège (Tableau 6 de la Commission)	C Ventilation de 50 % des dépenses de fonctionnement (Tableau 8 de la Commission)	D Ventilation entre Etats membres de la totalité des dépenses de fonctionnement
B	+ 469	+ 489	+ 242	- 8
DK	+ 388	+ 412	+ 422	+ 432
D	- 1.116	- 972	- 849	- 725
F	+ 41	+ 223	+ 301	+ 381
IRL	+ 502	+ 571	+ 573	+ 575
I	+ 754	+ 985	+ 1.033	+ 1.081
L	+ 287	+ 289	+ 149	+ 8
N	+ 358	+ 385	+ 420	+ 456
UK	- 1.683	- 1.466	$\boxed{- 1.375}$	- 1.284

(1) Sources : document de la Commission du 18.4.1980
- tableau 6 qui comprend la réimputation aux Etats membres importateurs des MCM payés par les Etats membres exportateurs et la dépense supplémentaire faite sur les reports
- tableau 8 qui ventile entre les Etats membres 50 % des dépenses de fonctionnement de la Communauté.

PM

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EHG(L)(80)4

24 April 1980 COPY NO 1

EUROPEAN COUNCIL, LUXEMBOURG
27/28 APRIL 1980

CAP PRICES/ECONOMY PACKAGE

Brief by the Ministry of Agriculture, Fisheries and Food

OBJECTIVE

1. To make concessions on agricultural prices only in the context of a satisfactory settlement of our budget problem; and to ensure that any concessions made are consistent with the need to contain the budgetary costs of the CAP and to secure a restructing of the budget.

POINTS TO MAKE

General

2. Discussions in the Agriculture and Finance Councils have underlined serious problems of agricultural surpluses and costs.

3. Recognise problems facing agricultural producers in the Community. UK not immune. Our producers suffered a reduction of income of 17 per cent in real terms in 1979 compared with previous year.

4. Essential that decisions on agricultural prices should also take full account of market and budgetary problems. Hence the line taken by the UK in Agriculture Council.

Economy proposals

5. It is disappointing that agricultural Council has not been able to reach a greater measure of agreement. Latest Commission figures on expenditure show how serious the situation will become unless measures are taken to check expenditure.

Price

6. The increasing cost of the Guarantee section of Budget only emphasises the need for maximum price restraint particularly on surplus commodities. Increases now will only store up greater problems for the future.

Price Formula

7. In the context of a fully satisfactory settlement of our budget problem, ready to discuss on the basis of the report from the Agriculture Council what this Council might say about the terms of a price settlement. Essential that we emphasise the need to bring the market situation under control and the budgetary problems.

 (Page 2(a) over)

BUDGETARY EFFECT OF PRICE INCREASES - FULL YEAR EFFECTS

(a) Increase in common prices		(b) Increase in Guarantee Spending	(c) Increase in UK net budget contribution
1 per cent	=	+ 150 MEUA (+ £100m)	£13 million
2.4 per cent (ie Commission's price proposals)	=	+ 360 MEUA (+ £240m)	£30 million
5 per cent (ie French figure)	=	760 MEUA (+ £500m)	£64 million

The cost figures in columns (a) and (b) are on a static basis and make no allowance for the dynamic effect of price increases on production and consumption. They show only the effect on Guarantee Section spending and take no account of increased levy revenue which gives an offset of 40 MEUA for every 1 per cent. They also relate only to price increases and not to other Commission proposals.

The increase in the UK net contribution is made up of an increase in our VAT contribution and in our effective levy hand-over less additional receipts under the CAP.

BACKGROUND

The Commission's proposals

8. The Commission have made two sets of proposals, one on economies in the CAP and the second on farm support prices for 1980/81 and related measures. Agriculture Ministers have been discussing these as a single package.

9. On prices, the Commission have proposed increases averaging 2.4 per cent and ranging from 1½ per cent (for milk and beef) to 3¾ per cent (for cereals). The "economies" proposals consist mainly of higher revenue from the proposed increased co-responsibility levies on milk producers, which is treated in the Budget as a direct offset to expenditure on the CAP. The various proposals and their financial effects are summarised in Annex III attached. Basic figures on the budgetary cost of the CAP are in Annex IV.

Discussions in the Agriculture Council

10. Agriculture Ministers have had three substantive discussions on the package of proposals as a whole, including the one at this week's meeting. There remain wide differences of view between different Member States on the main price proposals and the individual proposals for economies. On the main issues, the present state of play may be briefly summarised as follows:-

a) on prices, the other eight all appear to want price increases which would produce a higher average than the Commission have proposed, though widely differing views remain on the price increases for individual commodities. The French have stated that they want an average increase of 5 per cent; the others have not stated a firm figure. We have no support for nil increases on surplus commodities.

b) On <u>milk co-responsibility levies</u>, except for an increase in the basic levy to 1½ per cent, there is no sign of a consensus emerging.

c) On <u>sugar</u>, there is no agreement on the need for a cut in quotas; and, if the need was accepted, how large it should be or how it should be applied to individual national quotas.

d) On <u>beef</u>, there is no agreement on the proposed suckler cow subsidy or on the proposed modification in the intervention system;

e) On <u>Mediterranean crops</u>, the Italians and, where they have an interest, the French (eg wine) are seeking decisions which would be expensive to the Community Budget and which would have a substantial adverse effect on net contribution (eg on wine distillation, on the support price for olive oil and the subsidies paid on processed fruit and vegetables).

<u>Conclusions of Agriculture Council on 21/24 April</u>

11. Discussion at this week's meeting concentrated on the problems of the milk sector and on the preparation of a document for submission to the European Council. The document which finally emerged and which was described as "the outcome of the Council's discussion" is attached at Annex I. The main points in it are:-

a) On prices, a statement that "there must be some increases in prices", with no commitment on what the increases should be or, indeed,whether they should apply to all commodities.

b) On <u>milk co-responsibility levies</u>, acceptance that the disposal cost of additional milk over a base period should be met by linear (basic) levy of at least 1½ per cent, plus an additional element. There was no agreement on the amount of the additional element or on how it should be applied, and some Member States have attached specific conditions relating to the method of implementing the additional element.

c) Acceptance that the "budgetary situation in the Community should be a fundamental factor in the decisions to be taken", with reference to the ECOFIN conclusions of 11 February last (copy at Annex II).

Proceedings at the European Council

12. It is assumed that discussion will focus on the document recording the outcome of the discussions in the Agriculture Council. The French can be expected to press for a more detailed statement, particularly on the principles underlying the CAP and on the price increase in this year's settlement. It is impossible to know how discussions will develop. But the most likely areas for discussion seem likely to be:-

a) the principles of the CAP;

b) the price increase;

c) the budget problem including co-responsibility levies.

Principles

13. In the text of a general statement on the CAP and the principles underlying it, we should want to avoid the following:-

a) Any implication that CAP measures should discriminate against larger farmers and farmers who produce intensively; or in favour of the maintenance of family farms (the French and some others have been pressing for exemptions from co-responsibility levies for small farmers and progressively higher rates for large farmers and/or those who rely on bought-in feed).

b) Any statement in favour of an active export policy to third country markets (this would be highly unwelcome to third countries (eg New Zealand) and implies bigger export subsidies

c) Any references to stronger guarantees or higher returns for "Mediterranean" producers, or any implication that they are unfairly treated. (Signor Cossiga will want this; but concessions on Mediterranean products are very costly to the UK - their cost will be multiplied by enlargement - and benefit France as well as Italy. It would also imply abandoning the proposed economies on processed fruit and vegetables and could be understood to endorse relatively higher increases for "Mediterranean" products such as olive oil and wine).

d) Any references to strengthening the policy on farm structures in Mediterranean/poorer Community countries/regions. (A very expensive package of market and structural measures mainly favouring Italian agriculture was agreed in 1978; the further structures package which is before the Agriculture Council would be expensive for the UK. Italy and Ireland are seeking to have those items which would benefit them - covering beef and sheep production in Italy and agricultural production in the West of Ireland - adopted. These would cost the UK £10 million and £11.6 million respectively over the five years 1981/85).

e) Any reference to "financial solidarity". (The French are likely to press for this. It would inhibit us from arguing in the future for an element of national financing of the CAP).

f) Any commitment to reduce automatically positive monetary compensatory amounts. (We have resisted accepting so-called Gentleman's Agreement under which new positive MCAs have to be phased out over the 2 years provided prices allow this to be done without reduction in prices in national currencies).

Price increase

14. The French have indicated that they are looking for a commitment to an average price increase of 5 per cent. There is no consensus among Agriculture Ministers on this figure; and others may argue against the French approach on the grounds:-

a) that it is impossible to know what is a sensible overall increase without considering the price levels for individual commodities. A 5 per cent overall increase would imply relatively large increases for other commodities if price restraint was maintained on the surplus commodities;

b) that the increases in institutional prices are only meaningful if considered with the green rate changes (eg reduction in the German MCAs) and decisions on the co-responsibility levies.

15. Rather than accept the French approach, it would be preferable to agree to a firming up of the text of paragraph 2 of Annex I. This might be done by placing a full-stop at the end of the second line after "....... maintained in the common policy" and substituting the following for the remainder of this paragraph:-

"For this purpose an overall increase [somewhat/rather] above that in the Commission's proposals can be accepted provided that due regard is given to the market situation in fixing the price levels for individual commodities; that measures are taken to start the restoration of a better balance in certain markets, in particular for milk; and that the budget constraints are respected".

16. If it is concluded that an overall price increase in 1980 should be accepted, the aim should clearly be to keep the figure as low as possible - preferably 4 per cent though it seems unlikely that anything below 5 per cent would secure general acceptance.

17. Each 1 per cent price increase above the Commission's proposal would in a full year add some 150 MEUAs to the budgetary cost of the CAP. In 1980 the cost would be around 50 MEUAs. These figures, however, take no account of the dynamic effect of price changes on levels of production or consumption which would be expected to work through over time.

Budgetary ceiling

18. There could be discussion about the possibility of fixing a ceiling for the budgetary cost of the CAP in 1980. This could be seen as an alternative way of putting a constraint on Agriculture Ministers.

19. In their new 1980 Budget submitted in February, the Commission estimated Guarantee Section spending at 10,400 MEUAs, a reduction of 800 MEUAs on the figure in the draft Budget rejected by the Parliament. Of this saving, 370 MEUA depended on the 1980/81 price settlement and the remainder was due to short term movements in world prices and market management measures. In the event, spending has been running at a higher level than expected (14 per cent above the 1979 level on the basis of forecasts to the end of May). The Commission latest view is that spending is already likely to reach 11,000 MEUAs and that the figure might be 11,600 MEUAs unless

the Council takes the necessary measures to control production.

20. It follows that a ceiling of 11,000 MEUAs would be very difficult to keep to in 1980 unless the full package of economy measures which the Commission have proposed (including the super levy) was adopted. There is no prospect of this or of alternative savings in the current year of equivalent amount.

21. A ceiling on the 1980 expenditure on the CAP would, moreover, not in itself check the longer term upward trend since the commitments in the current year on some commodities will not become payable until the early part of 1981. Among the most vulnerable areas of expenditure are those which would benefit us (including the 100 per cent butter subsidy and our efforts to achieve overdue repayments of rebates on cereals used in whisky).

22. It is difficult to see how a ceiling at a level which would seriously constrain expenditure will be acceptable to those Member States who are looking for larger price increases.

23. Nevertheless, if it is judged necessary, we could accept a ceiling on overall Guarantee expenditure in 1980 of 11,000 MEUAs.

24. It is difficult to see how the Council can make progress in reconciling the differences between Member States on the arrangements for applying increased co-responsibility levies. We must continue to resist any commitment to accept new exemptions or levies with a progressive element. We must also avoid any implication that the increased co-responsibility levies would be offset by price increases.

Ministry of Agriculture, Fisheries and Food
24 April 1980

EXTRACT FROM PRESS RELEASE OF AGRICULTURAL COUNCIL 22/24 APRIL 1980

AGRICULTURAL PRICES FOR 1980/81 AND RELATED MEASURES

1. The outcome of the Council's discussion on the Commission proposals concerning the fixing of agricultural prices for 1980/81 and related measures and the proposals relating to changes in the CAP to help balance the markets and streamline expenditure was as follows:-

i) The general principles on which a settlement must be based are as follows:-

a) In order that the CAP can play its full role in the Community it is essential to recreate a climate of confidence and stability in the policy. In this way Community farmers must be reassured about the continuity and permanence of the policy. It is in this context that the decisions on prices must be seen;

b) if confidence and stability are to be restored, it is also important that certain disciplines must be accepted in order to re-establish a market balance where imbalances now threaten the common policy through their financial consequences.

2. The necessary pre-conditions, therefore, of any settlement are that confidence should be re-established and maintained in the common policy; that for this purpose there must be some increases in prices; that measures are taken to start the restoration of a better balance in certain markets, in particular for milk; and that the budget constraints are respected.

3. The decisions on prices must take account of producers' incomes, the market balances and the relationships between support prices for different products. It follows that the price decision must be modulated by product. It should also be recalled that structural policy (on which the Commission has made a series of proposals) is also an essential element in the maintenance and fair distribution of income. There was a large majority in favour of a higher level of price increases than proposed by the Commission.

4. The most essential factor for market balances is that for milk there should be both a disincentive for increases in milk production above the level for a reference period and sufficient funds to finance the extra cost of disposal without putting an extra charge on the budget. There is a consensus that under these conditions of surplus production the disposal cost to any additional milk delivered to dairies by comparison with the reference period (Commission assessment 515 MEUA on base 1979 - 1 per cent; Suggestion of certain delegations 346 MEUA on base 1979) should be the responsibility of producers themselves, which should be implemented by a linear levy, at least at the level of the 1979 decision, plus an additional element. There are still certain differences of view over the form and the arrangements for applying the additional element.

Some delegations made their agreement to the principle of the producers' responsibility subject to the condition that the burden of marketing additional quantities should be covered by an additional levy on products that are placed in intervention. Other delegations made their agreement conditional on the application of a progressivity element.

5. The Commission emphasised that its proposal was intended to supplement the Council's decision of 1979 on the increase of the basic rate to 1.5 per cent.

6. Action on the budget cost is clearly important in other sectors.

7. The budgetary situation of the Community is also the fundamental factor in the decisions to be taken. The Council referred in this connection to the conclusions reached at the Council meeting on economic and financial questions on 11 February 1980.

STATEMENT OF ECONOMICS & FINANCE COUNCIL OF 11 FEBRUARY

11.II.80

FINANCIAL ~~FINAL~~ IMPLICATIONS OF THE COMMON AGRICULTURAL POLICY

I. The Council, bearing in mind the conclusions of the European Council in Dublin, took note of the proposals made by the Commission on 4 December 1979 for improving the common agricultural policy with a view to helping to balance the markets and streamlining expenditure. It approved the Commission's objective of resolving the specific problems arising, in the interests of safeguarding the common agricultural policy and its economic and social merits, while respecting its principles and taking account of current budgetary difficulties. This goal presupposed substantial savings and a prudent price policy.

II. The Council considered it to be desirable that the discussions on the Commission's proposals should be guided by the following principles:

1. An improvement of the common agricultural policy with the aim of considerably reducing the growth rate of agricultural expenditure was absolutely essential also in order to ensure that the 1% own resources limit was not exceeded, having regard to the resources required for other policies.

2. Subject to the examination of the assessment announced by the Commission of the foreseeable development of market organization expenditure in the event of its proposals

being implemented and taking growth in expenditure over the last few years as a basis, it would be necessary to take measures leading to substantial savings, reaching the order of magnitude proposed by the Commission.

3. In this connection, the Council was of the opinion that the measures should be directed particularly at surplus products; it requested the Commission to see whether further savings might be achieved by means of the more efficient use of the market organization instruments.

III. The Council requested the Permanent Representatives Committee and the AGRI/FIN Working Party to continue examining the financial aspects of the improvement of the common agricultural policy and to report back to the Council at the very earliest opportunity, in preparation for further discussions.

ANNEX III

CAP PRICES AND ECONOMIES PACKAGE

FINANCIAL EFFECTS

1 The Commission estimate that the effects of the package would be a saving of 700 MEUA (£450m) in a full year of which 670 MEUA (£430m) are accounted for by the revenue from the increased milk co-responsibility levies. If adopted without amendments, the proposals would bring about a reduction in the United Kingdom's net contribution to the Budget of about £15 million in 1980/81 and about £5 million in a full year. Producers' incomes, after allowing for higher food costs, would fall by about £27 million in a full year and the food price index would go up by 0.3%, assuming that the UK butter subsidy continued at its present level. Public expenditure would be reduced by about £30 million 1980/81 and by over £50 million in a full year. There would also be a reduction of about £70 million in the PSBR in a full year.

THE PROPOSALS

MILK AND MILK PRODUCTS

2 The Commission propose an increase of 1.5% in the target price for milk, zero on the butter intervention price and +2.8% for skimmed milk powder. The UK butter subsidy currently 100% financed by FEOGA would be abolished but the 75% FEOGA financed subsidy would be available to us. Revenue would come from a 1% point increase in the basic co-responsibility levy to 1.5% (exemption for first 60,000 kg produced by herds in Less Favoured Areas) and huge supplementary levy of 18 ECU/100 kg on deliveries to dairies in excess of 99% of their 1979 throughput.

3 The UK wants a price freeze for milk. We consider the exemption from the basic levy to be discriminatory and the supplementary levy

more so, as our "dairies" are the Milk Marketing Boards which gives us less scope for adjusting deliveries to avoid the levy. The 75% FEOGA financed butter subsidy maintained at the current level would add £22 million to our net budget contribution and require an increase of £28 million in public expenditure. The abandonment instead of the subsidy would lead to a price increase for butter in the UK of 13 pence per lb. Obviously therefore, it is strongly in our interest to retain the 100% FEOGA financed subsidy if at all possible.

BEEF

4 The Commission propose an increase of 1.5% in the guide and intervention prices and a suckler cow subsidy of about £37 per head limited to the first 15 cows in full-time holdings from which no milk is sold. There is no proposal to continue the UK variable beef premium or Italian calf subsidy. Suspension of intervention arrangements in April-August has also been proposed.

5 We can accept the price increase but the suckler cow subsidy discriminates against our larger herds. However, even as proposed, we would get a small net benefit and so could accept it, if possible having removed or raised the cut-off. We need to have the variable beef premium or a convincing alternative, especially if Italy gets her calf subsidy. We can accept the suspension of intervention only if our market is safeguarded against imports mainly from Ireland which would otherwise have been sold into intervention there.

SUGAR

6 The Commission propose an increase of 1.5% on the minimum beet prices with 2.8% on target and intervention prices for white sugar. The production quotas expire at the end of this crop year and the new ones (reduced overall by 1.3m tonnes) would be based on the two best harvests between 1975 and 1979 and reduced by a factor of 0.9279. No Member States would get less than 90% of its present "A" quota. The production levy on "B" quota sugar would be increased from 30% to 40% of the intervention price. These proposals have not met with general acceptance and the Commission have now floated a revised proposal which would be based on a reduction coefficient of 0.95 and preservation of "A" quotas. Even this is likely to discriminate heavily against the UK industry which has been expanding steadily since acreage controls were lifted when we joined the EEC and has just completed a £150m expansion and modernisation programme.

7 As sugar is in surplus we want a price freeze. We support the reduction in total quotas as a means to cut back the surplus but oppose the discriminatory allocation to the UK. We have said we are prepared to take a fair share of the cut. Other Member States have difficulties and we may have to accept the continuation of existing quotas for a further year to allow negotiations to continue.

CEREALS

8 The Commission propose to increase the target prices for all grains by 3.75%. Intervention prices would generally increase by

2.0% with only a 1.75% increase in the reference price for bread-making wheat and a reduction of 7% in the rye intervention price to align it with other feedgrains. Starch production refunds would be phased out over 3 years.

9 We will seek the smallest possible price increases and oppose the widening of the gap between target and intervention prices which would put up the price of imported cereals relative to those produced in the Community. The proposal to end starch production refunds, together with the target price increase, would damage our efficient maize starch industry, but we would be prepared to see some reduction (say one third) in the level of refunds coupled with a satisfactory outcome on wheat and maize target prices.

WINE

The Commission propose increases in the guide prices for the various sorts of wine averaging 3%.

As wine is in structural surplus, we want a price freeze.

OTHER COMMODITIES

Price increases ranging generally between 1.5% and 5% have been proposed. We wish to have restraint on prices in all sectors, particularly where the budgetary costs are high eg olive oil, oilseeds, tobacco.

ANNEX IV

KEY FACTS ON THE COMMON AGRICULTURAL POLICY

COST OF THE CAP - 1979 and 1980 (revised) Budget Figures

	1979			1980 (1)		
	MEUA	£m	% of total Budget	MEUA	£m	% of total Budget
Total cost of CAP - total	10700	7150	74	10700	7150	73
- guarantee	10400	6940	72	10420	6950	71
Estimated cost of surplus disposal	705	4700	49		na	na
Gross UK contribution to CAP	1875	1250	13	2140	1430	15
Gross UK contribution to surplus disposal	1245	830	9		na	na

Cost of major commodities

	1980 (1)		
	MEUA	£m	% of CAP total
Milk (2)	3885	2590	36
Cereals and rice	1658	1110	15
Beef	1168	780	11
Sugar	895	600	8
Oils and Fats	705	470	7
Fruit and Vegetables	564	380	5

(1) Provisional Budget taking into account effect of proposals on CAP prices and economies

(2) Net expenditure taking account revenue from co-responsibility levies

SIZE OF INTERVENTION STOCKS (AS AT OCTOBER 1979) (thousand tonnes)

	Intervention Storage	Aided Private Storage	Total
Skimmed Milk Powder	353	-	353
Butter	319	244	563
Cheese	-	62	62
Beef	222	49	271
Wheat	1255	-	1255
Barley	54	-	54
Rye	511	-	511
Durum Wheat	152	-	152
Olive Oil	48	-	48

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16 APRIL 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

SHEEPMEAT

Brief by Ministry of Agriculture, Fisheries and Food

Objective

1. To avoid concessions on interim or permanent support arrangements for sheepmeat.

2. If essential to make concessions to secure a satisfactory settlement of our budget problems to ensure that they are held within the limits set out in paragraph 6.

Points to Make

3. Sheepmeat Regime

(i) Linkage with budget unjustified. Regime must be decided on its merits.

(ii) We remain ready to negotiate constructively for either interim or permanent arrangements.

(iii) Any support measures must recognise that we have the major interest in sheepmeat production and consumption and give the UK a fair share of receipts. It would be quite ridiculous if the regime failed to bring financial benefit to the UK where production is 47% of the Community total and when the budgetary imbalance against us is so strong. Our producers would lose the support of our own national support measures (Fat Sheep Guarantee) and must have an adequate replacement.

(iv) Must have a proper common market for sheepmeat and a common support level which does not encourage surplus production.

(v) Intervention quite unsuitable for sheepmeat:

(a) If operated anywhere near existing French price levels would be well above beef support level which is particularly high already. This would discourage consumption and damage the development of the industry.

(b) Makes no sense for deficit commodity, especially as (unlike beef) no manufacturing demand. Could be very expensive and disposal would disrupt Community and world markets. Not operated for pigmeat or poultry and not suitable for sheepmeat.

(vi) Could not agree to unbinding GATT-bound tariff. This already gives Community 20% preference. Voluntary restraint quite adequate to meet French concern.

4. French Import Controls

(i) Must respect EEC Treaty. Difficulties arise for all of us but this is price of Customs union.

(ii) Six months since Court ruled clearly that France's closure arrangements and levies were illegal. When ruling that no interim injunction required, Court again made clear that French Government must comply whether or not sheepmeat regime has been agreed.

(iii) We would not object to French Government introducing its own legal measures of support to cushion effect on producers in view of very real political problems. Impression that French public think this would be reasonable and that French consumers would welcome additional supplies of excellent UK lamb.

5. Interim arrangements

At the Agriculture Council on 3-4 March France alone rejected a compromise interim measure. In addition to receiving her share of Community aid towards support for sheep producers France would have been able to carry out intervention at her own expense. This proposal was acceptable to all other 8 Member States. By quite unreasonably rejecting this proposal, France alone has blocked progress in resolving the present crisis arising from her refusal to comply with Community law.

6. If the Prime Minister judges it essential to make concessions to obtain French endorsement of a satisfactory budget solution

Prepared to contemplate arrangements involving Community-financed premiums which initially assist France and limited form of intervention if they also provide for:

(i) Immediate and permanent removal of illegal French restrictions on UK exports.

(ii) Support arrangements to be at a common level after a short transitional period.

(iii) UK to receive proportionate share of benefits.

(iv) No unbinding of the GATT-bound tariff.

Agriculture Ministers should be left to settle the precise arrangements.

Background

7. General

France has nearly one-third of Community sheepmeat production: the UK nearly half. The French have refused to end their illegal import restrictions until Community measures are agreed which include intervention and would prevent a fall in the revenues of their sheep producers. At the Agriculture Council on 3-4 March France alone rejected a compromise interim proposal, acceptable to all other 8 Member States. Following the ending of French import restrictions this would have made available Community aid towards national measures to support sheep farmers and France as well as the UK would have got her fair share of the Community aid. In addition France would have been allowed to carry out intervention at her own expense. The French, however, insisted on Community-financed intervention and would not give a clear assurance that given such an interim measure they would not in the future re-impose their illegal import controls.

8. The French have linked progress on sheepmeat with a solution to the budget problem. They are likely to press, with Irish support and probably the acquiescence of other Member States, for agreement on arrangements, either permanent or if temporary which will continue until a permanent regime is agreed, which include Community-financed intervention and will prevent a fall in the revenues of their sheep producers following the ending of their import restrictions. Community intervention is not in the UK interest nor are Community arrangements which would perpetuate the present discrimination against our sheepmeat sector and deprive the UK of a fair share of Community aid.

9. Only if it is the price of French endorsement of a satisfactory and final budget solution, should we agree to the negotiation of Community measures which provide for some intervention at a modest level as well as Community-financed premium aid which initially assists France, subject to the provisions in paragraph 6 above.

10. Careful negotiation will be required to protect our interests and detailed consideration of either interim or permanent measures should be remitted to the Agricultural Ministers.

11. The Minister of Agriculture, Fisheries and Food held a bilateral discussion with the French Minister of Agriculture on 15 April, at which the French Minister and his officials described their ideas on the operation of a sheepmeat regime, including use of premiums, private storage aids, intervention and export refunds. The talks revealed the need for further clarification of these ideas and this is being pursued at official level as a matter of urgency.

12. Sheepmeat Regime

(i) The Treaty envisaged a common market organisation for all agricultural products including sheepmeat although it gives latitude as to what form these might take. The Commission's formal proposals, tabled in 1978, were for a light market-related regime, but protectionist modifications have been put forward in discussion. The Dublin Council called for a rapid Community solution to the organisation of the market in sheepmeat.

(ii) Internal

There are two main questions outstanding:

(a) whether there should be support of market prices through intervention as proposed by the French (who dislike direct aids);

(b) how far Community-financed premiums should compensate producers for any fall in market returns due to free trade. The majority favour full compensation in the first year with gradual degression of premiums thereafter.

The UK has totally opposed Community-financed intervention, has a reserve on Community financing of premiums, and has argued that premium arrangements and prices should align quickly to a common level, so as to end present French discrimination against the UK, and that our interests as the main producer should be recognised. The proposals as they stand meet neither of these requirements and would result in no UK receipts in the first year and little in later years (see Appendix III).

(iii) External The Commission rejected French pressure for unbinding of the 20% GATT tariff and in December the Agriculture Council agreed a mandate authorising the Commission to open negotiations for voluntary restraint agreements under which the principal suppliers, notably New Zealand, would limit sendings to the level of the last three years in exchange for a tariff cut. These are only just getting under way. New Zealand is willing to negotiate, but will not commit herself until the form of the regime is known; she is very concerned at the possibility of intervention. If the tariff cut were 10% this could save the UK some £20m a year in payments to Brussels and some £15m a year in public expenditure.

13. French Import Controls

On 25 September the European Court ruled illegal France's levy/closure system of controls on imports of all UK sheepmeat. Since the New Year the Commission have brought two further cases for non-compliance with the ruling. They also applied for an interim injunction under Article 186 of the Treaty, but on 28 March the Court ruled that this was not needed since it had already issued a clear condemnation of the French restrictions in its original judgement. It did not endorse the French argument that they were entitled to a reasonable period of grace before complying.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

16 APRIL 1980

WORKING DOCUMENT

Forecast cost of premiums to producers

(in accordance with point 2 of the Commission communication to the Council of 10 December 1979)

Region	(1) 1979 market price (ECU/100kg)	(2) 1980 reference price (ECU/100kg)	(3) Forecast price for 1980 (ECU/100kg) (b)	(4) Difference between (2) and (3) (ECU/100kg)	(5) Forecast production in 1980 (in thousands of tonnes)	(6) Cost in MECU
1. Italy	371.39	375	341.68	33.32	42	13.99
2. France	340.72	345	299.83	45.17	150	67.76
3. Benelux Denmark FRG	309.29 (a)	315	272.18	42.82	44.5	19.05
4. Ireland	306.88	310	260.85	49.15	37.5	18.43
5. United Kingdom	232.04	265	255 to 266	10 to 0	250	25 to 0
EEC	292.77		283.83 to 288.98		524	144.23 to 119.23

(a) On the basis of the following market prices: Belgium: 317.59; Netherlands: 312.12 (excluding VAT); FRG: 310.00; Denmark: 255.13.

(b) On the basis of the following estimates by comparison with the average price for 1979:

Region 1: - 8%
Region 2: - 12%
Region 3: - 12%
Region 4: - 15%
Region 5: + 10% (Commission assumption) to + 15% (United Kingdom delegation assumption).

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APPENDIX II

BACKGROUND STATISTICS

SUPPLIES - 1979

	Sheep numbers* '000 head	% of Nine	Indigenous Production '000 tonnes (estimate)	% of Nine	Consumption '000 tonnes (estimate)	% of Nine	% Self-Sufficiency
West Germany	1,136	2.4	19.5	3.9	48	6.2	40.6
France	11,450	24.7	150	29.7	206	26.7	72.8
Italy	8,998	19.4	40	7.9	68	8.8	58.8
Netherlands	540	1.2	19	3.8	5	0.6	380.0
Belgium/Lux	90	0.2	4	0.8	20	2.6	20.0
United Kingdom	21,740	46.8	235	46.5	394	51.1	59.6
Irish Republic	2,418	5.2	37	7.3	27	3.5	137.0
Denmark	57	0.1	0.5	0.1	3	0.4	16.7
Nine	46,429	100	505	100	771	100	65.5

* 1978 figures

Source: (i) EC Commission
(ii) MAFF (UK figs.)

VALUE OF UK PRODUCTION AND TRADE (1979)

		£m
Production (Fat Sheep and Lambs)		321
Imports	including live sheep	174
Exports	including live sheep	73

UK PUBLIC EXPENDITURE ON SHEEP SECTOR

(£m)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
Fat Sheep Guarantee	7.5	0.2	0.4	0.1	11 (ii)	5 (ii)
Hill Livestock Compensatory Allowances	10.8	38.8	24.8	18.4	51.9 (ii)	33.5 (ii)
Wool (Net payments to Wool Marketing Board under stabilisation fund arrangements)	2.0	-2.4	-2.2	-	-	

Source: (i) UK Annual Review
(ii) MAFF forecast

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SHEEPMEAT IMPORTS 1978

'000 tonnes

	Imports from 3rd countries	% of Nine	Imports from EEC
United Kingdom	225.8*	85.1	0.2
Irish Republic	0	-	0
Denmark	2.5	0.9	0
France	2.3	0.9	44.2
West Germany	16.9	6.4	11.5
Italy	15.4	5.8	2.0
Netherlands	1.0	0.4	1.0
Bel/Lux	1.3	0.5	14.0
Nine	265.2	100	72.9

*1979 = 208

Source: Commission

SHEEPMEAT (including live animals as carcase equivalent) EXPORT TRENDS FOR UK AND IRISH REPUBLIC

'000 tonnes

	1973	1974	1975	1976	1977	1978	1979
United Kingdom	29.9	28.5	37.9	38.8	51.0	52.0	49.0
of which to France	21.8	20.6	26.7	15.8	19.9	10.5	5.2
Belgium/Luxembourg	2.7	1.7	4.0	8.9	12.4	17.4	14.7
Germany	1.0	1.7	2.7	7.3	10.2	12.3	16.5
Irish Republic	11.1*	11.0*	15.5	9.2	8.5	17.1	13.3
of which to France	3.6*	3.6*	3.4	1.2	2.0	14.6	12.2

* Excluding live exports

NEW ZEALAND SHEEPMEAT EXPORTS TO UK AND EEC

'000 tonnes

	1973	1974	1975	1976	1977	1978	1979
To United Kingdom (i)							
Mutton	8.5	3.7	5.6	13.1	5.5	15.1	3.6
Lamb	230.7	199.9	229.6	201.2	207.8	198.9	196.3
To Nine (ii)	251.1	209.3	245.4	222.5	220.6	231.8	N/A

Source: (i) UK Trade Statistics
(ii) Commission

APPENDIX III

COST OF PREMIUMS AND INTERVENTION

1. The Commission estimate that the Commission proposals set out at Appendix I would cost about £77 million (UK would contribute £14 million). This assumes no UK premium receipts (compared to receipts of £44 million in France) which are unlikely given the reference price proposed for the UK. To obtain receipts in the first year the UK needs a reference price above the forecast market price, but other Member States are strongly opposed to UK producers obtaining premiums on top of extra income from the market. To secure a <u>resource balance</u> would involve further expenditure of £17 million, all in the UK, implying a reference price about 10 ECU/100 kg above the forecast market price.

2. Assuming reference prices were adjusted upwards each year in the annual price fixing, UK receipts would be most unlikely, on the Commission's proposals, to match UK contributions until reference prices had aligned over the 5 year transitional period, after which most Member States see premiums disappearing altogether. The scale of cost could gradually reduce.

3. Our objective is to get support on a common level quickly. Once achieved this would give us 47% of total expenditure, or 39% allowing for Greece, reflecting our share of the Community flock, compared to a UK contribution rate of about 17%. The total cost to the Community (and UK) and the UK resource gain would depend on the common level of support. If this is at or near the market level, which is our objective, significant expenditure would only occur in a year of weak prices and on average might total about £10 million a year (UK receipts £4-£5 million, UK contributions £2 million).

4. If the common level were set above the market level then all costs and receipts would be higher. The extreme case would be convergence on the proposed French reference level (held at the same distance above the Community market average price as in the first year). This could cost around £240 million a year (UK receipts around £100 million, UK contribution £40 million). This illustrates the importance of our objective of convergence on a market related reference level.

5. Intervention costs cannot be estimated because they will vary enormously according to the scale of intervention intended, the intervention level and the loss per tonne actually experienced in disposing of intervention lamb. Some limited intervention could save premium expenditure provided the intervention level was moderate (more so than currently envisaged for France). In the longer term intervention could, unless kept within extremely strict limits, lead to a very high cost regime.

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24 APRIL 1980

EUROPEAN COUNCIL, BRUSSELS

27/28 APRIL 1980

SHEEPMEAT

Additional brief by Ministry of Agriculture, Fisheries and Food.

Purpose

To up-date the main brief in the light of very recent developments, notably the proposals for sheepmeat the French have now put forward.

Objective

2. To avoid concessions on interim or permanent support arrangements for sheepmeat.

3. If essential to make concessions to secure a satisfactory settlement of our budget problems to ensure that they are held within the limits set out in paragraph 7.

Points to Make (Revised)

4. Sheepmeat Regime

(i) Linkage with budget unjustified. Regime must be decided on its merits.

(ii) We remain ready to negotiate constructively for either interim or permanent arrangements.

(iii) Any support measures must recognise that we have the major interest in sheepmeat production and consumption and give the UK fair share of receipts. Quite ridiculous if the regime failed to bring financial benefit to the UK where production is 47% of the Community total and when the budgetary imbalance against us is so strong. Our producers would lose support of our own national support measures (Fat Sheep Guarantee) and must have adequate replacement.

(iv) Must have a proper common market for sheepmeat and a common support level which does not encourage surplus production.

(v) Intervention quite unsuitable for sheepmeat:

(a) If operated anywhere near existing French price levels with aim of forcing up prices in a common market would discourage consumption and damage the development of the industry.

(b) Makes no sense for deficit commodity, especially as (unlike beef) no manufacturing demand. Could be very expensive and disposal would disrupt Community and world markets. Not operated for pigmeat or poultry and not suitable for sheepmeat.

(vi) Could not agree to unbinding GATT-bound tariff. This already gives Community 20% preference. Voluntary restraint quite adequate to meet French concern.

5. French Import Controls

(i) Must respect EEC Treaty. Difficulties arise for all of us but this is price of Customs union.

(ii) Over 7 months since Court ruled clearly that France's closure arrangements and levies were illegal. When ruling that no interim injunction required, Court again made clear that French Government must comply whether or not sheepmeat regime has been agreed.

6. Interim arrangements

At the Agriculture Council on 3-4 March, France alone rejected a compromise interim measure. In addition to receiving her share of Community aid towards support for sheep producers France would have been able to carry out intervention at her own expense. By quite unreasonably rejecting this proposal, France alone blocked progress in resolving the present crisis.

7. If the Prime Minister judges it essential to make concessions to obtain French endorsement of a satisfactory budget solution

Prepared to contemplate arrangements involving Community financed premiums which initially assist France and limited use of intervention provided that:-

(i) All support arrangements to be at a common level after a very short transition period;

(ii) Essential to avoid heavy intervention buying and consequent market disruption. Limit role of intervention strictly to that of a safety net. Intervention prices seasonalised and not above likely market equilibrium level and intervention limited to part of year.

(iii) No export refunds.

(iv) UK to receive a fair, proportionate share of Community aid to producers.

(v) Immediate and permanent removal of illegal French import restrictions.

(vi) No unbinding of the GATT-bound tariff.

Implications for negotiation of Voluntary Restraint Agreements must be very carefully considered. Agriculture Ministers should be left to settle the precise arrangements.

Background

8. In bilateral discussions last week between the Minister of Agriculture and M. Mehaignerie, followed by a meeting between officials, the French explained to us their proposals for a sheepmeat regime. At this week's meeting of the Council of Agricultural Ministers the Commission circulated the main modifications to their formal proposals for a sheepmeat regime which they have put forward in the last few months and also a document on possible support arrangements adapted from the French proposals. There was no discussion of the Commission documents which the French would not accept. It was decided that a French paper and also a UK note setting out our approach to internal support arrangements should be circulated for further discussion.

French proposals

9. The French are now proposing permanent intervention throughout the Community all the year round. The intervention price, seasonalised to reflect the pattern of marketings over the year, would be 85% of a "basic price" set initially at about the present (high) French price level. There would be export refunds and discretionary

private storage aids. This arrangement, along with Voluntary Restraint Agreements with third country suppliers, would constitute the permanent common regime to be implemented from the outset.

10. In addition the French want compensatory premiums on the basis already proposed by the Commission to make up producers' revenues, which are reduced by lower prices due to free circulation, to reference prices reflecting pre-regime market prices. The reference prices could be up-dated, account being taken of cost movements and the aim of price rapprochement within a common market. UK producers would not, under the Commission's proposals, be likely to benefit from premiums: the French argue such benefits would not be justified because our producers would get improved prices with free access to the French market.

11. All the proposed support measures would be financed by the Community. The French insist that all elements of the above arrangements, external as well as internal, must be put into effect before they will remove their import restrictions so that there can be free circulation.

Comment

12. The French are thus bidding for a full scale intervention regime, as for beef, to support the internal market. It is an approach which has so far been unacceptable to most other Member States, notably Germany, and is a rejection of the concept of a light, market related regime inherent in the Commission's original, formal proposals.

13. The main implications to note are -

(a) This would go well beyond the concept of limited use of intervention during the period of heaviest marketings which the Commission has floated;

(b) the French claim to be aiming at intervention support in France at about the level the market should be at with free circulation, and are proposing both seasonalisation and a slightly lower intervention level in the surplus countries (UK and Eire). Nevertheless the actual level they are proposing looks too high and could generate substantial intervention buying;

(c) export refunds would be costly and if paid on any scale would be likely to disrupt the relatively small world market available to New Zealand and other third countries producing sheepmeat;

(d) the French insist that Voluntary Restraint Agreements must be in place before there is a common market with free circulation. But were their internal support proposals adopted, this would seriously prejudice the chances of negotiating these Agreements. New Zealand could well flatly refuse to participate in the negotiations;

(e) our producers would receive no premium benefits, despite the fact that we provide nearly half total Community production. The UK would therefore be contributing to the cost of compensatory premiums for producers elsewhere in the Community. Although the French envisage these should be phased out as market prices move up with inflation there is no provision to ensure a quick degression and if in addition reference prices are up-dated compensatory premiums could continue for many years.

Conclusion

14. The French approach is therefore unacceptable. The concessions which have been contemplated, and only if they were the essential price for French endorsement of a satisfactory and final budget settlement, were to agree to negotiation of Community measures which provided for some limited intervention as well as Community-financed aid which initially assists France. The French proposals for a full-blooded intervention regime, instead of the market-related, common premium safety net we have suggested, would go well beyond this and would not allow the UK a proportionate and fair share of Community aid to producers. The introduction of export refunds would be deeply objectionable to third countries and would probably negate attempts to negotiate Voluntary Restraint. If any concessions have to be made it is therefore important to ensure that they meet the conditions set out in paragraph 7. The wording of the section on sheepmeat in the draft communique prepared by the group of representatives chaired by Senor Ruggero would not conflict with the conditions in paragraph 7.

THIS DOCUMENT IF THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L)(80)6 COPY NO 1

16 April 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

FISHERIES

Brief by the Ministry of Agriculture, Fisheries and Food

OBJECTIVE

1. To avoid a European Council statement on fisheries prejudicial to United Kingdom negotiating objectives or linked explicitly to the budget.

POINTS TO MAKE

2. [If others raise issue] No real need for a discussion or statement on fisheries. Last Fisheries Council made real progress, reflecting United Kingdom's positive commitment to progress on revised Common Fisheries Policy. No reason why Fisheries Ministers should not continue to make progress.

[If necessary]

3. Agree fisheries is one of several issues on which progress in Community is needed. Would be counter-productive to link directly to budget. Officials should consider appropriate wording of Presidency conclusions.

BACKGROUND

4. The last Fisheries Council (29 January) recorded the first real progress towards a revised Common Fisheries Policy (CFP) for some years. Agreement was reached on total allowable catches for 1980 and on arrangements for monitoring member states' catches. The Commission also agreed to undertake preparatory discussions on the more difficult outstanding issues. Mr Gundelach has however been tied up with the agricultural prices package and the next Council is not now expected to be held until early May.

5. The principal outstanding CFP issues comprise:

(i) quota allocations between member states;

(ii) preferential access arrangements;

(iii) comprehensive conservation measures;

(iv) third country fishing arrangements; and

(v) Community measures and financing for restructuring fishing fleets.

6. On <u>quotas</u> the Commission have promised to put forward new proposals; we require larger shares than were last proposed by the Commission (January 1978). <u>Access</u> is perhaps the most difficult aspect. We are committed to securing an exclusive belt round our coast and beyond this a zone of preferential access. The other member states claim to view this as contrary

to the "acquis" and the Treaties. It is difficult to see how a solution can be reached, save on the basis of new Commission proposals which have not yet been promised. On conservation, progress has been made bilaterally with the French over mesh sizes. The other issue outstanding (the Norway pout box) is mainly a UK/Danish problem and could probably be solved bilaterally if there were any prospect of an overall solution. On third countries the only substantive difficulty relates to the German desire for much more substantial quotas at Canada which would only be secured if the Community were to offer substantial tariff concessions which we would not wish to accept. Restructuring aids are expected to be agreed as part of the final package.

RELATIONSHIP WITH EC BUDGET

7. We have endeavoured to keep fisheries separate from other EC issues particularly the budget, partly for political reasons and partly because the issues are inherently complex and therefore need detailed and extensive preparation in the Community before decisions can be taken. However, some other member states wish to include a fisheries reference (which they hope will secure their objectives on the revised CFP) in the final communique. If progress is made on other EC issues, it will be difficult to oppose a fisheries reference but the precise wording will need careful consideration. The UK fishing

industry would be likely to view very suspiciously any text on fisheries and any seeming concessions at this stage (i.e. concessions not made in the context of an overall fisheries "package") could set back the careful educative work Ministers have undertaken with the industry.

8. Work is in hand at official level on possible texts and it is possible that agreement might be reached before the European Council on a text acceptable to all parties. However, if this is not possible, or if attempts are made at a late stage to amend the text, the following points should be borne in mind:

(i) <u>the need for a proper balance between the different issues</u>: if the statement identifies individual fisheries issues, we should ensure that <u>all</u> outstanding issues listed in paragraph 5 are included. Other member states like to ignore our demands on access in particular.

(ii) <u>Community principles</u>: references to "Community principles" or to "the principles of the Treaties" can cause problems because of the view of some member states that this implies "access to the beaches". Any such reference would therefore require counter-balancing references to access particularly to Annex VII of the Hague Agreement of November 1976 (which is the most explicit recognition we have yet managed to secure to our needs on access).

(iii) Deadline: references to an early deadline for agreement on the CFP could be used as leverage against us on fisheries or other EC issues. Any date before summer would be particularly objectionable but, if necessary, we could accept a later date, e.g. 31 December 1980.

(iv) Commission proposals: it would be preferable to omit all reference to Commission proposals but if this is not possible we could not accept explicit references to existing Commission proposals (which do not meet our needs) and should seek to secure explicit references to new Commission proposals.

(v) Third country agreements: references to immediate conclusion of third country agreements should be resisted. The long-term future of agreements with third countries should be settled at the same time as the other outstanding issues. This is also the firm view of the UK industry.

Ministry of Agriculture, Fisheries and Food

16 April 1980

EHG(L)(80)6A COPY NO. 1

18 April 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

NEW ZEALAND BUTTER

Brief by the Foreign and Commonwealth Office and the Ministry of Agriculture, Fisheries and Food

OBJECTIVE

1. To limit discussion, avoid linkage with the Community Budget, and avoid any outcome which could prejudice subsequent consideration in the Agriculture and Foreign Affairs Councils.

POINTS TO MAKE (If subject raised by others)

2. Discussion at European Council premature. Commission proposals not yet tabled and will need first to be considered in the appropriate Council machinery.

3. (If necessary) Continued access to Community market vital for New Zealand. Against Community's interest to damage economy of a western ally and trading partner which plays a helpful stabilising role internationally, and particularly in South Pacific.

4. (If necessary) Surplus production in the Community not a reason for damaging New Zealand. Community's increase in butter production in two years (180,000 tonnes) much larger than current New Zealand quota (115,000 tonnes).

5. (If others make a link with CAP prices) The case for continued access stands on its own merits. Must recognise need for satisfactory arrangements after 1980 (cf Brief No.4, paragraphs 6 and 16(4)).

/BACKGROUND

BACKGROUND

6. If others raise this subject they will probably add it to the package of issues which they are trying to link with the problem of the UK contribution to the Community budget. They may argue that access for New Zealand butter is a major reason for the large expenditure from the budget on the milk regime, and/or seek to maintain that an end to New Zealand access is for them as important politically as is a better net budgetary position for the UK. While we should not let such arguments go unchallenged we should aim to avoid detailed discussion.

7. HMG is committed to achieving satisfactory terms for New Zealand. Commission proposals when they emerge are likely to provide for a further progressive reduction in quota levels down to 90,000 tonnes in 1985 (compared with 115,000 tonnes in 1979 and 165,000 tonnes in 1973) coupled with an improvement from New Zealand's point of view in the operation of the levy system. It is important that discussion in Foreign Affairs and Agriculture Councils should not be prejudiced either by unhelpful language in the conclusions of the European Council, or by what might subsequently be construed by others as tacit acceptance of unhelpful statements which others have made.

8. If it is necessary to include a reference to New Zealand in any conclusion by the European Council on wider CAP related issues this must cover the need for a satisfactory arrangement for access after 1980 (cf Brief No. 4, paragraph 16(4)).

9. Statistics on the New Zealand economy, on the EC-New Zealand Trade balance and on the Community butter market are at Annex 1.

FOREIGN & COMMONWEALTH OFFICE
MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
18 APRIL 1980

ANNEX I

NEW ZEALAND ECONOMY AND NEW ZEALAND/EC TRADE

1. NEW ZEALAND: GROWTH IN REAL GNP PER CAPITA

YEAR ENDED JUNE	Per Cent
76	-1.01
77	-1.60
78	-3.10

2. NEW ZEALAND TRADE YEAR ENDED JUNE 1978 NZ $ million

		NZ $ million
EXPORTS -	All destinations	3101
	To EC	951
Of which butter:		
	All destinations	207
	To EC	185
IMPORTS	All sources	3001
	From EC	799
CURRENT ACCOUNT BALANCE AFTER INVISIBLES (1979)		
	With EC	-174
	With UK	-153

3. COMMUNITY BUTTER PRODUCTION AND CONSUMPTION '000 tonnes

	Production	Consumption
1977	1,802	1,679
1978	1,958	1,685
1979	1,980 (prov)	1,689

4. NEW ZEALAND BUTTER QUOTA '000 tonnes

1978	125
1979	120
1980	115

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EHG(L)(80)7 COPY NO 1

15 April 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

NORTH SEA OIL POLICY

Brief by the Department of Energy

OBJECTIVE

(i) To persuade our partners of the constructive contribution to Community objectives made by our North Sea Policies;

(ii) [If tactically desirable] to use the "cosmetic" statement on energy and North Sea policies if it will secure a budget settlement, bearing in mind that the statement cannot be improved and is not negotiable.

POINTS TO MAKE

(a) North Sea Policies [for use as necessary]

1. North Sea oil exports

About half our production is exported and over half these exports go to the Community. In 1979 /Community countries took some 57% of our total exports - nearly a third of our total production. This contribution (22 M tonnes) to the Community's needs is considerable in relation to both our limited resources, and the UK's own oil demand. Expect that quantity of exports to the Community will continue to rise as our production continues to rise over the next few years.

2. North Sea oil prices

Prices for North Sea oil follow but do not lead world market for similar high quality, low sulphur crudes. We have made clear to the companies operating in the North Sea our expectation that this will continue. Latest price increases are an indication of continuing moderation by UKCS producers. All but about 1% of

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/sales ....

sales are at term prices with no additional premia.
[Annex A can also be drawn on as necessary.]

3. EC Companies interest in North Sea

Substantial Community share in activities on UK Continental Shelf. Companies of EC countries, other than UK, have an interest in 6 of the 14 oil fields in production, and a further 4 oil fields under development, as well as a significant interest in a number of gas fields. Companies of other Member States hold some 14% of total area under licence: this fairly reflects the interest they have shown in licence rounds so far.

4. Supply of Off-shore equipment

Other Member States' companies have enjoyed a high level of involvement. For example, of 35 major oil and gas platform structures so far ordered for the UKCS, 19 were built by other Member States' companies, or by EC/UK or EC/Norway joint ventures. Of the remainder, most involved a substantial input from other Member States' companies, in the provision of technology, top-side, fabrication, steel, etc. Other Member States' companies particularly Dutch, French and Italian, have also been much involved in off-shore installation work. This involvement has brought them valuable business and helped enhance their role in world markets.

5. Increased UKCS production

Virtually no scope for increasing production from the North Sea in the short-term. Production is already at the highest level compatible with good oilfield management. Our policy has been to bring fields into production as fast as possible. By the end of 1979, 14 fields were in production. It took the UK only 4 years to reach production of over 1½ mbpd, much quicker than any other country (Libya: 6 years; others longer). With platforms costing £500 m or more no-one has developed fields to leave them non-productive.

6. Seventh Round of Off-shore Licensing

If appropriate: We will shortly announce the detailed

/arrangements ....

arrangements for the Seventh Licensing Round. We will be awarding licences for up to 90 blocks, and the Round will thus be somewhat larger than previously proposed.

7. Depletion /Defensive - only if raised/
We are considering the question of depletion policy against the background of managing a limited resource. Production is still rising, and we have set a UK net import target for 1985 of minus 5 M tonnes.

North Sea Oil "Wealth" and the Budget
8. North Sea oil contributed only 2.5% to UK GNP in 1979 and will contribute only 4% even at peak production. Contribution of North Sea oil is fully caught in our GNP calculations. Our case on the budget is that with third lowest GNP per capita we should not be highest net contributor.

9. We are not yet net exporters. Rising world oil prices do not therefore benefit balance of payments. Even at peak production we will only be marginal net exporters. Rising world oil prices damage an open economy such as the UK (with about 30% of GDP in exports). We share the interests of other industrialised states in mitigating these ill effects. While we are nearly at self-sufficiency we are still heavy importers of crude, so price rises cut both ways for us.

(b) Cosmetic Statement

10. /If appropriate/ If it will help to achieve a final agreement on the Budget, and assist others with any problem of presentation, we should be willing to make the following statement about our policies in respect of energy and North Sea oil. /The statement is at Annex B/
/If necessary/ This statement is not negotiable.

(c) Community - Reserved UKCS area and Community Stockpile (Defensive)

11. Community reserved UKCS area and Community stockpile in North Sea likely to uneconomic. Cost to Community would be very

high. No guarantee of finding oil. Any oil thus found likely to be only fraction of Community requirements.

12. May well be a case for higher stock levels. Work in hand on this in IEA and Community. Should await results before considering new initiatives.

BACKGROUND

ANNEX A : UKCS PRICES
ANNEX B : PRESENTATIONAL STATEMENT ON ENERGY
ANNEX C : NORTH SEA OIL DISPOSALS

(a) North Sea Policies

1. Other Member States have criticised aspects of our North Sea policies, usually without justification, and have sought to use our benefits from North Sea oil to rebut our Budget claim. Intensified efforts to explain our record seem recently to have damped down criticism. Points to make are given, however, to counter any renewed criticism and present the constructive contribution to Community objectives made by our North Sea policies.

2. UKCS Oil Production 1980 Forecast (Avoid figures if possible)
Our Production in 1980 is expected to be in the range 80-90 M tonnes (probably towards the lower end) compared with consumption of about 90 M tonnes. Present forecasts suggest that we shall probably need rather less imports in 1980 than the 12 M tonnes we negotiated as our 1980 net oil import target following the Strasbourg and Tokyo Summits. But we may need it if anything went seriously wrong with North Sea production this year (although we have no reason to expect this), and production fell below 80 M tonnes. It would be best to avoid quoting forecasts if questioned since, this early in the year, they are still very uncertain.

North Sea Exports and Prices

3. Production will probably rise until about 1984-86 even if the Government adopts a conservationist depletion policy (see below). The pattern of approximately 50% UKCS oil consumed in the UK and the rest exported is likely to continue. Annex C illustrates crude disposals to Community Member States in 1978

/and 1979 .....

and 1979, in volume terms and as percentages of total exports and production.

4. It now seems generally accepted that our prices follow the world market for similar high quality crude (in practice that produced by Algeria, Nigeria and Libya). BNOC's latest price rise on 4 February, the same date as the African increases, was $4 (21 cents lower than the increase imposed by Algeria and Nigeria). Annex A gives background to UK price increases in the context of the world oil market.

5. EC companies' interest in the North Sea

Fourteen North Sea oil fields are now in production and in the following 6, companies from EC countries other than the UK have an interest:-

Brent	)	
Dunlin	)	
South Cormorant	)	Shell (60% Netherlands
Auk	)	
Forties (minor interest)	)	
Thistle		Deminex (FRG)

Ten North Sea oil fields are under development and companies from EC countries other than the UK have an interest in 4:-

Beatrice	-	Deminex (FRG)
Maureen	-	Petrofina (Belgium) Agip (Italy)
Fulmar	)	Shell (60% Netherlands
North Cormorant	)	

6. Seventh Round of Off-shore Licensing

The proposed arrangements for the Round, announced on 5th December, included the proposition that licences should be awarded for about 70 blocks. Re-consideration of the proposal in the light of strong industry pleas for a larger Round have shown that licensing more blocks would not be detrimental to other policies, such as on depletion. Ministers have also concluded that a timely announcement of a somewhat larger Round (ie. of 90 blocks) would be helpful in persuading our Community

/partners .....

partners that the UK is doing what it can to encourage exploration for further oil and gas resouces on the UK Shelf. If the opportunity arises, emphasis can also be laid on the non-discriminatory nature of licensing which gives full opportunity for participation by Community companies'.

7. Depletion

"E" Committee considered the report on depletion by officials on 11 March and 3 April, and considered that the Government should implement a depletion policy through development delays, control of gas flaring, and profile controls. However, it agreed that a statement (and necessary preparatory explanation to international partners) should be deferred until after the European Council.

North Sea Oil Wealth and the Budget

8. The Germans and the French have argued that increased oil prices have made redress of our net budget contribution less urgent; and that new found wealth from the North Sea makes us better able to pay it. Our case on the budget stands on our relative position in per capita GNP terms, which itself reflects North Sea resources.

9. The UK remains a predominantly manufacturing and trading nation, and a substantial consumer of oil. Our industries and consumers pay the full market price. Far from our being immune to its depressive effects the immediate impact of a price increase is negative both on our balance of payments and on resources available for domestic use in the economy.

(b) Cosmetic Statement

10. The interest in energy and pressure on North Sea oil by some of our Community partners continues and the potential for linkage with the Budget problem - either to our disadvantage or advantage - remains.

11. The Prime Minister has approved the text of the statement at Annex B for use in the negotiations, if she considers that it could help us to attain our Budget objectives by helping

others to present a Budget settlement to their publics.

12. There is a risk that offering such a largely cosmetic statement will provide a platform on which damaging demands can be built for substantive concessions which would be unacceptable to us. If the Prime Minister uses the statement, therefore, any pressures for change will need to be resisted firmly; it is not negotiable. This points to holding the offer to make a statement in reserve for use at a late stage, and only if its use seems likely (perhaps after informal consultation in the margins) to result in a final settlement.

(c) Community - Reserved UKCS area and Community Stockpile

13. French officials have suggested informally that an area of the North Sea might be set aside for the Community to explore and exploit in a sub-crisis. They envisage that the Community would be responsible for providing finance and much of the spending would be in the UK.

14. We have examined this idea and concluded that it would be uneconomic as:

(i) there would be no guarantee of finding oil;
(ii) to have a reasonable chance of finding fields capable of producing a total of 100,000 bpd, ie. enough to cover a short-fall of only 1%, at least 50 licensing blocks would have to be set aside (ie. more than the whole of the sixth round);
(iii) exploration and appraisal costs (at least 50 wells) would be at least £250 M over 2 to 3 years;
(iv) production platforms (assuming 2 or 3) would add another £2,000 M or more. Total cost would thus be at least £2,250 M (as against £32 M on the energy section of the Community budget of 1979).

15. Another possibility being covered canvassed is the creation of a Community and/or IEA stockpile. This idea was among those considered by OD(E) in October/November in the context of a possible UK initiative to strengthen the Community in a sub-crisis.

Ministers concluded that in view of the disadvantages (eg. expense; additional pressure on prices; possibility of adverse OPEC reactions;) there was no scope for a UK initiative on stocks at that stage. IEA Ministers commissioned further work from the IEA Secretariat on stocking policies at their meeting in December; and work is also under way in the Community. The results of the IEA work will be considered by Ministers in May.

Department of Energy
15 April 1980

ANNEX A

UKCS Price Setting

1 UKCS crude is comparable to African crudes (appendix 1). The participation agreements entitle producers to the market price for crude oil they must sell to BNOC. If the price cannot be agreed there is provision for recourse to expert determination.

2 Only one sixth of the oil BNOC is currently selling is its own equity oil. Participation oil makes up the bulk of the remainder purchased at the market price prior to selling. BNOC is not therefore a free market/price setter.

3 HMG has no statutory powers to determine UKCS prices. Reserve powers exist in the Energy Act 1976, but may be exercised only in an emergency or to implement formal obligations to the EC or IEA. This power would, in any case, not extend to crude oil traded offshore.

Crude Oil Market Development and Government Intervention in UKCS prices

4 Between 1974 and mid 1978 world oil prices were relatively stable. Term prices were set by a Saudi marker with differentials for other crudes reflecting quality differences and location only. Spot prices were close to term prices.

5 The Iranian crisis changed the market from demand constrained to supply constrained. Spot prices rose well above term prices and the term market became fragmented (appendix 2). The downward trend of price in real terms was reversed and real prices are now about 50% above the 1974 level (appendix 3).

6 This anarchy in the market led to considerable pressure for Government to intervene on UKCS prices particularly from the middle of 1979; both BNOC and companies were urged to be moderate with price increases.

~~7 In November 1979 the timing of BNOC's increases (appendix 4)~~ was premature and attracted much international criticism. But further increases in January and February were better timed; the decision was left for longer giving the impression that the UK was the last to come into line (although the effective date of the increases was similar to that for other producers). During January UKCS crude were probably below the market level and the settlement was only achieved through pressure being applied to a number of companies. One company still has an outstanding ~~claim against BNOC for higher January prices~~.

7. See corrigendum adjacent.

UK interest in oil prices

8 Much play is made by our partners of the value of North Sea oil to us. But we are not yet self sufficient and increases in world oil prices are a net cost to the economy. Some 30% of GDP comes from international trade; thus GDP will be affected by any recession caused by high oil prices and the loss will not be offset by higher oil revenues (which in total only account for a few per cent of GDP).

Community benefits from UKCS

9 There is no restriction on exports and about one third of UK production is exported to the EEC. Only 1% of output is sold at spot prices; all the rest is sold at term prices and there are no premia or surcharges equivalent to those levied by some OPEC countries. Prices themselves are moderate. When African prices increased by $4.21/b in February, the UK prices increased by $4/b only.

10 If UK crudes were sold at spot related prices our EEC partners would have to pay another $3/b or about £250m a year in total.

EHG(L)(80)7 Corrigendum COPY NO 1

18 April 1980

EUROPEAN COUNCIL, LUXEMBOURG
27/28 APRIL 1980

NORTH SEA OIL POLICY

Note by Department of Energy

1. Paragraph 7 of Annex A to this brief should be deleted and the following substituted:

> 7. In November 1979 the timing of BNOC's increase was premature, albeit by only a few days and attracted much international criticism. Further increases in 1980 have been better timed; the decision being unannounced for longer giving the impression that the UK was last to come into line (although the <u>effective</u> date of increase was similar to that for other producers). In addition the price has not exceeded the <u>official</u> prices of any of the comparable African crude. During January UKCS crude prices were probably below the market level and settlement was achieved only through pressure being applied to a number of companies. The most recent increase of 50 cents for UK Forties (which reached the press on 16 April and is to be effective from 1 April) brings the price to $34.25/barrel. The increase was not uniform across all grades and can be explained as restoring lost differentials. Many OPEC countries in fact charge premia in addition to the official price. Against this background UK prices look very moderate (see Appendix 4).

~~2. A revise of Appendix 4 to Annex A is attached. The existing appendix should be destroyed.~~

Department of Energy
18 April 1980

ANNEX A
Appendix 1

CRUDE OIL QUALITY COMPARISONS

1 Oil prices are related to the quality of the crude. In general crudes from Nigeria, Algeria and Libya are closest in quality to those of North Sea crudes.

2 There are two major aspects:

i) Yield differentials

The lighter the crude (in terms of specific gravity), the larger the yield of the higher value products like gasolene, naphtha and gas oil. From light North Sea and North African crudes these products may total 60 - 70% of the product yield, whereas Gulf crudes yield 50% or less of these products.

ii) Sulphur Content

The lower the sulphur content the higher the value of the crude, especially to purchasers in countries with strict pollution controls. North Sea and North African crudes contain only 0.1 to 0.3% by weight of sulphur, compared with 2% for Arabian Light and 3 - 4% in some other Gulf crudes.

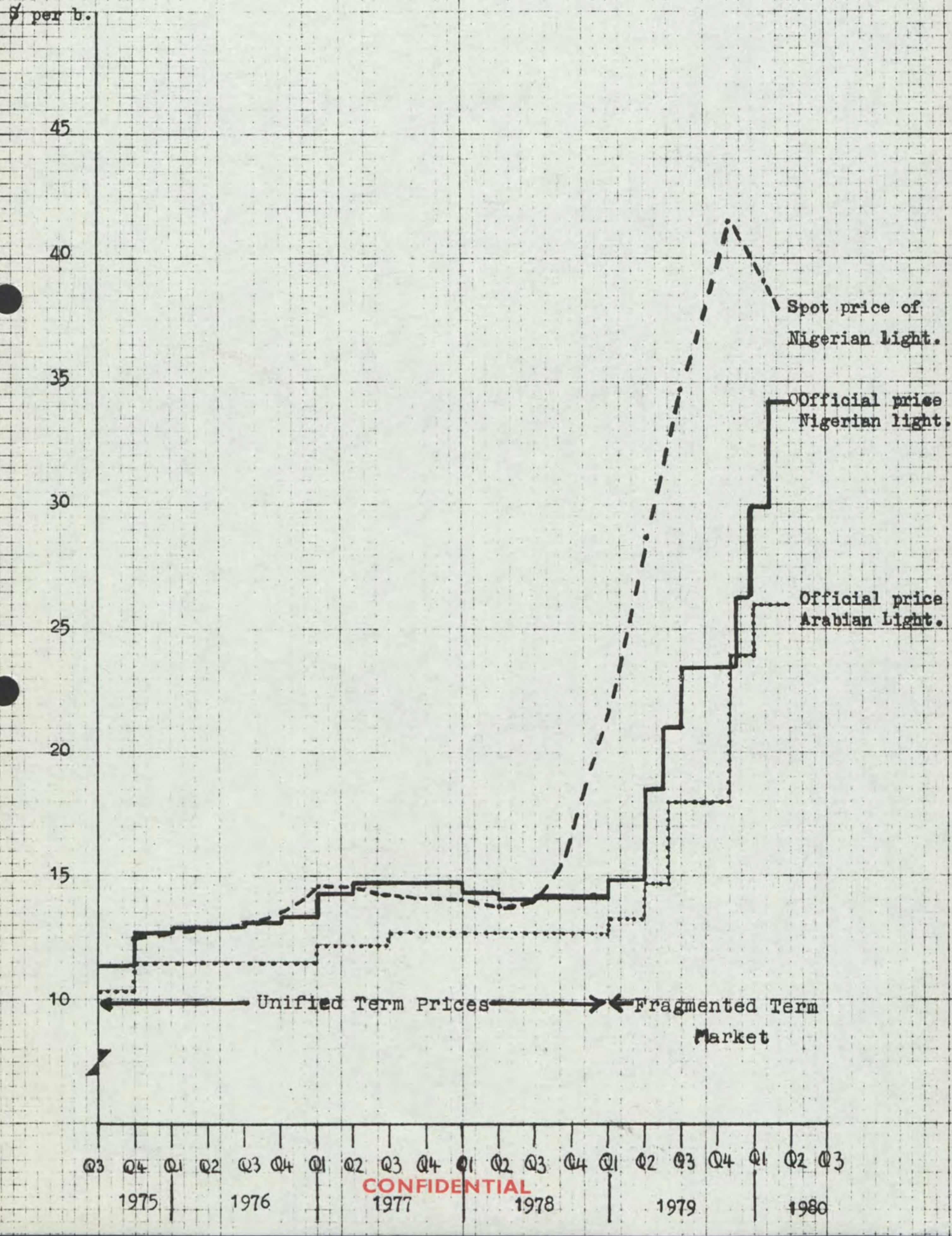
3 Under normal market conditions, North Sea crudes could be expected to command a quality premium of about $3 per barrel over Arabian Light.

E.R.

12.

CRUDE OIL PRICE TRENDS.

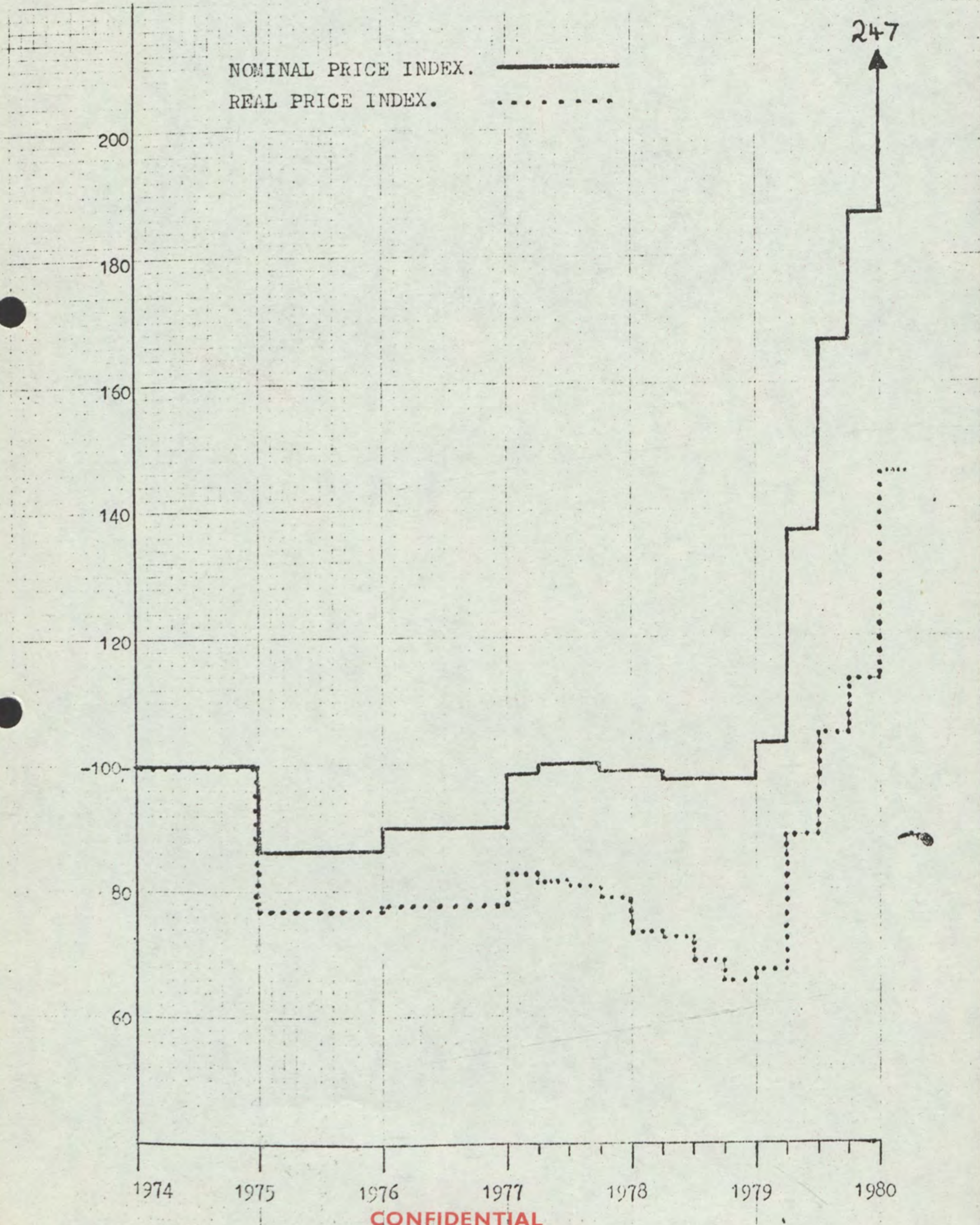
ANNEX A
Appendix 2



Annex A
Appendix 3

13

1 REAL AND NOMINAL PRICE INDEX OF ES SIDER (A U.K.C.S. TYPE CRUDE) IN THE WORLD ECONOMY.



Annex A

Appendix 4 (Revise)

$ per barrel

COUNTRY/CRUDE	OFFICIAL PRICE	REPORTED PREMIA OR SIGNATURE BONUS	TOP TERM SELLING PRICE
Iraq Kirkuk	28.18	Up to 10.00 for additional volume	38.18
Libyan Es Sider	34.50	Up to 3.50	38.00
Iran Light	33.50	4.37	37.87
Nigerian Bonny Light	34.69	No information but prior to 1.1.80 3.00 for new contracts	
Algerian Saharan Blend	34.21	3.00	37.21
Qatar Dukhan	29.42	6.50	35.92
Indonesian Minas	29.50	6.00	35.50

These prices compare with a fixed term price with no extras of $34.25/barrel for UK Forties.

Saudi Arabian crude at $26/barrel is generally recognised to be under-priced.

PRESENTATIONAL STATEMENT ON ENERGY IN THE CONTEXT OF THE COMMUNITY BUDGET NEGOTIATIONS

1. Energy is of the greatest concern to all of us. It is a key international economic issue. The Community must find an adequate response to the need to conserve energy, develop alternative sources to oil, and reduce oil imports and consumption. The UK's relative strength in energy in no way sets us apart from these concerns.

2. Each Member State's resources of primary energy - coal, gas, oil or nuclear power - play a major role in achieving overall energy policies which will ensure the Community's security. The UK is already doing much. About a quarter of total Community investment in energy over the last five years has been made by the UK.

3. On coal, we are now investing some £600 million a year, approaching half of total Community investment in coal capacity. The gas fields of the Southern North Sea have been developed to the point where we no longer have to compete on world markets for the equivalent of over 30 million tonnes of oil a year.

4. And there has been the success of the development of the North Sea oil resources. £15 billion invested to date and production up from 1 million tonnes in 1975 to 76 million tonnes last year. We are planning for a vigorous exploration programme as the basis for the future development of North Sea oil.

5. We have done this because it is in our national interest, but it is also in the increasing interest of the Community as a whole. For example, from 1978 to 1979 the volume of North Sea oil supplied to the other Member States doubled to 22 million tonnes. This year it will be higher still. Twenty companies of other Member States are active in the North Sea. They have interests in 90 of the 217 current licneces and thus have a stake in nearly half of the fields now in production or under development.

6. The UK is fully conscious that our relative strength in primary energy resources imposes responsibilities as well as giving us advantages. We will give full weight to the Community dimension in reaching our decisions. We will work with you on ideas put forward by the Commission, and on the development of a Community position for international energy discussions.

7. On coal, we believe there is scope for the Community to encourage more investment. On gas, we are ready to facilitate the transmission of Norwegian gas through our country to the Continent. In the development of North Sea oil, Community companies will no doubt continue to take advantage of the arrangements for licensing exploration and development. We shall be ready to have discussions with interested companies to this end.

8. We are maintaining the existing guidelines about sales of North Sea oil being made to Community and IEA destinations. This provides our partners with a valuable assurance of supply. When oil supplies are tight, but not yet requiring the application of existing Community rules for a situation of supply crisis, we will take account of the interests of the Community as a whole to the fullest extent we can. In such circumstances we would consider the scope for increasing North Sea oil production within the limits consonant with good oilfield management, and the need to avoid wasting scarce resources.

9. The UK shares the interest of Community purchasers in avoiding excessive increases in world oil prices, and maintaining an orderly market: we will continue to seek to ensure that our North Sea prices will follow and not lead world market prices for comparable crudes.

10. Finally, we share with our partners the determination to see nuclear energy further developed in safe and environmentally acceptable conditions. The JET experiment at Culham is a vital contribution to that end.

17.

EUROPEAN COUNCIL ANNEX C

North Sea Oil Disposals

	1978 Amount	%	1979 Amount (provisional figures)	%
Total disposals	51.2	100%	77.1	100%
UK	27.8		38.1	
Export	23.4	45.7%	39.0	50.6%
EC	12.2	23.8%	22.4	29.0%
Non EC	11.2	21.9%	16.6	21.5%

	1978	%	1979	%
Exports	23.4	100%	39.0	100%
Total EC	12.2	52.0%	22.4	57.4%
Belgium	0.4	1.7%	0.2	0.5%
Denmark	2.0	8.5%	2.9	7.4%
France	1.6	6.8%	2.7	6.9%
Ireland	-	-	-	-
Italy	-	-	-	-
Netherlands	2.9	12.4%	6.6	16.9%
W Germany	5.3	22.6%	10.0	25.7%
Other	11.2	48.0%	16.6	42.6%

EHG(L)(80)8 COPY NO 1

16 April 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

EUROPEAN MONETARY SYSTEM

Brief by HM Treasury

OBJECTIVE

1. To give no commitment, but to be ready to explain our position in a positive way to avoid prejudicing the budget negotiations.

POINTS TO MAKE

2. A suggested statement to be drawn on is attached at Annex A.

BACKGROUND

3. Chancellor Schmidt raised this issue privately with the Prime Minister. It is uncertain whether it will be raised formally at the European Council. Chancellor Schmidt may get support from the Dutch, Belgians, Danes and Italians (who have all told us recently that a "positive" statement

on EMS would have a favourable impact) in urging us to make some commitment - though not necessarily to early entry. The Prime Minister should present our position in a positive and "communautaire" light without giving any commitment.

Experience of EMS

4. Began 13 March 1979. Progress reports by Community bodies indicate broad satisfaction with the system by participants. So far two realignments :-

i) 23 September 1979. DM revalued 2%; Danish Kroner devalued 3%. Heavy intervention put upward pressure on German money supply ahead of difficult realignment conference.

ii) 30 November 1979. Danish Kroner devalued by 5% as part of policy package. Agreed without a realignment, but the Kroner has only small weight.

5. The weak currencies in the EMS have proved to be the Danish Kroner and the Belgian Franc. The DM has tended until recently to be a strong currency, reinforced by relatively high German interest rates (which have been a source of friction between the EMS countries).

Sterling

6. If we had joined at the outset in March 1979, we would almost certainly had had to request a very early realignment. Since the first realignment in September 1979 sterling has been through contrasting periods of downward and upward pressure. It is virtually certain that if we had joined in September within the 2¼% margins regime we would have had to intervene to keep sterling up in November and again (very heavily) since January to keep it down. We should probably have been forced to ask for a realignment in January. Of course if we had been in the exchange rate mechanism, the fluctuations could have been less sharp, but that would depend on the markets being convinced that we could and would hold sterling at its intervention points, despite the conflict with monetary policy. If they were not convinced, UK experience shows that speculation would be intensified by the very commitment to intervene at set points.

7. If we had joined in September 1979 within the 6% margins regime (currently used only by Italy), the position would have been easier, though we would have been up against our 6% ceiling in February and would probably have had to increase our market intervention to "smooth off" the rise in sterling and keep within our margin. But we would probably not have had to ask for a realignment.

8. Membership would certainly have influenced our interest rate policy over this period, and the Government's ability to carry out its monetary policy. For example, in June 1979 it would have been difficult for us to increase interest rates in the way demanded at that time by monetary policy, at a time when sterling would clearly have been very strong within the system.

International Environment

9. Sterling differs from the other European currencies in being subject to risks of large exchange rate movements in both directions. This is borne out by recent experience.

10. The unsettled international political and oil environment has put pressures on sterling different from those on other countries. There is evidence of sterling being used as a haven. Our exchange rate is higher than can readily be explained by the tightness of our monetary policy relative to that of other countries. This might continue : the Government's firm monetary policy, the existence of relatively high nominal interest rates, our possession of both oil and a prime financial market, combine to make the UK exposed to potential upward pressure. Conversely the weakness of the UK economy, industrial performance, inflation rate and a weak current account, combine to make us exposed to potential downward pressure, and an easing in the oil market could reduce sterling's attractiveness. Abolition

of exchange controls (in compliance with our Community obligations) has increased sterling's exposure to downward pressure.

Monetary Policy

11. The Government's overriding commitment to monetary targets was emphasised in the UK Budget on 26 March. Our declared intention is to adjust other policies as necessary to keep the money supply on target. The Government is determined to pursue this strategy. But it will take time to turn round the upward trend of our inflation rate. Membership of the EMS exchange rate regime would be difficult to reconcile with subordination of other policies to monetary policy, because it would require us to adopt an exchange rate objective - and hence an exchange rate policy - as a matter of international obligation.

Circumstances in Which we Could Join

12. Much would depend on whether we decided to join with 2¼% or 6% margins (the French might try to resist the latter but would have no legal basis on which to do so before March 1981 if ever). The overriding condition would need to be for the UK to have reached a state where in practice there is a reasonable possibility of successfully reconciling a rigorous and paramount monetary policy with the exchange rate obligations of the EMS. For this to come about, the following are the principal conditions that would probably need to be fulfilled :

i) The Government's policies would need to have achieved success in reasserting control of our monetary conditions and in reducing our inflation rate to the level of most of our partners.

ii) The level of sterling at which we joined would need to be a sustainable one, taking due account of our industrial competitiveness.

iii) We would have to be at a stage where our interest rate policy could be managed so as to permit sterling to remain within its margins.

iv) The oil market would need to be in a state where it was having no marked effect on sterling in either direction.

We could explain these points to our partners as necessary.

"Join in 18 months"

13. A commitment to a particular date would be a hostage to fortune. Our firm intention is to join when conditions permit. Any definite timetable would necessarily be subject to very heavy caveats which would deprive it of political value.

Community Aspects

14. It is very much in the interests of the Community that we should succeed in reducing inflation. We have to make monetary policy paramount; we are obliged to be single-minded and avoid all conflict with it. Moreover sterling is at a high level and has moved a good deal. We have the impression that while our partners want us to join, many think that this would not be the right moment. We have no desire to create problems for the system. Our position is based on a coherent general policy which is serving the Community's objectives of economic "convergence". There is no question of a "psychological block" on EMS (as Schmidt has argued).

HM Treasury
16 April 1980

ANNEX A

STATEMENT ON EMS

The United Kingdom Government fully supports closer monetary co-operation in the Community in the interests of the fight against inflation; and fully supports also the European Monetary System both as a major step forward for monetary co-operation in the Community and as a Community instrument for resisting inflation.

The United Kingdom is participating fully in the discussions on the setting up of the European Monetary Fund and intends to bring sterling into the exchange rate mechanism of the EMS when conditions permit. The Government wish to do this in circumstances and at a time which are best for the Community and for the System, as well as right for our own economy.

We are giving first priority to gaining control of our own monetary conditions, achieving our monetary targets and bringing our rate of inflation nearer to that in most other Community countries. In those conditions we would have more room to reconcile monetary and exchange rate objectives, and the stability of our exchange rate would be reinforced to the advantage of the System. We shall also have to continue to have regard to the differential impact which oil developments can have on sterling and on other Community currencies. All these complex issues are relevant to a decision on joining the exchange rate mechanism and we are very willing to discuss them in the appropriate Community fora.

The March Budget represents an important stage in reasserting control of the United Kingdom money supply, public borrowing and inflation - objectives which the Government believes have the support of their Community partners. The Government look forward to the time when the success of these efforts will enable the United Kingdom to join the exchange rate mechanism of the EMS.

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG (L) (80) 9 COPY NO. 1

10 April 1980

EUROPEAN COUNCIL, LUXEMBOURG
27/28 APRIL 1980

ECONOMIC SITUTATION IN THE COMMUNITY AND WORLDWIDE
Brief by HM Treasury

OBJECTIVE

1. To emphasise that UK policies are part of the agreed Community response to rising inflation. And to demonstrate the link between these policies and our attempts to cut our Budget contribution.

POINTS TO MAKE

2. (i) Despite surprising resilience of output in some countries, prospects for growth are poor. Those for inflation are poorer still.

(ii) Notable unanimity within Community about primacy of controlling inflation. But translating common approach into greater convergence of performance hindered by perverse transfers of resources between members.

(iii) Efforts to squeeze out inflation in the UK and restore the basis for growth require lower public expenditure. And that must include our EC Budget contribution.

(iv) LDC's very hard hit by the effects of oil price rises. Some may find it harder to borrow from the banks on good terms. Increased recourse to the IMF by poorer and middle income LDC's seems necessary and desirable.

BACKGROUND (All information useable)

References:

A: Commission paper on the Economic and Social Situation in the Community (COM (80) 145)

3. In real terms, oil price increases since 1978 are roughly as big as those in 1973-74. The oil markets remain in some disarray, but spot prices have fallen back a lot and stocks are now relatively high. Supply disruption cannot be ruled out, but, on the basis that the market stays broadly in balance, the latest Treasury World Economic Prospects exercise assumes an average offical price in 1980 of just under $30 a barrel.

4. Activity in the OECD area is expected to weaken substantially this year, though by rather less than once thought likely. GNP growth could average 1 to 1½ per cent compared with over 3 per cent in 1979. The recent US measures increase the possibility of the downturn stretching into 1981. Community growth held up quite well last year and should be higher this year than in the OECD as a whole, averaging more than 1½ per cent. But this implies growth in Germany and Italy around 2½ per cent lower in 1980 than in 1979, and in France around 1½ per cent lower. Output could fall in Denmark, where, like some other

smaller EC countries, policy may have to be tightened further in the face of growing current account deficits or problems over financing borrowing requirements.

5. The average inflation rate in the major economies has accelerated into double figures for the first time since 1975, and could be around 11½ per cent in 1980, compared with 9 per cent last year. The Community rate is expected to be some way above the OECD average, largely because of Italy and the UK. The differential between the lowest OECD inflation rate (Germany) and the highest (Italy) has widened significantly since early 1979, reflecting varying degrees of success in preventing higher oil prices feeding through into prices generally. A number of EC countries have some form of indexation which makes the problem of containment especially difficult. Italy is particularly vulnerable, and a pay freeze is in force in the Netherlands. In general, though, the chances of avoiding a wage - price spiral are better than in 1974-75.

6. Monetary policy has been the main weapon in the fight against inflation to which all countries have given priority. With money supply targets being maintained or tightened, interest rates have surged as inflationary pressures and expectations have worsened. There may be further increases to come following the latest US measures. Some countries, Germany is one, are trying to avoid currency depreciation to reinforce their counter-inflation policies. Fiscal policy is also generally restrictive, and could become more so, as countries seek to rein in or (in the US) eliminate their budget deficits. There is little scope for any relaxation of policy and only France

and Italy of the major countries have taken measures explicity to offset some of the deflationary impact of higher oil prices.

7. The UK's commitments to lower Government borrowing and the reduction of real public expenditure are essential components of the policy to squeeze out inflation and improve economic performance. Our EC Budget contribution must be cut as part of this effort.

8. The OECD area is now expected to have a current account deficit of some $85 billion in 1980, of which about one-third could fall on Community countries. The OPEC surplus could exceed $115 billion in 1980 and is unlikely to fall back as rapidly as after the first oil shock. Deficits within the industrial countries should be distributed better than in 1974-75: Germany and Japan might share a deficit of around $30 billion and the US deficit could be quite small. Recent German moves to encourage capital inflows and seek balance of payments financing abroad are helpful. Some of the smaller EC countries, notably Denmark, are experiencing severe current account problems.

9. The position of the LDC's will greatly deteriorate. Even if they cut import growth sharply their combined deficit could rise substantially to around $50 billion in 1980. They will need to continue borrowing heavily but market conditions could be less favourable to them.

10. Concern has been expressed about the ability of the <u>international banking system</u> to recycle OPEC surpluses as smoothly as in the mid 1970's. It may be that the concern is exaggerated: the thesis of large scale difficulties in the banking system and the consequent need for major new initiatives or institutions remain uproven. The IMF, though, is currently reviewing the adequacy of its facilities and greater use of its funds seems inevitable. The LDC's should be encouraged to approach the Fund and agree adjustment programmes at an early stage.

HM TREASURY

10 April 1980

EHG(L)(80)9 REF A.

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 145 final

Brussels, 20 March 1980

THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

(Communication from the Commission to the European
Council
Brussels, 31 March - 1 April 1980)

COM(80) 145 final

1. The following assessment of economic trends and policy was discussed and broadly agreed by the Council of Finance Ministers on 17th March 1980.

Results for 1979. In spite of the new oil shock, the performance of the Community economy in 1979 was in several respects favourable.

2. Gross domestic product (GDP) is now estimated to have grown 3.3% in the Community as a whole. Capacity utilisation in industry increased significantly. Employment grew by 0.9%, the most positive result since 1973. The level of unemployment stabilized in the course of 1979.

3. Money supply growth decelerated notably, from 12.7% in 1978 to 10.6% in 1979, with a large degree of fulfillment of national quantitative objectives. Some progress was also made in efforts to reduce public sector deficits.

4. Intra-Community exchange-rate relations were more stable than in any year since 1972. The average change in the exchange-rates of Member States vis-à-vis the ECU in the year 1979 as a whole was 1.9%, compared to 5.2% in the average of the six preceding years.

5. As regards external exchange-rate relations, the ECU appreciated in 1979 against both the US dollar and the Yen, especially the latter whose value against the ECU declined 30% in the course of 1979, which is matter for preoccupation.

6. The oil price rise in 1979 (of nearly 50% in dollar terms, yearly average) was in part responsible for the deterioration in price performance. After the lowest rise in 1978 in seven years (6.9%), consumer prices rose on average in the Community in 1979 by 9%, with a 12.4% rise in the second half of the year (at an annual rate). All major components of the consumer price index accelerated. There was a renewed tendency for inflation rates to diverge. The standard deviation of consumer price rises nearly doubled over the same period. The greater exchange-rate stability was not, therefore, underpinned by a better convergence of inflation.

7. For 1979 the Community pledged to limit oil consumption to 500 million tons, 5% less than the original forecast and 2 1/2% less than the 1978 outturn. However, this target was not achieved. Gross inland consumption in 1979 is estimated to have reached 523 million tons, 4.6% above the target.

8. Outlook for 1980. The beginning of the new year saw further major oil price rises which may mean an average increase for 1980 of some 60% (in dollar terms). This has been taken into account in revised economic forecasts prepared by the Commission services, which now suggest 1.2% growth for the year as a whole.

9. While the oil price rises are a major set-back, the impact on the business cycle is far from clear. The latest recorded output figures still show a firmly rising trend. Leading indicators (notably business surveys) suggest a turning-point for the Community as a whole, but the range between Member States is wide.

10. The prospects for employment have worsened with unemployment expected to increase from an average 5.6% in 1979 to 6.4% in 1980 for the Community as a whole.

11. The outlook for inflation is worse. The forecast for 1980 has been revised upwards 2 points to 11.3% for the Community as a whole and a further divergence of performance between Member States is expected.

12. The balance of payments current accounts have also suffered from the oil price rise, with the Community's total deficit for 1980 now revised upwards from 4 to 14 billion ECU. The financing of these deficits should not pose major problems for the four larger Member States: Germany in particular is expected to account for half of the Community total. However, some of the smaller Member States are now facing overriding balance of payments constraints.

13. Policy for the period ahead. In December of last year the Council agreed, in adopting its Annual Report, that priority had to be given in 1980 to alleviating the inflation and energy constraints, and to proceeding with other more widespread improvements in economic structures in many Member States.

14. The economic situation has since evolved (as outlined above). But the changes amount, on the other hand, to higher inflation, unemployment, a still more acute energy constraint, and worse balance of payments situations; and, on the other hand, stronger recent trends in real output and greater uncertainty in this respect for 1980 and the trends that may lead into 1981.

15. In this situation the Commission judges that it is not appropriate to change the basic stance of macroeconomic policy in the Community. Certain objectives of economic and social policy have to be implemented with even greater urgency and force. This concerns notably:

16. Energy Policy (in all Member States and at the Community level). Efforts to produce alternative supplies and economise in consumption have to be increased.

17. Employment Policy. Policies to counter the worsening of the employment situation should be strengthened. Such policies should aim to facilitate the adaptation of economic and social structures by complementary measures in the labour market, training and certain forms of work-sharing.

18. Budgetary Policy. In many Member States severe public finance policies have to be pursued as an unconditional necessity, so as to reduce the strain of deficits on the non-inflationary financing of the economy, and to improve resource allocation in favour of productive investment (this applies notably to Denmark, Ireland, Italy, the Netherlands, Belgium and the United Kingdom). In these cases there is little or no room, for the time being, for counter-cyclical flexibility in budget policy.

19. Monetary Policy. The maintenance or reassertion of firm control over the monetary aggregates in the recent conditions of rising inflation has naturally led to higher nominal interest rates. However, for the Community as a whole this has only just enabled real short-term rates to become positive again at the end of 1979, while long-term rates remain on average slightly negative. In general, a significant easing of interest rates can only be expected when inflation trends are seen to be improving, which is not yet the case. However, the trend in interest rates should be carefully controlled so as to avoid an unduly severe impact on economic activity.

20. Incomes. The oil price levy on household incomes has been further, inescapably increased. While governments may alleviate the impact on the poorest and hardest-hit parts of the population, there can be no alternative for the population as a whole to accepting the loss of real income to oil producers so long as oil consumption habits are not changed.

21. Balance of payments. Member States in basically sound economic situations (for example Germany) should accept for the time being deficits on current account. Some Member States in the most exposed situation (for example Denmark and Ireland) have urgently to reduce their deficits, especially through budget policy and income adjustments (the recent Irish budget is an example).

22. Financing problems could arise for non-oil producing developing countries. The Community should be prepared to support international efforts to assure sound and adequate financial recycling facilities.

Table : The Community economy 1978-80

	1978	1979	1980		1978	1979	1980
	GDP volume, % change				private consumption deflator,% change		
DK	0.9	3.1	- 0.3		9.4	9.5	12.5
D	3.2	4.4	2.1		2.6	4.1	5.0
F	3.3	3.4	2.1		8.8	10.5	12.1
IRL	6.1	3.2	1.4		7.9	13.2	15.5
I	2.6	4.9	2.0		12.7	15.0	17.1
NL	2.4	2.3	1.0		4.4	4.7	6.8
B	2.6	3.0	1.9		4.5	4.5	6.9
L	4.5	2.7	1.8		3.5	4.5	6.5
UK	3.3	0.2	- 2.5		8.4	13.2	18.9
EC	3.0	3.3	1.2		6.9	9.0	11.3
	unemployment rate, % civilian working population				balance of payments current account, billion ECU		
DK	6.6	5.3	7.0		- 1.2	- 2.1	- 2.3
D	3.9	3.4	3.5		7.4	- 2.7	- 6.9
F	5.3	6.1	6.9		2.9	1.7	- 0.1
IRL	8.7	7.9	7.8		- 0.3	- 1.1	- 1.3
I	7.1	7.6	8.5		4.9	4.6	1.2
NL	4.2	4.3	4.5		- 0.7	- 0.7	- 0.9
B	8.3	8.7	9.2		- 1.2	- 1.6	- 2.2
L	0.7	0.7	0.9		0.4	0.4	0.4
UK	5.7	5.3	6.8		1.0	- 3.8	- 2.3
EC	5.5	5.6	6.4		13.4	- 5.1	-14.2
	public finance : general government deficit, % of GDP				money supply, % change		
DK	- 0.9	- 1.3	- 1.2	(M2)	6.7	9.9	9.0
D	- 2.8	- 3.0	- 2.6	(M3)	11.0	6.0	6.0
F	- 2.3	- 1.4	- 1.8	(M2)	12.2	13.5	12.0
IRL	-10.5	-13.2	-11.2	(M3)	28.7	19.0	13.0
I	-10.6	-10.5	-11.5	(M2)	22.8	20.0	20.0
NL	- 2.2	- 3.0	- 2.7	(M2)	4.2	6.0	8.0
B	- 6.0	- 6.8	- 7.5	(M2H)	9.5	6.5	6.5
L	3.3	2.7	1.2		:	:	:
UK	- 4,2	- 3.5	- 3.4	£M3	13.3	11.7	11.5
EC	- 4.0	- 3.9	- 4.0		12.7	10.7	10.4

Source: Commission services, based on information available up to 27th February 1980.
Data for Ireland do not take into account the budget announced on 28th February.

EHG(L)(80)10 COPY NO 1

14 April 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

EMPLOYMENT AND SOCIAL POLICY

Brief by Department of Employment

OBJECTIVE

1. To avoid premature commitments to further Community initiatives, such as those concerning work sharing which raise costs and lead to loss of competitiveness.

POINTS TO MAKE

Employment [If raised]

2. (a) No need for the European Council to act on this. The Social Affairs Council has taken discussion on work sharing as far as it can for the time being. We need to proceed cautiously and should have first regard to the need to control or reduce labour costs in the Community to improve competitiveness. Further proposals on work sharing should not be considered until the Commission have obtained agreement between employers and unions on the steps that may be feasible.

(b) The Community ought not to look at work sharing to the exclusion of other employment problems. We are still concerned to regenerate industrial activity in areas hit by decline of particular sectors (steel, shipbuilding etc). And in another field a useful start has been made with tripartite study by Standing Employment Committee of the impact of microtechnology.

/Joint

Joint Meeting Finance/Employment Ministers [If raised]

3. This proposed meeting would be the first of its kind apart from the Tripartite Conferences and would raise public expectations. Not at all clear to us what would be achieved. We have always thought co-ordination could best be achieved in capitals. I think others share our view. What will the joint meeting discuss and what policies do the Italians see being promoted through it?

BACKGROUND

4. Employment is not on the agenda but may be raised under the "Economic and Social Situation". There is no UK interest in promoting substantive discussion. There has not yet been adequate preparation. There may however be some public expectation, eg if the ETUC has its usual pre-summit meeting with the President, that the Heads of Government would call for some new employment initiatives, perhaps connected with work sharing. The Presidency conclusions of the Dublin summit last November included the following passage on employment:

> "A more co-ordinated approach to employment problems should be defined. The European Council accordingly requests the Commission to submit proposals on specific measures which could be framed to promote more incisive Community action to deal with the unemployment problem."

WORK SHARING

5. As part of its follow-up to the Council Resolution on work sharing, the Commission is about to discuss with employers and unions the possibility of a further Community approach to:-

limiting the systematic use of overtime;
reducing actual annual working time;
flexible retirement, part-time work, temporary work.

There would be advantage in extending this programme of work over as long a period as possible, subject, desirably, to avoiding an accusation against the UK of obstructiveness. Neither the UK, nor the Germans, could support any proposals which amounted to Community-wide rules undermining the

/collective

collective bargaining process. We should ensure that the Presidency conclusions do not give encouragement to work sharing measures. There may be some risk of this because paragraph 17 of the Commission's Paper for the European Council [attached as Ref A to Brief No 9] states:

> "Employment Policy. Policies to counter the worsening of the employment situation should be strengthened. Such policies should aim to facilitate the adaptation of economic and social structures by complementary measures in the labour market, training and certain forms of work sharing."

6. In fact, however, the Community's own discussions are beginning to focus on productivity gains and a little less on work sharing with its implied loss of competitiveness. The Community's work on the employment implications of micro-technology has started usefully in the Standing Employment Committee (Governments, employers, unions). The Commission has an important role in identifying problems and suggesting remedies. (However, as with work sharing, its proposals lead to areas where prime responsibility rests with social partners and governments in Member States, and the Commission's present thinking is not always in line with UK policy and practice.)

THE SOCIAL AFFAIRS COUNCIL

7. The Council of Ministers (Labour and Social Affairs) is expected to meet on 9 June. In addition to proposals on Health and Safety, its agenda may include proposals on Social Security and a Commission communication on labour market policy. It is likely to receive a progress report on the follow-up to the work sharing Resolution.

INFORMAL MEETING OF EMPLOYMENT MINISTERS

8. May meet under the Italian Minister of Labour in May. This is straightforward. More problematical is the proposed joint meeting of Finance Ministers and Employment Ministers, to which the Italian Presidency plan to allocate one day of the informal meeting. The project was dear to Signor Scotti's

/heart

heart when Minister of Labour (now Minister for Community Affairs). It is, however, unlikely to be accepted more than reluctantly by the Germans and we, too, are not keen. The Italians have said nothing clear or convincing, so far, on what such a meeting might achieve.

UNEMPLOYMENT

9. Rising throughout the Community. Six per-cent average. Highest is Belgium 9.1%; lowest is Germany at 4%; UK 5.6%. (Source, Eurostat 1 - 1980 of 15.2.80)

DEPARTMENT OF EMPLOYMENT

14 April 1980

EHG(L)(80)11 COPY NO 1
11 April 1980

EUROPEAN COUNCIL, LUXEMBOURG
27/28 APRIL 1980

THE EUROPEAN MONETARY FUND

Brief by HM Treasury

OBJECTIVE

1. To avoid a substantive debate while the options for the EMF are imprecise.

POINTS TO MAKE

2. (i) Too soon to have a substantive debate among Heads of Government while the options for different types of Fund and the possible roles for the ECU are still not definite. Agree with Commission proposal that the relevant Community bodies should pursue their work on the EMF.

(ii) UK has participated constructively in the discussions. No reason from our point of view why Fund should not be set up on schedule. However, if others want to postpone the March 1981 deadline, we could agree.

(iii) /If pressed on sterling's membership of the EMS (Brief 8)/. No technical reason why sterling's absence from exchange rate arrangements should affect either preparatory work on the Fund or delay its start.

BACKGROUND

References

3. Commission report (annex I), report of the Chairman of the Central Bank Governors (annex II), report of the Chairman of the Monetary Committee (annex III).

4. The resolution of the European Council in December 1978 which established the EMS further resolved to consolidate the EMS arrangements into a "final system" not later than two years after their start. This means March 1981. The final system would entail the creation of the European Monetary Fund, and the full utilisation of the ECU as a reserve asset and a means of settlement. The resolution also said that the final system would be based on adequate legislation at the Community as well as the national level. The European Council in Dublin agreed that the Commission should present a report setting out the progress made on the EMF, and the difficulties encountered. It also confirmed the timetable for setting up the Fund.

5. There has been considerable further discussion in the Community on the EMF since Dublin, but the options remain imprecise. No member state has yet expressed a firm view on the different possibilities that have been considered. The

UK has argued for considering whether further development of the European Currency Unit (ECU) might benefit the development of the international monetary system, especially if the asset reached the point at which it was usable outside the Community.

6. As time before March 1981 is now limited it will be difficult to set up a very ambitious Fund on schedule. Some of the less ambitious options should still be possible, however. There are no particular difficulties about the timetable from the UK view point, but March 1981 is uncomfortably close (from their point of view) to the French and German elections and both would be happy to see a postponement of the deadline. The Germans have recently argued that they are committed to a "real advance" in the system in the final stage, and that because the institutional problems posed by such a real advance cannot realistically be solved by March 1981, more time was needed. A postponement would be unpopular with the smaller member states, and probably Italy, but pressure from President Giscard and Chancellor Schmidt, the two main architects of the EMS, will be certain to prove irresistable.

7. The Commission's report is a reasonable statement of the issues which have been raised in discussions on the Fund so far. But this report and the reports of the Chairmen of the Specialist Committees make it clear that a number of difficult technical issues remain to be resolved on some of the key points of the final stage of the EMS

HM Treasury
11 April 1980

ANNEX I

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80)146 final

Brussels, 20 March 1980

EUROPEAN MONETARY FUND

Report from the Commission to the European Council
(Brussels, 31 March and 1 April 1980)

COM(80)146 final

I. At the Dublin meeting on 29 and 30 November 1979, the European Council invited the Commission to submit, for the meeting in March 1980, a report setting out the progress made in studying the establishment of the European Monetary Fund and pointing out any difficulties.

The studies on the European Monetary Fund were started by the Commission as early as May 1979. Since then, the Monetary Committee and the Committee of Governors have looked into this question, and their respective chairmen have reported to the Council on the progress of work. This work has not yet been completed; rather than producing specific guidelines, it has so far made it possible to identify problems and possible choices between solutions. However, as can be seen from the analysis below, the preliminary technical work has shown that, if it is to make a real extra contribution, the transition to the institutional stage of the European Monetary System can be carried out only if certain basic questions have been resolved which have not yet been fully clarified.

II. Current work is based on three main elements:

A. The first is the desire expressed by the European Council in Bremen and Brussels, to transform the European Monetary System into a "durable scheme" guaranteeing the creation of a zone of monetary stability in Europe. For the purpose of attaining this objective, the European Council defined the operating rules of the system in the first stage and indicated certain characteristics of the "final stage".

B. The second is the lessons to be learnt from the first year of operation of the European Monetary System and from monetary and exchange rate developments in the Community since 13 March 1979.

The assessment of the operation of the European Monetary System in its first year is largely positive. The procedures for consultation between the authorities of the Member States in the various Community bodies have been improved. Despite sharp economic and monetary disturbances which entailed interest rate increases ranging from 3 to 5 points according to the country, the group of participating currencies maintained a greater degree of cohesion than that recorded since 1972. Two adjustments of central rates in September and

November 1979 were carried out in good time and fairly smoothly. Lastly, the monetary compensatory amounts were reduced appreciably, reflecting progress towards the objective of uniform prices on the European agricultural market.

In stressing the positive factors, the Commission is expressing its conviction that it would have been much more difficult to achieve these results if there had been no European Monetary System. However, between the end of 1978 and the end of 1979, the average rate of inflation in the Community rose from 6.9% to 9.0%, and the spread between the lowest and the highest rate of inflation in the Member States widened from 10 to 17 points. Although progress has thus been made towards exchange rate stability, the same has not been the case in the field of prices. Consequently, the European Monetary System must be consolidated and strengthened so as to make its own active contribution to better economic equilibrium in Europe. Economic policies for their part will have to be brought to converge more closely to ensure the stability of the monetary system.

C. The third element is the developments in the international economic, financial and monetary situation. In 1978, the serious disruptions of exchange rates, payments balances, prices and financial markets caused by the 1971-74 monetary and energy crises, seemed to be about to ease. Today, the threat of renewed disequilibria in international payments relations is growing.

The future development of the European Monetary System must therefore be such as to contribute actively to the overall stability of the international financial and monetary system and to meet the Community's general interests in the trade and financial fields - both its own interests and those of the countries with which it has particularly close relations.

III. The Commission and the committees concerned have primarily concentrated on the role of the ECU and on the organization of the credit mechanisms in the European Monetary Fund. They have examined the institutional aspects, which will be largely governed by the solutions adopted to the questions of substance discussed above.

1. The credit mechanisms

Two features of the credits granted under present agreements should be noted: to a large extent they are bilateral credits, the accounting procedures for which are handled by a Community body, the EMCF; and since the body which issues the ECUs - the EMCF - is only an accounting intermediary in the credit operations, these do not give rise to the direct creation of ECUs.

Two problems have been studied in particular: first, the consolidation of existing credits (short-term and medium-term) and of very short-term credit facilities. It became clear that, whatever solution is adopted, this is not a fundamental problem in the transition to the institutional stage of the European Monetary Fund.

Second, the EMF's ability to create ECUs against credits, which is a crucial issue. This ability raises the problem of the limits and conditions under which these ECUs could be created or the credits could be granted, and therefore that of the means which would be available to the European Monetary Fund to impose tighter monetary discipline in the Community. The solutions to this problem will depend to a large extent on the role of the ECU in the institutional stage of the European Monetary System.

2. The ECU

(a) In the present system, the ECU serves as the numeraire for the exchange rate mechanism, as the basis for the divergence indicator, as the denominator for intervention operations and as a means of settlement between the Community's monetary authorities.

However, the ECU lacks the principal features of a currency: it is not an instrument of payment; there can be no autonomous creation of ECUs through the credit operations; and though it appears in the central bank's balance-sheets, this does not mean that it is a genuine reserve instrument, since it is merely the expression in the accounts of the assets (dollars and gold) against which it has been issued and whose movements it reflects automatically.

(b) The decisions taken at Bremen and Brussels, certain fundamental considerations and recent monetary trends together mean that the development of the ECU will be the locomotive for transition to the institutional stage of the European Monetary System: it is by expanding the role of the ECU that the Community will be able to organize internally the coordinated action necessary to achieve a greater degree of monetary stability and establish its monetary identity at international level.

(c) The full and complete use of the ECU as a means of payment and the regulation of the creation of ECUs to serve the objective of monetary stability raise the question whether, to what extent and under what conditions the future Monetary Fund could possess an independent power of money creation.

If it were given such power, the future European Monetary Fund could create ECUs in two ways: against a contribution of reserves (as is done under the present agreements), or through credit operations; these two methods could even be combined.

The full use of the ECU as a means of payment or reserve instrument within the Community would require that several conditions be met:

- first, certain legislative measures would have to be taken to abolish the limits to the acceptability of ECUs to the central banks, to provide that a certain percentage of reserves must be held in the form of ECUs, and possibly to impose the exclusive use of the ECU as an instrument of settlement between the Community's central banks;

- if the limits to the acceptability of the ECU were abolished, the ECU's inherent characteristics (convertibility and yield) would have to be strengthened to make it as attractive as the other possible reserve instruments;

(d) Apart from the role to be performed by the ECU in the areas described above, a second major decision of principle will have to be taken; this concerns the wider use of the ECU outside the system of Community central banks, both on the private financial markets and by the authorities of non-Community countries, so as to ensure the full negotiability of the ECU and to enhance its status as a reserve asset. In this context, the question arises as to whether the strengthening of the role of the ECU might allow it to play a part in recycling the surpluses of the oil-producing countries.

IV. Once the European Monetary System enters into its institutional stage, consistency between domestic monetary policies, credit mechanisms and exchange rate agreements will have to be ensured within a single system of procedures, so as to provide a full and proper basis for the smooth operation of the system and the achievement of monetary stability.

This raises the question, firstly, of the institutional powers with which the Fund will be endowed in order to administer the system itself and, secondly, of the back-up measures which will have to be taken so as to ensure the smooth working of the system, including measures such as the coordination of exchange rate policies vis-à-vis non-Community currencies and the achievement of a sufficient degree of convergence in the economic and monetary policies pursued in the Member States.

Examination of the institutional aspects has already begun. It has started from the principle that a Fund endowed with increased powers should be integrated into the institutional system of the Community and of the existing international monetary organizations on the basis of clear and precise legal arrangements. Fuller examination of the institutional aspects must necessarily be carried out in parallel with the basic questions raised above; it is on the solutions arrived at with regard to these basic questions that the powers of the European Monetary Fund and the nature of the bodies running it will to a large extent depend. It will at all events be necessary to work out a balanced system of taks, responsibilities and safeguards for the European Monetary Fund; this is essential to the exercise of any function of a monetary nature. A balanced system of this kind is, moreover, to be found in all the Member States, though the features of each system differ in accordance with national legal and institutional circumstances.

Some of the functions or tasks allotted to the European Monetary Fund once it is established will probably have to be taken up only gradually depending on how the relevant political authorities assess the way in which the situation is developing and on whether they find the mechanisms suitable.

In conclusion, the Commission proposes that the European Council request the relevant Community bodies to pursue their work along the lines set out in this report. The Commission is ready to provide the European Council with further information on the progress achieved and difficulties encountered in setting up the European Monetary Fund proposed in the texts that were released after the meetings of the European Council in July and December 1978.

ANNEX II

(Translation)

Committee of Governors
of the Central Banks of the Member States
of the European Economic Community

11th March 1980

STATEMENT FROM THE CHAIRMAN OF
THE COMMITTEE TO THE COUNCIL ON QUESTIONS CONCERNING THE
CREATION OF THE EUROPEAN MONETARY FUND

At its meeting on 29th and 30th November 1979 the European Council asked the Commission of the European Communities to present a report for its next meeting in March 1980 describing the progress made in studies on the establishment of the European Monetary Fund and pointing to the difficulties encountered in this connection.

In this context, the Committee of Governors has drawn up this statement, which is confined to presenting a number of general considerations concerning the European Monetary System and its future development and outlining the type of institution to which the consolidation of the existing provisions and procedures might lead and the main problems posed by the transition to an initial stage of the definitive phase of the EMS.

I. GENERAL CONSIDERATIONS

To begin with, the Governors wish to stress that the first year's experience of the European Monetary System is positive; it has functioned satisfactorily and has helped to strengthen monetary co-operation.

The future development of the EMS, in which care should be taken not to jeopardise this achievement, should proceed in an evolutionary way, with the EMF evolving according to circumstances and to the progress made in economic, monetary and financial integration within the Community, without a predetermined timetable. Institutional innovations can play only an auxiliary rôle in the lasting success of the EMS.

It is not to be excluded that this evolutionary approach could, at the start, be confined to some adjustments to the existing arrangements of the EMS within the present legal framework in the light of experience to date. However, those arrangements are already approaching the point where further evolution would demand a certain qualitative jump which would involve institutional changes and raise a number of major technical, legal and political questions, such as the need for parliamentary ratificatio or fresh national legislation.

The Governors are looking at the technical, and to some extent the legal, aspects of these questions; they intend to continue their studies and at this stage have therefore confined themselves to presenting a number of remarks on some of these questions.

II. INSTITUTIONAL FRAMEWORK FOR THE EVOLUTIONARY PROCESS

Several institutional approaches are conceivable for the EMF. It could, for example, be a body:

- of the central-bank type, which would exercise functions essentially, and even exclusively, of a monetary nature and would steer towards the creation of a Community central bank and a Community currency;
- of a regional IMF type, with powers centring more on the administration of medium and long-term conditional credit;
- of a "sui generis" type, which would broadly combine the two formulae above.

The objectives and implications of these various options are obviously very different. The Governors have begun by studying the main questions raised by the "central-bank" approach, as the existing procedures of the EMS, especially the very short-term and short-term credit mechanisms, fall within the domain of the central banks. In this context the Committee of Governors proposes to examine arrangements to ensure control over money creation and avoid any conflict between the Fund and the national monetary authorities.

Whatever the institutional approach envisaged, the Governors are of the opinion that the development of the ECU into a reserve instrument and means of settlement is the most important problem in the transition to the definitive phase of the EMS.

III. DEVELOPMENT OF THE ECU

The development of the ECU raises the two major questions of its creation and use.

1. Creation of ECUs

The contributions of reserve assets to the Fund, as a counterpart of which the ECUs are created, should be in such a form as to give the ECU a more independent and so more intrinsic existence than at present and to endow the Fund with resources at its own disposal.

With this objective in mind, a number of different formulae are conceivable for the contributions of reserve assets, for example sales to the Fund against ECUs, a share in the capital of the Fund, indefinitely renewable swaps. These formulae, which are not mutually exclusive, constitute in practice a definitive transfer of assets and, as such, would have analogous legislative and legal implications.

2. Utilisation of ECUs

In order to promote the full use of the ECU, it would be necessary both to abolish any acceptance limit in intra-Community settlements, such as the present 50 per cent. rule, and to improve the unit's qualities as a reserve asset.

This last could be achieved by giving the ECU one or more of the following characteristics:

- full institutional convertibility, giving the central banks an absolute right to convert ECUs accumulated over and above a certain threshold into foreign exchange through outright operations with the Fund;
- mobilisation facilities with the Fund through reversible operations (for instance, swaps);
- greater voluntary negotiability between central banks by eliminating the restrictions that apply under the present arrangements.

None of these formulae can be considered in isolation from other aspects of the creation and use of ECUs; consequently their differing implications will have to be carefully studied before a choice can be made.

IV. CONCLUDINC REMARKS

The Governors will examine in greater depth the questions outlined above. They will concentrate in particular on defining the rôle and use of the ECU within, and possibly also outside, the Community. They will also consider the rôle that the inclusion of enabling clauses, to be activated under specific conditions, could play in the evolutionary approach.

In doing so the Committee of Governors will pay due regard to the economic and institutional environment, the constraints imposed by that environment and the precautions, especially of a legal and institutional nature, that should accompany the establishment of the Fund.

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EUROPEAN COMMUNITIES

Secretariat of the
Monetary Committee

Brussels, 17 March 1980
II/162/80-EN
Orig. : FR

STATEMENT BY MR. HABERER, CHAIRMAN OF THE MONETARY COMMITTEE TO THE COUNCIL ON ECONOMIC AND FINANCIAL AFFAIRS HELD ON 17 MARCH 1980

Last December, my predecessor at the head of the Monetary Committee, Mr. van Ypersele, informed you of the various problems seen by the Committee at the start of its study of the questions posed by the establishment of the EMF; he presented you with a range of possible technical formulae, and stated that the Committee would undertake to record and evaluate their respective advantages and disadvantages.

This work is now under way, and rather than expounding its technical details, I feel it more appropriate to try to outline the concerns shared, it seems to me, by all members of the Committee, at this stage in their work.

The objective set by the European Council is to proceed, at the end of a transitional phase of at least two years, to an institutional phase of the EMS. Moreover, and not surprisingly, the European Council described the characteristics of the transitional phase with much greater precision than those of the final phase. Nevertheless, the Bremen Annex and the Brussels Resolution indicate that

(a) the ECU will be at the centre of the system; its utilisation as a reserve asset and means of settlement must be "full";

(b) participating countries will co-ordinate their exchange rate policies vis-à-vis third countries;

(c) the existing arrangements and institutions will be consolidated in the future Monetary Fund.

It must be recognised that since the Bremen and Brussels meetings of the European Council in 1978, the international environment has changed considerably and that in 1980 it is very different from what could have been imagined in 1978. Thus I must stress five new facts, the importance of which is considerable :

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1. The rise in oil prices has appreciably swollen the OPEC countries' balance of payments surpluses and this casts a different light on the problem of recycling and reserve assets.

2. The rise in commodity prices and in the price of oil is reflected in a deterioration in the Community's terms of trade, and a turn-round in the current account balance which has moved into deficit for the Community as a whole and for all its members, save one.

3. Inflationary strains have worsened dramatically and, in the Community, the gap between national inflation rates is widening.

4. The price of gold has soared.

5. All in all, the volume of international liquidity has swollen sharply and this appreciably increases the vulnerability of exchange rate policies.

All these changes combined with a wish for diversification which seems to be felt by the OPEC countries - at a time when their surpluses are again becoming considerable - inevitably affect views on the future of the EMS.

First of all they constitute a threat to the EMS in its present form, and for this reason a challenge. They also dictate a change of emphasis in our concerns : the problem of credit mechanisms - volume, conditions - now takes second place to that of reserve assets, since the need for a stable and credible international asset is becoming increasingly urgent. Consequently, the problem of the ECU, and in particular the question of its external role, is seen in a new light; work must continue on this point.

It is, moreover, the ECU on which the Committee's studies are primarily concentrated : we know that its utilisation as a reserve asset and a means of settlement must be unrestricted, which implies the removal of the restrictions at present imposed on its acceptability. This is a major problem, and the Committee is paying particular attention to all its implications.

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Linked to the acceptability of the ECU is its convertibility, and therefore the question of the liquidity of the future European Monetary Fund. In this connection, I should like to stress an equally major point : the reverberations which would be caused if the EMF were given the power of money creation. In each of our countries, this central bank power is balanced by the action of the compensating powers exercised by other authorities in conditions which, moreover, vary from country to country. A careful study has still to be made on the implications of such an undertaking at European level.

In conclusion, I should like to mention two areas in which the Committee also intends to advance its studies. These are :

(a) the relations of the EMS with third-country currencies and in particular Community policy vis-à-vis the dollar, which has still to be defined;

(b) the relative role to be played by the recourse to credits and the adjustment of central rates in the institutional phase; use of the adjustment (by realignment and not by the adoption of appropriate economic policies) must not be preferred to recourse to the ample means of financing available to the system, and we ought to consider the means of ensuring a balanced use of the different possibilities afforded by the system.

I do not claim, in these few remarks, to have given a full picture of the Committee's work. In the near future, I hope to be able to present you with documents in which the Monetary Committee sets out coherent and well-defined options as clearly as possible.

EHG(L)(80)12 COPY NO 1
14 APRIL 1980

EUROPEAN COUNCIL, LUXEMBOURG
27/28 APRIL 1980
ENERGY ISSUES
Brief by the Department of Energy

The following are attached:

Part A Venice Economic Summit and Other International Questions.

Part B Commission Proposals on Common Energy Policy

PART A VENICE ECONOMIC SUMMIT AND OTHER INTERNATIONAL ENERGY QUESTIONS

OBJECTIVE

1. If the subject is raised, to stress the importance we attach to moving away from short-term targets towards measures to ensure longer term stability and reasonable prices.

POINTS TO MAKE

2. Venice Economic Summit

We do not want Summit to concentrate on short-term energy questions (eg, setting oil import targets for 1981). Work on these matters is already in hand in IEA and the Community, and any further problems should be remitted to the Energy Council.

3. Venice is instead an opportunity to look at medium and long-term energy problems, including the public acceptability of nuclear power and coal, their relationship to other issues (eg, economic growth). May also be useful to discuss relations with the oil producers, and the energy problems of

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the developing world. We support German ideas for closer EC/Gulf Co-operation.

4. Welcome progress so far on defining Community position for the Global Negotiations in the UN next year. The possibility of working towards an understanding about price stability, either direct with OPEC, or within the Global Negotiations, must be kept in mind as a long-term objective as the negotiations develop.

BACKGROUND

5. The Western Economic Summit in Venice (June) is to be preceded by the next European Council (12 June, also at Venice), an IEA Ministerial Meeting (probably 21/22 May) and a meeting of the EC Energy Council (probably 13 May). Summit preparatory work so far has shown that the French, German and Italian approach is similar to our own (paragraph 3 above), but that the US are likely to want Venice to agree on new oil import targets for reductions in oil consumption by sector. They have also put forward ideas for a new body, to be affiliated to the World Bank, to finance energy developments in LDC's (which among other things has difficult financial implications for us); and may want from Venice new and probably expensive commitments to support the commercialisation of new energy technologies, a subject which is under consideration in the International Energy Technology Group set up after the Tokyo Summit. The Germans may want a reference in the European Council communiqué to the need to prepare the energy dossier for Venice in the Community, including discussion at the Venice European Council. This is unlikely to cause us problems, though we do not want energy to dominate discussion at the Venice Summit.

6. The Community is committed (by Strasbourg European Council) to maintain net oil imports between 1980 and 1985 at an annual level not higher than in 1978 (472 m tonnes). We have so far successfully resisted US pressure in IEA for a reduction of 1980 oil import ceilings. National targets for 1981 may eventually have to be agreed, but this should be

/deferred

deferred until later this year and they should take the form of yardsticks for measuring progress - not ceilings.

7. Preparatory works for the Global Negotiations on major North/South issues (including energy) in the UN, probably in 1981 is under way. The proposal for an EC-Gulf energy dialogue is stalled, but the Community have suggested an alternative approach based on a series of wider-ranging economic cooperation agreements, in which provision could be made for talks about energy. However, a majority of Gulf States have reservations on this. President Giscard has recently visited the Gulf, and spoken of a possible EC/Gulf/North Africa energy meeting.

PART B COMMISSION PROPOSALS ON COMMON ENERGY POLICY

OBJECTIVE

1. To avoid this question of longer-term Community energy co-operation, the practical scope for which must be considered separately on its merits, becoming entangled in Budget negotiations.

2. To keep fairly low profile, avoiding both commitment and premature criticism.

3. To note Commission ideas, welcoming some aspects, and to agree to further study.

POINTS TO MAKE

4. Commission paper is interesting and helpful contribution to our thinking how to carry forward the resolve we expressed in the Dublin Communique to develop a more effective energy policy. It highlights important questions, ie, whether energy price and tax harmonisation is desirable and feasible, and the right balance between national financing, whether private or public, and Community financing for the large volume of investment needed in energy.

5. But it also shows welcome recognition that these ideas are complex and need careful assessment.

6. Harmonisation of pricing principles to reflect the economic costs of supply is a desirable objective. We in the UK are determined that price levels within the public sphere should not be constrained at artificially low levels. Harmonising actual price levels, however, which should properly reflect long-term costs of supply varying between countries and between forms of energy, could introduce distortions of its own as Commission recognise.

7. Harmonisation of tax structures may be an approach worth examining further; though energy tax harmonisation in general would raise complex questions of fiscal, social and general economic, as well as energy policy.

8. The Commission have not developed in detail their ideas for a Community expenditure programme in energy. Any practical

/proposals

proposals for long-term Community energy co-operation, designed to reduce oil dependence, would need to be examined on their merits, to ensure in particular that they were economically sound and in the Community's interests. We should expect them to reflect, for example, the contribution to reducing the Community's import dependence made by our continuing major investment efforts in energy.

9. Note advantages Commission has suggested for combination of oil import levy and accompanying production tax. But welcome Commission's realistic conclusion that until we know more about financial requirements "it would be premature to draw any conclusions about methods of financing".

10. Overall these ideas clearly need extensive study before European Council could endorse particular components of the initiative. I hope the Commission will consider further and put proposals to the Energy Council to examine.

11. (If raised) Recent US move to introduce $4.62 per barrel oil import tax is welcome as reducing US oil demand. But it is essentially a temporary measure designed to increase by 10 cents per gallon US petrol prices to about $1.30, which is still no more than half European levels. It is still early days to judge OPEC reactions, but their apparent acceptance of the move should be seen in the light of its character as, effectively, a domestic gasoline tax.

12. (Only if necessary) Commission ideas on oil import levy/consumption tax/fiscal harmonisation have no bearing on our immediate budget problem. In the longer term we cannot be expected to agree to new proposals on energy policy if they are likely to exacerbate or reproduce the unsatisfactory budget position which must be rectified.

BACKGROUND

13. The Commission paper proposes a major new Community energy initiative to reduce oil dependence and develop other energy sources. It suggests a combination of:

/(a) harmonising

(a) harmonising energy (particularly oil products) prices and taxation;
(b) Community programme to support investment in energy saving oil substitution, and developments of alternative energy sources, financed by
(c) new Community energy taxation, possible combining an oil import levy with an equivalent oil production tax.

Whilst not committing itself to specific proposals, the Commission concludes that it will "later be making proposals in the sense indicated in this paper" and "invites Council:

(i) to support the idea of a new Community initiative as part of a Community strategy for energy; and
(ii) to take note of the approach towards it suggested in this paper".

14. These questions are extremely complex. There has been virtually no preliminary examination by Council institutions of the Commission's ideas, which may not necessarily be the most practical approach to Community energy co-operation in the longer-term. We cannot say from our own preliminary analysis that any mix of proposals would be financially advantageous and acceptable to the UK in terms of energy, fiscal, industrial and social policy. It would accordingly be unwise to imply any commitment in principle. We expect others to have reservations and it would be best to let them lead criticism if possible. We should prefer the Council simply to take note and request Commission to consider further the possible development of Community energy policy. But we can if necessary go along with the conclusions as requested by the Commission in paragraph 13(i) and (ii) above, if the Presidency and other Member States wish.

15. Ministers had a first look at earlier indications of Commission thinking at OD(E) 4th Meeting on 14 February. They considered that no policy decisions could be taken until proposals were available and had been evaluated. This is still the case. Officials' provisional assessments of the Commission's present ideas are given below.

/Price

Price and Tax Harmonisation

16. Though proposing harmonisation of energy prices and taxes to reduce alleged distortions and give the Community an instrument for macro-economic management (in paragraph 13) the Commission paper notes that harmonisation "would have wide consequences" and "might eventually create some distortions of its own" and "might require compensatory reductions in other forms of taxation" (paragraph 14).

17. On prices, we agree with harmonising principles - but not with harmonising actual price levels: these should reflect differing long-term costs of supply, eg, differing fuels for electricity generation and distribution systems can properly require different prices in different countries.

18. On taxes, all Member States impose excise duties and VAT on some hydrocarbon oil products and, excepting the UK and Ireland, charge VAT on other forms of energy. There is no harmonisation of tax rates. The UK has considered hydrocarbon oils taxation to be an important fiscal instrument because of its impact on wider aspects of the economy, eg, general price and demand levels: its value as such would be lessened by any loss of direct control and there would be other important implications, eg, for the balance between direct and indirect taxation, industrial competitiveness.

Community Energy Expenditure Programme

19. The Commission note (in paragraph 16) that Member States plan energy spending over this decade of 400 billion ECU (about £240 billion) but acknowledge "it is not now possible to estimate reliably the total financial requirements" (paragraph 20).

20. Allocation of new funds would be critical for the UK. Commission thinking favours biasing expenditure towards those Member States "most dependent on oil" which could disadvantage the UK (where oil was only 45% of total energy consumption in 1978, compared with 51%-85% for other Member States). We would probably not wish to advocate Community funding for North Sea

/oil

oil and gas (since that would displace largely private finance by public expenditure and reinforce pressure for Community control). If the scheme did start to run we would therefore need to advocate national quotas by some more favourable "key", eg, population on where we are 21.5% of the total. Our overall objective would be to negotiate a satisfactory financial outcome for the UK consistent with our desire to reduce UK public expenditure. If this was achieved it could in the longer-term, make a contribution to our aim of restructuring EC Budget spending.

New Community funding - Oil Import Levy/Consumption Tax

21. Whilst noting that "until we have a clearer idea of the amount required it would be premature to draw any conclusions about methods of financing," the Commission appear to prefer a combination of (a) oil import levy and (b) Community tax on oil production.

22. The UK could expect to make a smaller contribution to EC revenue under an import levy than a consumption tax until into the next century. In the mid 1980's our share of oil imports will be 8% and of oil consumption 17% of EC total. (Figures for total energy are 10% and 21%). Our VAT contribution will be 17/18%. If a long-term financial mechanism is not achieved, a levy could have attractions as a means of increasing the Community's own resources if and when we considered that desirable. An oil import levy (unlike a consumption tax) could also give the UK a non-Budget resource gain from higher UKCS prices on sales within the Community, provided it were agreed that any import levy should not be chargeable on UKCS oil, though there could be legal implications for aspects of our North Sea arrangements and UKCS hydrocarbon production.

Oil Production Tax

23. A Community oil production tax at a rate equivalent to the levy, would be essential to enable the levy to be imposed on oil from countries with which the Community has preferential agreements. It would only be a further source of UK revenue if additional to our three existing oil production taxes (PRT, royalty, corporation tax), and if the proceeds were retained

/by

by the UK and were not to become a Community own resource. We should have to reject any argument that any UK non-Budgetary resource gain should either help solve our Community Budget problem or justify our receiving a lower proportion of Community energy expenditure.

Other Considerations

24. Community industry's (especially oil users, chemicals and textiles) international competitiveness could be damaged by both an import levy and consumption taxes - the new US oil import fee will not apply to industrial products (see paragraph 25 below). Likely international reactions, particularly from OPEC, would need very careful consideration: the hawks might argue that consumers could afford to pay more for oil. We should guard, in negotiations, against any increased Community pressures on UK energy policy. The Commission have seemed provisionally and informally responsive to the view that Member States could control selection and implementation of expenditure programmes.

US Anti-Inflation Package: Energy

25. The major revenue raising feature of President Carter's recent anti-inflation package was a temporary oil import fee of $4.62 per barrel on imported crude oil designed to raise petrol prices by 10 cents per gallon to $1.30 per gallon (still only about half European levels). Industrial oils (diesel, fuel oil, feedstock) will be unaffected by the import fee. Congress will be asked to replace the import fee by a new motor fuel tax (including diesel) of 14 cents indexed quarterly. Gasoline accounts fo 40% of US oil demand. The US hope that the planned action to switch to a gasoline tax will make the import fee acceptable to OPEC. OPEC appears to have accepted it on this basis, but some OPEC Governments have warned that increased taxes on oil imports or consumption could be confrontational and reinforce pressures to raise oil prices.

Department of Energy
14 April 1980

CONFIDENTIAL

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 130 final

Brussels, 20th March 1980

ENERGY POLICY

(Communication from the Commission to the European Council, 31st March - 1st April 1980)

COM(80) 130 final

CONFIDENTIAL

ENERGY POLICY

Introduction

The underlying problem of energy supply in our society has been stated many times in the last seven years; but our failure so far to cope with it makes it worth stating again.

2. The economies of the industrial world were built on the availability of cheap energy derived principally from coal in the 19th century, and from gas and above all oil in the 20th. Coal reserves are still substantial. But oil is already a scarce resource, as the successive rises in its price since 1973 well demonstrate. It will become scarcer still over the next thirty years and beyond. But even if supply will soon flatten out and decline, the momentum of demand, unless corrected, will continue to increase. If our economies are to continue in their present form, let alone resume their growth, they will require major reorganization whereby dependence on oil is drastically reduced, other sources of energy are developed to take an increasing place, and the price of energy in its various forms finds its level between supply and demand.

3. The Member States of the European Community are particularly vulnerable. At present oil provides 55% of their energy requirements: 85% of oil consumed comes from abroad; and 90% of imported oil comes from the OPEC countries, which control 70% of world reserves and 50% of production outside the Soviet Union and Eastern Europe. Since 1973 the OPEC countries have learnt that they can cut production while maintaining or increasing revenues. In addition interruption of supply for political or other reasons is a continuous hazard. Obviously this has a major and direct effect on the ability of governments to promote growth , control inflation, and reduce unemployment. The energy price increases of the last six months will involve an extra payment of around US $ 50 billion in foreign exchange by the Community in 1980.

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4. The impending crisis passed virtually unobserved until 1973. Since then the policies followed by the Member States individually and by the Community as a whole have been fragmentary in effect, reflecting the different situation of each country within the Community. The price of energy still varies widely and sometimes inexplicably both as between fuels and between Member States. In spite of large nominal price increases since 1973, the real price to the consumer has not kept up, and in some cases has actually fallen.

5. The case for establishing common Community policies is strong. When the Coal and Steel Community, and later the European Economic Community and Euratom, were set up, the need for an energy policy as such was not foreseen. At that time coal occupied a more important place than it now does, and nuclear energy seemed the main energy source of the future. Thus although powers in respect of coal and nuclear energy were attributed to the Community, no specific power was attributed in respect of energy as a whole. Nevertheless achievement of the political, economic and social objectives of the Community as defined in the Treaties are increasingly conditioned by the supply of energy, and there could scarcely be a true common market without common policies in the field of energy. The Commission has prepared a more detailed note for the Council about the general economic implications.

6. Since 1973 there has been some advance in this direction. In 1978 consumption was about the same as in 1973 in spite of economic growth of 10.7% in real terms. The degree of energy saving is hard to assess with precision, but the measures taken within the Community, including price increases, may well have reduced energy consumption by between 7% and 10% between 1974 and 1979. For oil alone consumption was 50 million tons less in 1978 than in 1973. Community energy dependence on imported oil fell from 60% in 1973 to 47% in 1979, and the proportion of energy requirements met by oil fell during the same period from 60% to 55%.

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7. So far co-ordinated action at the level of the Community has taken five main forms. First efforts have been made to set Community targets for energy saving, reduction of dependence on oil, and development of alternative sources. Only some of these are likely to be met. For example only about 70 gigawatts of nuclear capacity will be installed by 1985 compared with the objective of 160 gigawatts agreed in 1974, and both consumption and production of coal have actually fallen. The target for the reduction of oil consumption in 1979 was not met, and there may be difficulty in meeting the oil import target set for 1985. Next the Community has helped in the financing of new coal and nuclear generating plant and in energy projects generally. It has promoted harmonisation of standards throughout the Community to help in energy saving. It has set up crisis management mechanisms. It has extended its research and development programmes into alternative sources, and given financial aid to demonstration schemes for energy saving techniques and exploitation of new sources. Finally it has taken steps to improve its knowledge of the oil market with a view to improving stability, above all in spot transactions.

8. But the gap between what has been done and what needs to be done to establish an effective Community energy policy remains wide. Even if Member States were to fulfil their existing energy programmes for the next 10 years and even if the rate of economic growth were as low as we fear it may be, additional imports of oil of between 50 million and 100 million tons might still be necessary to satisfy increasing demands by 1990.

9. 1980 may offer the Community a breathing space in which to look in realistic fashion at the problems of energy supply and to agree on policies to deal with them. These problems are only in part financial. They cover the general conditions under which energy resources are developed and exploited, including varying national standards,

/rules,

rules, and procedures, in particular with regard to the environment. This has special application to nuclear energy. Progress has recently been made following acceptance of the Commission's proposals on reprocessing of nuclear materials, nuclear waste disposal, and fast breeder technology, but more work is necessary to establish consistent environmental and security standards for nuclear power stations within the Community.

10. There are two broad areas in which new Commission action might now be envisaged: energy price and tax policy; and increased energy investment.

Price and Tax Policy

11. In spite of the increase in crude oil prices in 1973 and since, the price of oil products to the consumer does not fully reflect the Community's paramount need to become less dependent on external supplies of oil and thus less vulnerable to any future shortfall of supplies or greatly increased prices. There is a certain price to be paid for reduced dependence on oil imports and the resulting longer-term stability of our economies. At present the different fiscal policies followed by member governments scarcely promote the greater independence the Community needs. Indeed part of recent oil price increases have in effect been carried on national budgets. This may have helped to reduce inflation in the short term, but it has had a number of unhappy consequences, including reduction of the incentive to save energy and develop new sources, and negation of efforts to reduce oil consumption. More recently member governments have agreed on the need to pass on price increases directly to the consumer, and most have registered some success in doing so. This is an essential requirement for a Community energy policy.

12. The different ways in which prices are fixed in each Member State, the different systems of taxation, the

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different weighting given to energy in such devices as cost-of-living indices, and the different relationship between the various forms of energy used have created trade distortions between Member States and distortions of consumption within them. Progressive harmonisation of energy prices and taxes within the Community is therefore essential. This will be a long term, at times cumbersome but indispensable process. It should greatly contribute to our general objectives of economic convergence within the Community. It would also make it easier to measure and control the effects of energy prices on inflation and unemployment, and to pursue consistent policies to reduce dependence on imported oil. Instead of being vulnerable to every wind that may blow from outside, and reacting in dispersed and inconsistent fashion, the Community would be equipped with instruments of macro-economic management which would help it to cope with challenges from inside and out.

13. Progressive harmonisation of energy prices and taxes would have wide consequences. Indeed given the different economic circumstances and energy requirements of Member States, harmonisation might eventually create some distortions of its own. It would involve a shift in the structure of revenue and expenditure in each Member State and within the Community, and would thus have important redistributive effects. If it were not to aggravate inflation and depress economic activity, it might require compensatory reductions in other forms of taxation. The Commission has prepared a separate note for the Council on the implications of energy price and tax harmonisation in the Community.

Energy Investment

14. Among Member States investment in the various forms of energy, as a proportion of total capital investment, differs greatly according to circumstances. During the

/period

period 1980 to 1990 Member States plan to spend in total over 400 billion ECU on energy or up to 2% of Community GDP. On present planning the contribution to this investment from Community funds is likely to be small. Although about 40% of all Community financing goes into the energy sector (through the EIB, Euratom, ECSC etc), this amounts to only about 4% of all energy finance. Furthermore only 2 to 3% of the Community budget goes into energy investment.

15. Although there may at present be relatively little difficulty in raising funds for some forms of energy investment in the short term, we believe that the total volume now envisaged is markedly insufficient in the long term, and is not geared to meet the specific needs of the future. If the present rate of energy saving falls short, and if the switch to energy sources other than oil is further delayed, then the Community could find itself with a substantial energy gap which it would be tempted to fill at rising cost by increasing imports of oil.

16. The bulk of the increased investment required must come from national sources. But because the ability of Member States to undertake such investment varies markedly in terms of financial, technical and other resources, and the different character of their national programmes, there is an obvious danger that economic and social differences within the Community could thereby accentuated, our efforts to promote convergence frustrated, and the objectives of the Treaties made still further from attainment. These difficulties could be met through an expanded Community programme of investment support designed to underpin a Community energy policy inside and outside the Community.

17. Its purposes would be subordinate to the general requirement to promote energy saving, the substitution of oil by energy from such sources as coal and above all nuclear power (whose exploitation is vital to meet our future

/needs),

needs), and the development of synthetic fuels and other renewable resources. Its particular role would be to help remove the obstacles which now prevent investments from being undertaken (for example insufficient funds or high technology risk) or which delay investments (for example doubts about competitiveness with oil in the short term, high initial cost, and long payback times). In so doing it should serve to increase investment in proven technologies and encourage it in more advanced technologies. To allow maximum scope for the exercise of national judgment and control of projects, the programme would work in such a fashion as to fit in with and supplement national programmes with different degrees of Community participation in specific projects. All Member States should qualify to benefit from it, especially those most dependent on oil as an energy source.

18. It is not now possible to estimate reliably the total financial requirements. The additional investment required in the 1980s to hold oil imports down to their present level could be in the order of 50 to 100 billion ECUs, or between one quarter and a half per cent of Community GDP. Most of this extra expenditure would need to be committed early in the 1980s to yield results by 1990, and a continuing effort would be needed thereafter to ensure a sufficient growth of energy production in the following decade.

19. In general terms the energy industry is capable of financing itself. But with the growing importance of advanced technology and the need for increased research and development, as well as the long lead times and long payback periods associated with energy saving techniques and new forms of energy, there is a substantial need for additional financial support to underwrite the financial and technical risks involved.

20. Such support could take a number of forms. As it would be primarily designed to supplement national programmes, a mixture of grants for projects and subsidies for loans

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would be appropriate. Some of the support might be provided by lending on the basis of Community loans (guaranteed by the Community budget). But the very nature of the action envisaged would require direct and significant support from the Community budget itself.

Financing

21. The sums required for a major Community effort are too large to come out of the existing Community budget. Hence new means of Community financing would be needed. Its main purposes would be:

- to supplement the harmonisation of energy prices and taxes in the Community;
- to supply more funds for investment in the Community in saving energy, exploiting existing resources and developing new sources;
- to help in promoting the switch from oil to other sources of energy, and to reduce the dependence of the Community on supplies from overseas; and
- to provide underpinning for a Community energy policy, thus completing and bringing up to date the original provisions and objectives of the Treaties.

22. Until we have a clearer idea of the amount required, it would be premature to draw any conclusions about methods of financing. There are a number of possibilities, from raising Community loans for the purpose, to increasing revenue under the Community's existing system of own resources, to introducing a specific Community energy tax designed to contribute to the objectives of energy policy as a whole. If the choice were to be some form of Community energy tax, it would be desirable

- to adopt a system which is administatively simple and easy to operate, raises least political and constitutional difficulties, and can be rapidly introduced;

- to minimise complications with third countries, in particular oil suppliers and those with whom we have preferential agreements;
- to ensure that the tax was an own resource of the Community with its yield going directly into the Community budget.

23. The main possibilities - not mutually exclusive - for taxation would be to impose a tax on the consumption of energy, either in all its forms or on oil or specific oil products; a tax on production of energy in general or oil in particular; a duty or levy on imports either of energy in general or of oil or specific oil products. The Commission is sending the Council a detailed examination of possible fiscal instruments for raising Community revenue from energy. Each form of taxation has its advantages and disadvantages. Various combinations of taxes might also be considered.

24. More generally the impact on the industrial competitivity of the Community of any method of financing would naturally depend on its size and character. Side effects would be limited and action more effective if a Community initiative were carried out on an agreed international basis. It would therefore be essential to consult our major industrial and trading partners with a view to their taking comparable action. The Community and its Members will anyway have to define their attitudes to the decision of the United States Government to impose a petrol conservation charge on imported oil and to work for an internationally agreed demand restraint programme. It should be made clear that a Community initiative would be designed to help further the policies already publicly advocated by the OPEC countries to reduce consumption of oil and extend the life of the world's oil reserves; and also to help poor non-oil-producing countries in developing the energy resources of the third world.

/Conclusions

Conclusions

25. In this paper we have sought to establish the reasons, need and basis for a new Community initiative as part of a Community strategy for energy. At present the anomalies and differences which have arisen between Member States in their pricing and taxation of energy have had seriously distorting effects, and hindered efforts to reduce dependence on imported oil and achieve greater independence. Energy accounts for so important an element in our economies that there could scarcely be a true common market consistent with the objectives of the Treaties without common policies in the field of energy. Thus we propose progressive harmonisation of energy prices and taxes to reduce these distortions and give the Community the instruments of macro-economic management it needs.

26. We believe that planned investment in energy for the next decade and beyond falls short of our requirements. In our judgment we need a Community programme to support the efforts of Member States to promote energy saving, to substitute oil by energy from other sources and reduce our dependence on foreign suppliers, and to develop other renewable sources. Such a programme would need financing. In our paper we have considered some of the possibilities for doing so. We shall later be making proposals in the sense indicated in this paper. In the meantime the European Council is invited

- to support the idea of a new Community initiative as part of a Community strategy for energy; and
- to take note of the approach towards it suggested in this paper.

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16 APRIL 1980 COPY NO 1

EUROPEAN COUNCIL, LUXEMBOURG
27 - 28 APRIL 1980

THREE WISE MEN, PRESIDENT OF THE NEW COMMISSION AND SEAT OF THE EUROPEAN PARLIAMENT

Brief by Foreign and Commonwealth Office

Attached at Annexes 1 - 3 are briefs on

1. Wise Men's Report
2. President of the Commission
3. Seat of European Parliament

FOREIGN AND COMMONWEALTH OFFICE

16 April 1980

THREE WISE MEN'S REPORT

OBJECTIVES

Wise Men's Report

1. Ensure that Wise Men's Report is not shelved.

2. Postpone substantive discussion until June European Council.

POINTS TO MAKE

General Attitude

3. Welcome thorough, useful Report. Full of sound ideas; can agree with most of it and hope it will be new impetus to working of Community institutions. Important to act on as many proposals as possible.

Timing and Procedure

4. Useful work by Foreign Ministers. They should complete their task in time for decisions on all aspects to be taken at June European Council. Detailed discussion now premature.

Procedure for Appointment of next President of Commission

5. Agree next President should be appointed six months before takes office (January 1981).

Consultation with Parliament on new President

6. Stick to present position under Treaties. Member of Commission appointed by common accord of Governments of Member States. No role provided for Parliament to whom, in any case, Commission is accountable and to whom new Commission customarily submits its programme soon after taking office.

Reduction in size of Commission

7. We have not yet made up our minds on this.

BACKGROUND

References:

A	Wise Men's own summary of Report [Report itself too long to duplicate but copies will be made available to those who need to have it];
B	Presidency Paper - report of Ministerial examination of Report;
C	1977 Agreement on European Council procedures.

8. The Dublin European Council asked Foreign Ministers to

examine the Report with a view to preparing the discussion at this meeting of the European Council. This work is not yet complete.

9. Detailed discussion is therefore unlikely. The Presidency will report that a final report will be made to the Venice European Council (June).

Procedure for Appointment of next President of Commission

10. The Italian Presidency want a preliminary discussion so that a decision can be taken that Mr Jenkins' successor should be chosen at the June European Council i.e. six months before taking office, as proposed by the Wise Men.

Consultation with Parliament on new President

11. The Dutch have raised the possibility of consulting the Parliament about the nomination of the new President of the Commission. It is not clear whether this will come up at the European Council.

Number of Commissioners

12. The Italians will also suggest discussion of the Wise Men's proposals for a reduction in the number of Commissioners to one per Member State after enlargement. The Danes, backed by the Italian Presidency, have suggested the decision should be taken now to make the reduction on Spanish/Portugese Accession (possibly 1983). Ministers in the UK have not yet fully considered the question.

FOREIGN AND COMMONWEALTH OFFICE

18 APRIL 1980

EHG(L)(80)13 ANNEX 2

PRESIDENT OF THE NEW COMMISSION

OBJECTIVES

1. Get agreement on need for strong, independent President; but no need for a choice until June.

POINTS TO MAKE

2. UK has no candidate; interested to hear views of others. Can accept that the new President should come from one of the small Member States. Must be a substantial political figure.

BACKGROUND

3. Since Mr Jenkins is the outgoing President, the UK has no direct interest beyond seeing the appointment of an efficient and independent President. Names mentioned so far as candidates are: Gundelach (Denmark), who has the support of the Danish Government, Thorn (Luxembourg) and possibly, van der Stee (Netherlands) and, before he became Foreign Minister, Colombo (Italy).

FOREIGN AND COMMONWEALTH OFFICE

16 April 1980

SEAT OF THE EUROPEAN PARLIAMENT

OBJECTIVES

<u>Seat of the European Parliament</u>

1. Avoid offence to Luxembourg/France; but also avoid any agreement which made more permanent the present, provisional position.

POINTS TO MAKE [DEFENSIVE]

2. Have some sympathy with MEP's who find present arrangement unsatisfactory; but no direct UK interest other than in efficiency and economy. Decision is for Member States, not the Parliament to take.

3. Until permanent Seat is fixed the Parliament may continue the established practice and choose itself between Luxembourg and Strasbourg for its sessions.

BACKGROUND

4. Luxembourg may raise this question at or in the margins of the Council.

5. Since direct elections in June 1979 there has been growing dissatisfaction among MEPs about the arrangements governing where the Parliament meets. UK MEPs have been in the lead in pressing for a decision to be taken on a permanent seat.

6. Under the Treaties the place of work for the Community's institutions is only provisional. Decisions on a permanent seat have still to be taken by the Governments of the Member States by common accord. The Institution most affected is the European Parliament. Its Secretariat is in Luxembourg, its plenary sessions have traditionally been held in Strasbourg and Luxembourg and its Committees meet in Brussels. This is expensive and inefficient.

7. France and Luxembourg both attach great importance to maintaining their position as one of the provisional places of work for the Parliament. So does Belgium who recognises, however, that her interests are best served by lying low in the hope that eventually the rest of the Community will come to accept the advantage of siting the Parliament as well as the Council and the Commission in Brussels. The position is further complicated by the argument, gaining currency in the Parliament, that the latter has the right to fix its own working place in the absence of a decision by the Council on a permanent site.

8. The UK could not hope to get agreement on London as the site. Our main interest is therefore operational efficiency and keeping the cost down. We also have a strong negative interest in not offending Luxembourg or French susceptibilities. And we have to bear in mind our relations with our own MEPs.

FOREIGN AND COMMONWEALTH OFFICE
16 APRIL 1980

EHG(L)(80) 13

CONFIDENTIAL

Ref A

SUMMARY

We have prepared this summary solely for the convenience of readers of our report. It is not a part of the report.

Barend BIESHEUVEL
Edmund DELL
Robert MARJOLIN

The European Council has asked us to make proposals on adjustments to the machinery and procedures of the Community institutions. We are well aware that the most fundamental causes of weakness in the functioning of the Community do not arise from mechanisms and procedures. The latter play, in fact, only a secondary role. The more serious obstacles are the economic difficulties and divergences of interests and views among the Member States.

The Community is likely to find itself facing real and fundamental problems in the coming years. Moreover, the number of Member States is to be increased during the same period. We must at least ensure that the institutions, rather than aggravating the difficulties by their inefficiency and the dispersion of effort, provide all the conditions for tackling them with the maximum chance of success.

We have tried not so much to fix new detailed rules for the functioning of a Community of Twelve as to propose practical adjustments which can be made here and now to the activities of Community institutions. If these recommendations are adopted, we believe they will result in the new members entering a Community that is more dynamic, more efficient and better prepared to receive them.

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CONFIDENTIAL

Due credit must be given to the Community's achievements. The greater part of the Treaties has already been implemented. Co-operation among Member States has been extended well beyond the letter of the Treaties. But the Community faces difficulties in building new common policies, often without precise Treaty guidelines. Moreover, the multiplication of the Community's tasks and their growing diversity have considerably increased the "lourdeur" of the Community's institutional apparatus. The latter has become both more complex and less efficient.

Our proposal is to improve the functioning of the apparatus by means of the definition of priorities and the clear identification of responsibilities. In our report we have deliberately set aside any kind of ideological approach. The intention is not to modify the institutional balance. Instead we suggest practical ways of improving the functioning of each institution.

The creation of the European Council was in itself a pragmatic response to the Community's institutional difficulties. It has become an effective source of political guidance in the Community.

The task is to find the right balance between freedom and discipline in the European Council's proceedings. The operational solutions already developed to this end should be reaffirmed and reinforced: limited agendas, limited attendance, coherent preparation and follow-up, early circulation of documents, Presidency responsibility for drafting clear and accurate conclusions. We have examined the idea of a longer-term Presidency for the European Council and it seems to us that it would present real difficulties in the present state of the Community.

There is considerable scope for improvement in the European Council's relations with the Treaty institutions. Our specific suggestions for preserving the role of the Council of Ministers, strengthening the Commission in its collaboration with Heads of Government, and establishing direct relations between the European

.../...

Council and Parliament, are designed to integrate the European Council so far as possible within the normal framework of inter-institutional relations. To make full use of its potential for political guidance, we propose that the European Council should adopt before 1981, in collaboration with the Commission, a master plan of <u>priorities</u> indicating the main tasks and directions for progress for the Community as a whole. This master plan must be precise and practical, a declaration of intent rather than a pious hope.

The European Council is responsible for reviewing the whole range of Member States' common action, whether it has a strictly Community character or not - as is the case notably for Political Co-operation. It has, therefore, a certain choice among the procedures to be used particularly for new actions. Priority must be given to the application of Article 235. But if it appears impracticable to apply this procedure, action in common by other methods which allow the Community to make progress should not be ruled out a priori.

The <u>Council of Ministers</u> in its various formations, and the associated machinery, are producing results which do not match up to the amount of effort deployed. The burden of work is becoming impossible to handle and the efforts of the various subordinate bodies and of the specialized formations of the Council are insufficiently co-ordinated. To tackle these problems, the clearer definition and more efficient execution of the responsibilities of the Presidency seem to us essential. Each Presidency should establish its work programme, respecting the priorities defined by the European Council, and should report on the execution of the programme at the end of its term. The authority of the Presidency in enforcing procedures, and in establishing the agenda, should be clearly recognized. The Presidency should be free to lighten its own load by entrusting particular dossiers to other members of the European Council, the Council of Ministers or subordinate organs. Other options, such as a change in the rotation of the Presidency and the "troika" formula, are rejected.

The Council itself must be free to concentrate on the genuinely political issues. This means making wider use of delegation to the Commission; and giving more room for manoeuvre to the Committee of Permanent Representatives and the lower-level bodies. We do not recommend altering the status of Permanent Representatives. Procedures for taking decisions must be as economical as possible. The "Luxembourg Compromise" has become a fact of life in the Community. Each State must be the judge of where its very important interests lie. But if all States feel sure they will not be overruled on matters involving such interests for them, they should all accept voting as the normal practice in all cases where the Treaty does not impose unanimity and no very important interests are involved.

The working groups below COREPER should not, as too often happens, be left to their own devices. The Presidency, helped by the Council Secretariat and in liaison with the Commission, has special responsibility for co-ordinating their work within the framework of agreed priorities and for avoiding unnecessary delays.

Horizontal co-ordination is also essential to counteract the fragmentation and dispersion of Community activities. While it cannot retrieve the dominant position it held in the early years, the Council of Foreign Ministers should continue to play a central role. Certain specialized Councils might hold less frequent meetings.

National administrations can make a further, very significant contribution to the proper functioning of the Communities. Co-ordination of Community affairs is carried out by very different methods from one capital to another. We do not seek to impose a single stock model on practices which have been shaped by tradition and on structures which are often highly diverse. But it is vital that the capacity should exist in all Member States to produce, in good time, instructions which are both considered and coherent. The Permanent Representative can play

.../...

- helpful role in this respect.

Finally, the Council does not operate in isolation. The Commission makes a contribution which is vital for its good functioning, and the Presidency should look after the quality of its relations with the Parliament.

The role and authority of the Commission have declined in recent years. The exercise of its right of initiative and its role as guardian of the Treaties, together with its management and implementing tasks, need to be made more effective and adapted to current circumstances. The number of Commissioners in the enlarged Community should be limited to twelve - one per Member State. The number of Directorates-General should be reduced and brought in line with that of Commissioners. The college of Commissioners should be more homogeneous and should act more as a collective body. Co-ordination between departments should be strengthened and the central services - budget, personnel, administration - grouped under the authority of the President. The President of the Commission's authority must be reinforced within the institution of which he is the head. He should be chosen by the European Council six months before the renewal of the Commission. He should be consulted by Governments on the selection of Members of the Commission, and should have the last word on the allocation of portfolios.

It is essential that the Commission should maintain an active role in the Community. It represents the interests of Europe as a whole and not a compromise between different points of view. It should set up at the start of its term of office a general programme which can be revised at least once a year, in harmony with priorities defined by the European Council. It should organize the application of its resources on the basis of this programme, taking account of the capacity of the Council machine. The production and handling of "harmonization" proposals need careful planning. The Commission should consult States, where necessary, at a high political level and should avoid repeated low-level consultations on the policy aspects of its drafts.

It should participate actively in the work of the Council, modifying its proposals and suggesting compromises.

The Council, for its part, must delegate more of the implementation of new policies to the Commission. Ways must be found, for example by the development of stock formulae and political understandings between the institutions, to eliminate the obstacles which have blocked certain delegations in the past.

This report makes no claim to pronounce on the process of evolution which the European Parliament may go through following its election by direct universal suffrage. But we can suggest certain adjustments which are necessary in relations between the Parliament and the other institutions. In this context, closer contacts must be developed between the Parliament and the Commission. The latter must present its programme to the Parliament for debate. It must work out with the Parliament a six-monthly programme for consultative work. Above all, the Commission must make a more serious response to the Parliament's Resolutions. The Council, too, should take these Resolutions more seriously. It is up to the Presidency to draw them to Member States' attention and to develop personal contacts with the Parliament. The institutions should try to agree on practical improvements to tackle the difficulties arising in the implementation of the "conciliation" procedure. Finally, the President of the European Council should appear once every six months before the Parliament, so as to achieve a direct dialogue at the highest level between the two organs. In the interests of the Community, balanced relations need to be maintained between the three points of the Commission-Council-Parliament triangle.

The Court of Justice has presented suggestions itself for resolving its problems. Solutions should be found by discussion between the institutions. The same applies to the Court of Auditors. The Economic and Social Committee faces more serious difficulties. In these times of crisis, the Community needs an efficient mechanism for consultation with the social partners. We make some

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suggestions for reaffirming the Economic and Social Committee's role in socio-economic consultations in the Community, and also for increasing the effectiveness of the Tripartite Conference, the Standing Committee on Employment and the Joint Committee system.

In this whole study, we have taken account of the prospective enlargement of the Community to twelve members. Our technical proposals designed to improve the transparency, coherence and efficiency of the Community institutions are based on experience of a Community of nine members, but they can do much to ease the functioning of a Community of Twelve.

However, enlargement will not add only to the "lourdeur" of the institutions. It will also extend the range of differing circumstances and interests among Member States. Any system of a "two-speed" Europe which created differences of status between Member States must in our view be rejected. Differentiated solutions for the application to Member States of policies decided in common may however prove useful in some cases, as they have in the present-day Community. Certain safeguards should be applied whenever they are used.

The Community of Twelve will have nine official languages. Any attempt to limit systematically and by compulsion the use of any national language would be unjust as well as politically impractical. But the costs and complications will be on a scale to make it essential that pragmatic arrangements are found allowing the number of interpreters to be reduced according to the nature of each meeting.

We have also reflected on the problems likely to face Europe in the next few years. This period will be a difficult one for Europe. Everything points to a relatively low rate of economic growth, accompanied and aggravated by monetary disturbances and difficulties in the energy market. The unemployment problem will lead to social and polticial tensions. The prospects for the Community's future, and for progress towards European Union, will depend on how it copes with this continuing crisis. The

Community's Member States must maintain their solidarity both in the active sense - i.e. mutual aid - and in the passive sense of abstaining wherever possible from action likely to cause problems for other members. Much resolve and political intelligence will be needed to counter the pressures for protectionism which are bound to arise both in the enlarged Community's internal trade and in its dealings with the outside world.

The priorities which the Community sets itself in dealing with these challenges must be flexible enough to allow adjustment to changing circumstances. They must be based on a realistic appreciation of the scope for Community action. The first and greatest task is the maintenance and consolidation of the acquis, with any adjustments that modern conditions may demand. In dealing with the outside world the Community and its Member States must act in the most united way possible both on the economic and on the political front. The solidarity between States must be given practical expression, whether it be in joint action to face up to the energy crisis, in mutual aid for other emergencies, or in the development of efforts for greater monetary stability such as are reflected in the European Monetary System. Priorities of this kind should help the Community not only to survive the immediate dangers, but also to lay the practical foundations for progress in the longer term.

OCTOBER 1979

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(46)

BRUSSELS, 24 March 1980

REPORT BY THE MINISTERS FOR FOREIGN AFFAIRS
TO THE
EUROPEAN COUNCIL,
DRAWN UP BY THE PRESIDENCY

Subject: Report from the Three Wise Men.

At its meeting in Dublin on 29 and 30 November 1979, the European Council asked the Ministers for Foreign Affairs, meeting in the appropriate framework, to study this Report by way of preparing for its examination at the next meeting of the European Council.

The Ministers for Foreign Affairs have studied the Report at two meetings, in Varese on 7 February 1980 and in Brussels on 17 March 1980.

It emerged from their examination that while there was a broad consensus of opinion on many suggestions put forward by the Three Wise Men, others would still require closer examination. The Ministers for Foreign Affairs therefore considered that the European Council might instruct them to complete the study which they have begun, in time for its meeting in Venice on 12 and 13 June 1980.

However, as a new Commission is to be appointed to take office on 5 January 1981, the Ministers for Foreign Affairs would suggest that, at its meeting on 31 March and 1 April 1980, the European Council discuss two of the suggestions in the Report from the Three Wise Men:

- the procedure for appointing the President of the Commission;

- the composition of the Commission.

The arguments tentatively put forward on these two points are given in the Annex.

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In the Presidency's opinion, the Governments of the Member States and the Council of the European Communities could be called upon to exercise their respective powers on these two points in the light of whatever conclusions are reached by the European Council.

ANNEX

Summary of the discussions of the Ministers for Foreign Affairs on the:
- appointment of the President of the Commission
- composition of the Commission

A. Appointment of the President of the Commission

The Report from the Three Wise Men suggests that the President of the Commission be personally selected by the European Council at least six months before the other Members of the Commission.

The general view emerging from the discussions of the Ministers for Foreign Affairs on this point was that the President of the Commission should be appointed a sufficiently long time before taking up his duties and prior to the start of the process of appointing the other Members of the Commission.

B. Composition of the Commission

In view of the prospective enlargements of the Community, the Report from the Three Wise Men suggests that the number of Members of the Commission be reduced to one per Member State, chiefly for the sake of efficiency.

The discussions of the Ministers for Foreign Affairs on this point have revealed three possibilities so far:

1. A reduction in the number of Commissioners to one per Member State, as suggested in the Report from the Three Wise Men. Both they and the representatives who were in favour of such a reduction advanced as their prime reason the desire for efficiency and the difficulty of achieving a balanced allocation of tasks among too large a number of Commissioners.

The representatives who said they could agree to a reduction in the number of members of the Commission thought that, if the number of the Commissioners was reduced, this should not involve any loss of powers for each of them individually nor any compensation in the distribution of portfolios among the members of the Commission overall.

2. Maintenance of the principle on which the number of members of the Commission is currently determined.

In the view of those representatives supporting this option, maintaining this principle would make it possible:

- to preserve the present balance in the composition of the Commission and the political significance thereof;
- to avoid the Commission becoming like an intergovernmental body;
- to ensure a more balanced representation of the major European political groupings within the Commission.

Although they shared the wish expressed by others to see greater efficacity on the part of the Commission these representatives said that the objective sought by the Three Wise Men - optimum operation of the Commission - could possibly be achieved otherwise than by reducing the number of Commissioners to one per Member State, for example by means of an effort by the Commission to redefine the portfolios it assigned to each of its members.

.../...

3. The third possibility would involve provisionally maintaining the principle of allocation currently in force on the understanding that a reduction would be made at the time of the next accession to the European Communities after that of Greece.

It was pointed out in support of such a transitional solution

- that it would be difficult between now and the end of 1980 to achieve any reduction in the number of Commissioners;
- that other means designed to complement a reduction in the number of Commissioners in order to achieve the desired level of efficiency could be studied in the meantime.

In opposition to this solution, it was pointed out that any reduction in the number of Commissioners at the time of the next accession to the European Communities after that of Greece might fall in 1983, i.e. during the next Commission's term. This would entail not inconsiderable difficulties for the functioning of the new Commission.

EHG(L)(80)13

REF C

ORGANISATION OF EUROPEAN COUNCIL MEETINGS

1. Prior to the European Council meeting in Rome at the end of March, the Presidency circulated a paper (COREU NO. CPE/MUL/ETR 1160 of 23 March 1977) which sought to establish points of agreement which had emerged from the correspondence between Heads of Government about the ways in which the organisation of European Council meetings might be improved. In the light of the discussion at that meeting, which was followed up by Foreign Ministers on 5 April, the following points are understood to represent a generally acceptable framework for the organisation of future meetings:

(A) TYPES OF DISCUSSION

There is general agreement that the European Council should have both:

(i) Informal exchanges of view of a wide-ranging nature held in the greatest privacy and not designed to lead to formal decisions or public statements.

(ii) Discussions which are designed to produce decisions, settle guidelines for future action or lead to the issue of public statements expressing the agreed view of the European Council.

It is also recognised that the European Council will sometimes need to fulfil a third function, namely to settle issues outstanding from discussions at a lower level. In dealing with matters of Community competence the European Council will conform to the appropriate procedures laid down in the Community Treaties and other agreements.

(B) ADVANCE PREPARATION OF THE AGENDA

For informal exchanges of view, it is generally agreed that little preparation is necessary, although some limited prior clarification of the questions is not to be excluded if it would facilitate discussion. Heads of Government should inform each other or the Presidency, a few days beforehand, of the subjects which they will wish to discuss. There is general agreement that there should be adequate preparation of those discussions which are aimed at reaching decisions or issuing statements. Foreign Ministers should have responsibility for such preparation, which could take place in the Council or the Political Cooperation machinery as appropriate, and will wish to meet at an appropriate time, and if necessary to hold a special meeting before the European Council, for this purpose.

(C) THE ISSUING OF STATEMENTS

It is generally agreed that the European Council will wish to make public its decisions on some subjects or sometimes to issue a statement registering a concerted Community opinion on a topic of international concern. Such statements should not, other than in exceptional circumstances, be issued without advance preparation. A list of the subjects on which it is proposed statements should be issued should be drawn up 2-3 weeks in advance.

(D) THE RECORDING OF CONCLUSIONS

There should be no record of the informal exchanges of view between Heads of Government. For the discussions aimed at reaching decisions or issuing statements there should be a written record of conclusions, which should be issued on the authority of the Presidency.

(E) ATTENDANCE OF OFFICIALS

There is general agreement that the exchanges of views should be as intimate as possible and that attendance should be restricted as at present.

EHG(L)(80)14 Copy No. 1

18 April 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL, 1980

POLITICAL COOPERATION

Brief by Foreign and Commonwealth Office

The following Briefing Material is attached:-

Annex A - IRAN

B - AFGHANISTAN

C - MIDDLE EAST

Foreign and Commonwealth Office

18 April 1980

ANNEX A

IRAN

Objective

1. Ministers will not wish European Council to discuss at length US policy over American hostages or Afghanistan, or EC reactions to US pressure for support. If there are attempts to initiate a debate on these points, the Prime Minister may wish to suggest that they be remitted for consideration to the Foreign Ministers or to some more appropriate forum.

Points to Make

Support for US

2. Important that Nine implement effectively measures agreed by Foreign Ministers on 22 April.

3. Must attract as wide support among other friendly states as possible.

4. Danger if allies do not support US of more severe measures, which could upset entire region.

Background

Reference A State of 22 April of EC Foreign Ministers meeting in Luxembourg

Reference B part of paragraphs of vetoed Security Council Resolution on Economic Sanctions

Sanctions

5. Some parts of EC agreement relating to sanctions still need clarification. In particular, whether sanctions to be applied to

(i) existing contracts (as at 22 April)

(ii) financial measures (which UK has taken voluntarily since December 1979)

/Legislation

Legislation

6. Some measures under Security Council Resolution can be implemented under 1939 Act. Such legislation required for those relating to:

(i) sale or delivery of goods subject to grant of export licence.

(ii) shipment of goods

(iii) financial measures

(iv) prevention of new service contracts

We are taking steps to draw up legislation required to cover these measures.

British Embassy in Tehran

7. Now reduced to Ambassador and four UK-based staff. Sir J Graham returned to Tehran on 26 April.

British Community

8. About 300-350. Has been advised (most recently on 22 April) to leave if no pressing business reasons to stay.

EC Ambassadors' demarche

9. Luxembourg agreement called for joint approach to President Bani Sadr to report Luxembourg decisions and press for release of hostages. Demarche fixed for 28 April.

Iran Internal

10. Serious fighting in universities over last week following successful attempt by religious extremists (backed by Khomeini) to expel left-wing political groups. Some killed and many injured. Has further weakened authority of Bani Sadr who, having first criticised the campaign, has subsequently had no choice but to endorse it. Recent serious renewed fighting in Kurdistan.

REFERENCE A

DECISION BY THE FOREIGN MINISTERS OF THE NINE ON IRAN

1. The Foreign Ministers of the nine Member States of the European Community meeting in Luxembourg on 22 April discussed the implications of the recent events in Iran in the light of the reports by their ambassadors following the demarche to the president of Iran decided upon by the Foreign Ministers at their meeting in Lisbon on 10 April.

2. The Foreign Ministers expressed the solidarity of the Nine with the Government and people of the United States at this time of trial.

3. While welcoming the visit by the ICRC to the hostages on 14 April and noting the assurances given by President Bani Sadr as to the living conditions of the hostages, the Foreign Ministers expressed their profound regret that the Iranian Government has been unable to give precise assurances about the date and methods by which the hostages would be released. The Iranian Government continues to ignore the clear call of the UN Security Council and the International Court of Justice to bring to an end a flagrant violation of international law and release the hostages.

4. Since the hostages were first detained the Nine, fully respecting the independence of Iran and the right of the Iranian people to determine their own future, have insisted that they must be released. The fact that after six months they are still detained, despite the efforts of the Nine and the clear condemnation by the community of nations, is intolerable from a humanitarian and legal point of view.

5. The Foreign Ministers of the Nine, deeply concerned that a continuation of this situation may endanger international peace and security, have decided to request their national parliaments immediately to take any necessary measures to impose sanctions against Iran in accordance with the Security Council resolution on Iran of 10 January 1980, which was vetoed, and in accordance with the rules of international law.

They believe that these legislative processes should be completed by 17 May, date of the Foreign Ministers' meeting in Naple

/If

If by that time there has not been any decisive progress leading to the release of the hostages, they will jointly implement sanctions.

Steps will be taken within the Community in order that the implementation of the measures decided upon should not obstruct the proper functioning of the Common Market.

The Ministers consider that, as of now and pending the entry into force of the measures mentioned above, no new export or services contract with persons or organizations in Iran should be concluded.

6. The Foreign Ministers decided meanwhile to put into effect without delay the following measures, to the extent that they are not already in force:-

(i) reduction in Embassy staffs in Tehran;

(ii) a reduction in the number of diplomats accredited by the Government of Iran in their countries;

(iii) the reintroduction of a visa system for Iranian nationals travelling to member countries of the Nine;

(iv) the withholding of permission for the sale or export of arms or defence-related equipment to Iran.

7. The Foreign Ministers instructed their ambassadors to return to Tehran in the interval in order to convey the present decision to the Iranian government, to follow the situation, and to undertake all possible efforts to alleviate and improve the living conditions of the hostages pending their release.

They expressed the hope that the Iranian authorities would act along the lines suggested in this statement.

8. The Foreign Ministers of the Nine, believing that this situation should be a matter of concern to the whole international Community, call upon other governments to associate themselves with these decisions.

9. The Foreign Ministers decided immediately to contact the Government of the United States through the Presidency and to inform it of the decisions taken by them.

REFERENCE B

SECURITY COUNCIL

S/13735
10 January 1980

ORIGINAL: ENGLISH

United States of America: draft resolution

The Security Council,

Recalling its resolutions 457 (1979) of 4 December 1979, and 461 (1979) of 31 December 1979,

Recalling also the appeal made by the President of the Security Council on 9 November 1979 (S/13616) which was reiterated on 27 November 1979 (S/13652),

Having taken note of the letters dated 13 November 1979 and 1 December 1979 concerning the grievances and views of Iran (S/13626 and S/13671, respectively),

Having taken into account the Order of the International Court of Justice of 15 December 1979 calling on the Government of the Islamic Republic of Iran to ensure the immediate release, without any exception, of all persons of United States nationality, who are being held as hostages in Iran (S/13697) and also calling on the Government of the United States of America and the Government of the Islamic Republic of Iran to ensure that no action is taken by them which will aggravate the tension between the two countries,

Further recalling the letter dated 25 November 1979 from the Secretary-General (S/13646) stating that, in his opinion, the present crisis between the Islamic Republic of Iran and the United States of America poses a serious threat to international peace and security,

Bearing in mind the adoption by the General Assembly by consensus on 17 December 1979 of the Convention Against the Taking of Hostages,

Mindful of the obligation of States to settle their international disputes by peaceful means in such a manner that international peace and security, and justice, are not endangered and, to that end, to respect the decision of the Security Council,

Conscious of the responsibility of States to refrain in their international relations from the threat of use of force against the territorial integrity or political independence of any State, or in any other manner inconsistent with the purposes of the United Nations,

80-00943 /...

Affirming that the safe release and departure from Iran of all those being held hostage is an essential first step in resolving peacefully the issues between Iran and the United States and the other States members of the international community,

Reiterating that once the hostages have been safely released, the Government of Iran and the United States of America should take steps to resolve peacefully the remaining issues between them to their mutual satisfaction in accordance with the purposes and principles of the United Nations,

Further taking into account the report of the Secretary-General of 6 January 1980 (S/13730) made pursuant to resolutions 457 (1979) of 4 December 1979 and 461 (1979) of 31 December 1979,

Bearing in mind that the continued detention of the hostages constitutes a continuing threat to international peace and security,

Acting in accordance with Articles 39 and 41 of the Charter of the United Nations,

1. Urgently calls, once again, on the Government of the Islamic Republic of Iran to release immediately all persons of United States nationality being held as hostages in Iran, to provide them protection and to allow them to leave the country;

2. Decides that, until such time as the hostages are released and have safely departed from Iran, all States Members of the United Nations:

(a) shall prevent the sale or supply, by their nationals or from their territories, whether or not originating in their territories, to or destined for Iranian governmental entities in Iran or any other person or body in Iran, or to or destined for any other person or body for the purposes of any enterprise carried on in Iran, of all items, commodities, or products, except food, medicine, and supplies intended strictly for medical purposes;

(b) shall prevent the shipment by vessel, aircraft, railway, or other land transport of their registration or owned by or under charter to their nationals, or the carriage whether or not in bond by land transport facilities across their territories of any of the items, commodities, and products covered by subparagraph (a) which are consigned to or destined for Iranian governmental entities or any person or body in Iran, or to any enterprise carried on in Iran;

(c) shall not make available to the Iranian authorities or to any person in Iran or to any enterprise controlled by any Iranian governmental entity any new credits or loans; shall not, with respect to such persons or enterprises, make available any new deposit facilities or allow substantial increases in existing non-dollar deposits or allow more favourable terms of payment than customarily used in international commercial transactions; and shall act in a businesslike manner in exercising any rights when payments due on existing credits or loans are

/...

[illegible] made on time and shall require any persons or entities within their jurisdiction to do likewise;

(d) shall prevent the shipment from their territories on vessels or aircraft registered in Iran of products and commodities covered by subparagraph (a) above;

(e) shall reduce to a minimum the personnel of Iranian diplomatic missions accredited to them;

(f) shall prevent their nationals, or firms located in their territories, from engaging in new service contracts in support of industrial projects in Iran, other than those concerned with medical care;

(g) shall prevent their nationals or any person or body in their territories from engaging in any activity which evades or has the purpose of evading any of the decisions set out in this resolution;

3. Decides that all States Members of the United Nations shall give effect forthwith to the decisions set out in operative paragraph 2 of this resolution notwithstanding any contract entered into or licence granted before the date of this resolution;

4. Calls upon all States Members of the United Nations to carry out these decisions of the Security Council in accordance with Article 25 of the Charter;

5. Urges, having regard to the principles stated in Article 2 of the Charter, States not members of the United Nations to act in accordance with the provisions of the present resolution;

6. Calls upon all other United Nations bodies and the specialized agencies of the United Nations and their members to confrom their relations with Iran to the terms of this resolution;

7. Calls upon all States Members of the United Nations, and in particular those with primary responsibility under the Charter for the maintenance of international peace and security, to assist effectively in the implementation of the measures called for by the present resolution;

8. Calls upon all States Members of the United Nations or of the specialized agencies to report to the Secretary-General by 1 February 1980 on measures taken to implement the present resolution;

9. Requests the Secretary-General to report to the Council on the progress of the implementation of the present resolution, the first report to be submitted not later than 1 March 1980.

EHG(L)(80)14

ANNEX B

AFGHANISTAN AND EAST/WEST RELATIONS

OBJECTIVE

1. To secure agreement among our partners to continue to promote the proposal for a neutral and non-aligned Afghanistan.

POINTS TO MAKE

2. Russians, while avoiding outright rejection of the neutrality proposal, have repeated unacceptable pre-conditions about guarantees of non-interference before they would be prepared to consider withdrawing their forces. We should keep up the pressure on them.

3. The Warsaw Pact summit in May may produce a ''peace offensive'' designed to distract from united and sustained pressure on the Russians. We must not fall for this if it comes: solidarity of Western countries is now more important than ever.

4. Aim now should be to build on wide measure of approval already secured for European idea, and obtain committed support from, in particular, the Islamic and Non-Aligned countries. This will help to maintain pressure on the Russians.

5. Islamic Conference in Islamabad in May will be very important. We hope that the Conference will declare its support.

6. <u>Olympics</u>. Important to Soviet Union for political and propaganda reasons. Boycott therefore very effective; it cannot be hidden from Russian people. British Government doing everything possible to dissuade athletes from going. Decision of United States Olympic Committee not to go will be influential, and will diminish value of medals won at Moscow.

Background

1. The latest contact between our Ambassador at Moscow and Soviet Deputy Foreign Minister Zemskov took place on 11 April. It revealed no movement or hint of flexibility in the Soviet attitude. The two main Soviet pre-conditions were simply repeated: advance guarantees of non-interference from outside before there could be talk of a Soviet withdrawal, and emphasis on the unacceptability of arrangements made without the participation of the Kabul regime.

2. The 25th anniversary of the signature of the Warsaw Pact will be celebrated on 14/15 May. The Russians have been slow to mount their expected 'peace offensive' to appeal to those Western countries which are more concerned about preserving the gains of detente, and to encourage splits in Western solidarity. We expect an initiative from the Warsaw Pact summit, possibly connected with arms control and detente in Europe. They could, for example, re-launch their proposal for a conference on security and military detente in Europe first put forward in 1979.

3. Chancellor Schmidt has been invited to visit Moscow in the summer. The FRG notified some, but not all EC members of this invitation, and have said they will wish to hold consultations about it. No follow-up approach has yet been received.

4. We need to get away from the neutrality and non-alignment proposal being seen as a ''European idea''. It is essential that committed support be generated among the Islamic and Non-Aligned countries. Habib Chatty, Secretary General to the Islamic Conference, spoke warmly of the proposal when he saw Lord Privy Seal in London on 3 April. If the Conference in May issues a strong statement in favour of neutrality that could be a turning point.

5. Posts accredited to members of the Islamic Conference have been asked to explain our views and to suggest that the forthcoming Conference could usefully declare its support.

EHG (L) (80) 14

ANNEX C

MIDDLE EAST

OBJECTIVE

1. To agree a short statement, if proposed.

POINTS TO MAKE

Arab/Israel

2. Work should continue on options for Nine in event of failure of autonomy talks.

3. Statement involving balanced commitment to Palestinian self-determination and security for Israel could be valuable, but no point if it says nothing new.

Lebanon

4. Pressure should be kept up on Israel to cooperate with UNIFIL.

BACKGROUND

5. [Not to be revealed]. Our idea for a new Security Council resolution after 26 May remains under discussion in the Nine. The response has been lukewarm so far. The Germans have doubts about superseding 242, while French scepticism may be largely because it is not their idea.

6. [Not to be revealed]. There has been talk at Political Director level of the possibility of a statement on Arab/Israel by the Heads of Government. Alternative drafts have been produced but there has been no agreement on what sort of statement, if any, would be appropriate. One difficulty would be the inclusion of any reference to Camp David and the autonomy talks, given French sensitivity. We have argued that a statement which did not contain a reference to Palestinian self-determination, balanced by a reference to Israel's

/security

security, would be widely seen as a step backwards. The Political Directors will consider the desirability of a statement again on 27 April in Luxembourg.

Following May be Used Freely

7. A breakthrough in the autonomy talks before 26 May looks unlikely but they are likely to continue beyond the deadline. A decision may then be needed on whether they have sufficient life in them to inhibit action by the Nine, eg to promote a new Security Council resolution.

8. The UN force in South Lebanon (UNIFIL) continues to be seriously harassed by Major Haddad's militia, who are supported by Israel. The force (to which the Irish, Dutch, Italians and French contribute) is in a precarious position. We have suggested that the Nine should work together for greater Israeli cooperation. The Irish have pressed for a hard line with Israel - three Irish soldiers have recently been killed. The UN have attached the blame to Haddad's forces.

EHG(B)(80)15 COPY NO 1

21 APRIL 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

TELEMATICS

Brief by Department of Industry

OBJECTIVE

1. That the Commission, in consultation with experts, produces proposals for action which would improve the competitiveness of European (and particularly British) industry in the telecommunications/computer information sector.

POINTS TO MAKE

2. UK supports practical Community role by Community in this field. But must be realistic, tailored to the practical needs of European industry and consumers.

3. Support proposed Council statement, including all points for action listed and proposed timetable.

4. Progress to date disappointing. Experts and Commission need to step up pace. Urgent need for common European standards for national telecommunications networks. EC should help to secure decisions.

BACKGROUND

5. "Telematics" is a new word to describe the area of industrial technology which links telecommunications and computerised information. It will certainly be a massively expanding section in the next decade. The Americans and Japanese have a head start. The proliferation of European national standards - dictated by nationalised Post and Telecommunications authorities, has made it impossible for European industry to produce on a large scale for a standardised European market. The British industry (the dominant UK firms are GEC, Plessey and Pye TMC) was one of the strongest in Europe and potentially

/stands

stands to benefit from a Community-encouraged programme of harmonisation of standards and opening up of national markets, provided that the changes are phased to allow UK industry to adjust.

6. The Commission, with notable support from Mr Jenkins, wishes to take a lead in improving the framework for European industry. The UK and most other Member States, broadly support the Commission project. The French have a national "go-it-alone" programme involving massive Government subsidies designed to secure the French market for French industry.

7. The draft European Council statement repeats welcome objectives and proposes a timetable for Commission action. May 1980 is ambitious given slow progress to date but we can support it. The reference in the final sentence to financial provision in the 1981 budget is acceptable.

8. The Commission and national Postal Authorities have had useful discussions on the main telecommunication problems. Further discussions are needed at export level on these and other subjects such as role of satellites, data-bases, and the role of micro-electronics.

9. The UK will need to ensure in these discussions that the interests of our own industry are taken fully into account, particularly after changes in the existing Post Office monopoly. We may be able to negotiate reciprocal deals with other individual EC countries which can then be opened up to the Community as a whole. British industry wants common standards for the basic national telecommunications networks so as to improve their share of the European market.

Department of Industry
21 APRIL 1980

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EHG(L)(80)16

14 April 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

ENLARGEMENT

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To reiterate, if necessary, United Kingdom support for enlargement.

POINTS TO MAKE

General

2. Firmly support enlargement.

3. Recognise it will cause economic and institutional strains in the Community. All the more important to resolve quickly current problems facing Community, e.g. budget, agricultural surpluses.

Timetable

4. Community should avoid unnecessary delay in Portuguese and Spanish negotiations.

BACKGROUND

References: Nil

Timetable for enlargement

(a) Greece

5. Treaty of Accession signed 28 May 1979. Formal entry due 1 January 1981.

(b) Portugal and Spain

6. Negotiations in train. Detailed stage will probably start in autumn. Entry possibly in 1983 but could slip.

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/Prospects

Prospects for negotiations

7. Spanish negotiations expected to be difficult mainly because Spaniards unwilling to remove quickly protection enjoyed by Spanish industry and because French and Italians worried about Spanish competition in Mediterranean agricultural produce. First exchange of statements on agriculture due shortly. Concern also about possible cost to Community of applying CAP to Spain, without first amending it. Discussion of latter likely to be needed.

8. Gibraltar could be a complication, if no progress made on lifting restrictions.

9. Portuguese negotiations probably less difficult because of small size of Portuguese economy. Nevertheless problems for UK over textiles (we are currently blocking progress over Customs Union because Commission and most Member States oppose our request for transitional measures) and proposals in the pipeline for giving Portugal pre-accession aid.

Economic implications

10. New strains will be put on CAP (applicants have large agricultural sectors), Regional and Social Funds, and fisheries policy (Spain has largest fleet in Europe). Three new members will all probably be net recipients from budget, though now some doubt about Portugal on this score because of her heavy imports of grain and consequent liability to large levy payments.

11. Absorption of three relatively poor new members may act as a drag on Community and increase tendencies towards development of two tiers. But scale of problem should not be exaggerated: Spain has per capita GNP close to Italy's and Greece is about on par with Ireland.

Foreign and Commonwealth Office

14 April 1980

EHG(L) (80)17 COPY NO. 1

14 April 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

TURKEY

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To endorse the agreement reached at the Foreign Affairs Council on 18 March on the need for the Community to discourage the Turks from applying for EC membership.

POINTS TO MAKE (if topic raised by others)

2. Endorse Foreign Ministers' conclusion that Turkish application should be discouraged.

3. Agree that Presidency, Commission and Member States should all speak accordingly to the Turks. Delay should be avoided.

4. (If necessary). Agree that Community should offer further concessions within framework of EC/Turkey Association Agreement, but it must be realistic about how far it can go.

BACKGROUND

References: Nil

Turkish intentions

5. Turkish Foreign Minister told press on 6 February that Turkey was likely to apply for Community membership by the end of 1980. Some reports that the Turks may even apply before June.

6. Turkish intentions nevertheless unclear. Some of Demirel's economic advisers against application. Turks are probably seriously considering an application and meanwhile using this

/possibility

possibility to extract increased aid and trade concessions under existing EC/Turkey Association arrangements. Concessions on aid and textiles difficult for United Kingdom.

Community attitude

7. Foreign Ministers agreed on 18 March that Turkish application would be untimely especially in view of Turkish economic situation and should be discouraged. It was agreed that all the Community partners would speak accordingly to the Turks, with Presidency taking the lead. Italians however have not yet acted.

8. Also agreed that effort had to be made to make Association arrangements more attractive.

Political Cooperation

9. A UK proposal originally made in 1978 for a closer political relationship between Turkey and the Nine has been broadly agreed in an exchange of letters between the Italian and Turkish Foreign Ministers. Procedural details remain to be settled and with both the Italians and Turks making heavy weather of them this could still go wrong. The idea is to give a political dimension to the Association Agreement, to reduce Turkish pressures for full membership and to counter-balance the Greek presence in the Nine.

OECD aid package

10. OECD countries are expected to pledge about $1 billion aid for Turkey at a pledging session on 15 April. UK contribution is £15 million ($34 million). It will be more flexibly tied than is normal for UK aid.

Foreign and Commonwealth Office

14 April 1980

EHG (L) (80)18 (Revise)

25 April 1980 COPY NO. 1

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

FRENCH MEMORANDUM ON THE SAFETY OF MARITIME TRANSPORT AND THE FIGHT AGAINST POLLUTION FROM HYDROCARBONS TRANSPORTED BY SEA

Brief by Department of Trade

OBJECTIVE

1. To avoid substantive discussion and any premature commitments.

POINTS TO MAKE

2. (a) Grateful to the French President for drawing attention to the problems of marine safety and pollution prevention which affect us too (Torrey Canyon, Eleni V, Christos Bitas).

(b) A Ministerial conference might be useful to give impetus to the implementation and enforcement in Europe of internationally-agreed standards. We agree with the French that such a conference should include all the European countries and not merely the Community.

(c) There are certain dangers we would wish to avoid. We do not think it would be appropriate to aim for a Convention. Furthermore, as a major maritime country, the UK wishes marine and pollution standards to continue to be set on a worldwide rather than a narrower basis. We favour the present balance between flag and port state enforcement.

NOTE : REFERENCES ARE AS ATTACHED TO ORIGINAL BRIEF

(d) We do not necessarily oppose all regional initiatives. But, some of the French proposals appear to undermine the principle of worldwide application by envisaging widespread regional action against non-European ships in anticipation of the entry into force of international Conventions.

(e) We have only recently received the Memorandum. We shall all need to consider it carefully in capitals.

(f) [If the proposal for a study group on tankers is pressed] IMCO has devoted a good deal of time in recent years to developing standards for tankers. It would be best to concentrate upon bringing these IMCO standards into force rather than diverting our energies into further studies.

BACKGROUND

References

A: Conclusions of European Council, Copenhagen: 7-8 April 1978.

B: Conclusions of European Council, Bremen: 6-7 July 1978.

C: The French Memorandum.

3. The extensive French Memorandum was only made available at the Council of Ministers (Foreign Affairs) on 22 April. It contains a number of proposals which could raise major problems for the UK.

4. The apparent purpose of the Memorandum is to give a political dimension to discussions on maritime safety and pollution prevention. While some Community activity is foreseen, the French

recognise that the problem involves "Europe" in a more general sense. This at least is useful.

5. The French also have a political problem in Brittany. In an election year, the French President cannot be indifferent to the pressures which arose from the Amoco Cadiz disaster - pressures which have been reinforced by the recent incident involving the Tanio. In translating this political need into proposals for action, the French instinctively think in terms of imposing requirements on all comers: such requirements may indeed have the indirect benefit of affording a degree of protection to France's own (relatively uncompetitive) merchant fleet. The UK fleet, by comparison, still has a competitive cost structure and is deployed on a worldwide basis. This makes us more cautious about unilateral European action which could have the effect of inciting others to adopt unilateral measures against our shipping.

6. The centrepiece of the French Memorandum is a proposal for a formal Convention by which European Governments (not limited to the EC) would bind themselves to enforce certain marine safety and pollution standards upon all shipping frequenting European waters in advance of these standards coming into force internationally. We would not want this practice to become at all widespread, though there may be some justification in exceptional circumstances. We see a danger that such a European Convention could undermine IMCO's role as the pre-eminent body for fixing marine safety standards.

7. Nonetheless, we could go along with the concept of a Ministerial Conference. We would see this as a means of achieving greater political co-operation among the European countries in the

effective implementation of standards which are internationally in force. /CONFIDENTIAL. We might also try to turn the Conference to advantage by suggesting Ministerial discussion of other shipping topics./

8. We think the high level expert group would be a complete waste of time. It would not add anything to existing IMCO work.

9. The Memorandum also envisages that further work should be undertaken within the Community, on the basis of proposals from the Commission. Ministers decided at OD(E) that the creation of Community competence within IMCO would not be helpful to the UK and should thus be resisted. Our interest lies in opposing a proliferation of Commission proposals which, if adopted, would bring the Community into the technical world of IMCO. Our preference is for increasing the direct contacts between European maritime administrations to facilitate a common enforcement effort. (There are already arrangements for this among the North Sea States through the Hague Memorandum).

10. At Annex are guidance notes for those drafting the Communique.

Department of Trade

25 April 1980

ANNEX

FRENCH MEMORANDUM ON MARINE SAFETY

Guidance Notes

1. It is important that, in the Communique, any reference to discussion of this item within the European Council should be couched in non-prejudicial terms.

2. Following the Amoco Cadiz disaster, the European Councils of April and July 1978 called for action at the Community level. The Commission produced an ambitious action programme much of which was subsequently found by Member States to:

i) duplicate work under way in other international bodies notably IMCO;

ii) be largely impracticable.

We do not want the French Memorandum to lead to a revival of many of these proposals which have been allowed to run into the sand. In particular, Ministers in this Administration, after reviewing the scope for an EC shipping policy, have concluded that the creation of Community competence in IMCO would be undesirable. This view is firmly shared by at least Denmark. Since competence may flow from the adoption by the Community of common rules on marine safety items, it is important that the European Council should not call for work which would enable the Commission to claim that they were under a mandate to produce such common rules.

3. Ideally, the Communique should do no more than record that the French President introduced his Memorandum and that the other Heads of Government took due note and agreed to study the detailed proposals in their capitals. If necessary, we could also:

(a) agree that the subjects of marine safety and pollution prevention are politically sensitive ones and deserve full consideration by all European Governments;

(b) welcome the concept of greater political co-operation among European Governments to give impetus to the earlier ratification of Conventions and the more effective implementation and enforcement of internationally-agreed standards;

(c) recognise that, to this end, the proposal for a Ministerial meeting on marine safety and pollution prevention deserves serious consideration.

4. It is important to avoid language in the Communique which could:

(a) give the impression that all the EC States were favourably disposed to the general imposition by Europe of safety and pollution standards on third country ships in advance of the coming into effect of relevant international Conventions;

(b) give the impression that we were favourably disposed towards a Convention which embodied this idea;

(c) give the Commission an excuse to produce another set of proposals for Community action;

(d) give the impression that we wished to use the Community as a vehicle through which to improve marine safety and pollution prevention measures, thereby implicitly or explicitly accepting the

Community role in IMCO;

(e) offer endorsement for the idea of a European expert group:

(f) suggest that measures in the safety field were desirable to secure broader economic objectives (eg restraining competition from flags of convenience or from "unsafe" Greek shipping).

5. The French see action in the safety area as being a means of achieving economic objectives. They have consistently campaigned against flags of convenience alleging, incorrectly, that all vessels under such flags are sub-standard. The UK does not share French hostility towards the phenomenon of flags of convenience. We believe this issue should be treated on its economic merits and that there should be no overlap with safety and pollution measures which should be considered in their own right.

Department of Trade

25 April 1980

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TO IMMEDIATE FCO TELNO 141 OF 08 APRIL
AND REPEATED TO ROUTINE WASHINGTON UKMIS NEW YORK UKREP BRUSSELS ALL OTHER EEC POSTS

MY TELNO 132

FOLLOWING FROM DELEGATION

EUROPEAN COUNCIL: COPENHAGEN: 7/8 APRIL

MARINE POLLUTION
FOLLOWING IS TEXT OF CONCLUSION ADOPTED BY EUROPEAN COUNCIL

THE EUROPEAN COUNCIL

AFTER HEARING A STATEMENT BY THE PRESIDENT OF THE FRENCH REPUBLIC CONCERNING THE RUNNING AGROUND OF AN OIL TANKER ON THE FRENCH COAST, AND BEARING IN MIND THE MEASURES ALREADY TAKEN AND THE PROPOSALS ALREADY PUT FORWARD BY THE COMMISSION AND BY SOME MEMBER STATES CONCERNING THE FIGHT AGAINST POLLUTION (LAST WORD UNDERLINED) AND THE IMPOSITION OF MINIMUM STANDARDS ON SHIPS,

1. CONSIDERS THAT THE COMMUNITY SHOULD MAKE THE PREVENTION AND COMBATING AF MARINE POLLUTION, PARTICULARLY FROM HYDROCARBONS, A MAJOR OBJECTIVE,

2. CONSEQUENTLY INVITES THE COUNCIL, ACTING ON PROPOSALS FROM THE COMMISSION, AND MEMBER STATES FORTHWITH TO TAKE APPRPRIATE MEASURES WITHIN THE COMMUNITY AND TO ADOPT COMMON ATTITUDES IN THE COMPETENT INTERNATIONAL BODIES CONCERNONG IN PARTICULAR:

/ (A) THE

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(A) THE SWIFT IMPLEMANTATION OF EXISTING INTERNATIONAL RULES, IN PARTICULAR THOSE REGARDING MINIMUM STANDARDS FOR THE OPERATION OF SHIPS:

(B) THE PREVENTION OF ACCIDENTS THROUGH CO-ORDINATED ACTION BY THE MEMBER STATES

- WITH REGARD TO A SATISFACTORY FUNCTIONING OF THE SYSTEM OF CUMPULSORY SHIPPING LANES,

- AND WITH REGARD TO MORE EFFECTIVE CONTROL OVER VESSELS WHICH DO NOT MEET THE STANDARDS:

(C) THE SEARCH FOR AND IMPLEMENTATION OF EFFECTIVE MEASURES TO COMBAT POLLUTION.

WARBURTON

FRAME GENERAL:
EID

EHG(L)(80)18 REF B

The following is the relevant extract from the conclusions of the European Council, Bremen 6/7 July 1978

II. SAFETY AT SEA, PREVENTION AND REDUCTION OF POLLUTION

THE EUROPEAN COUNCIL HAS DISCUSSED THE SUBJECT OF SAFETY AT SEA, PREVENTION AND REDUCTION OF POLLUTION (AMOCO CADIZ) AS SET OUT IN THE REPORT FROM THE FOREIGN MINISTER'S COUNCIL, DATED 29 JUNE 1978.

IT DEEMS IT NECESSARY TO TAKE FURTHER MEASURES TO INCREASE THE SAFETY OF MARITIME TRAFFIC , TAKING INTO ACCOUNT THE PROPOSALS OF INDIVIDUAL MEMBER STATES AND THE COMMISSION. THE EUROPEAN COUNCIL REAFFIRMS THE NECESSITY TO INTENSIFY THEIR EFFORTS TO PREVENT AND CONTROL POLLUTION OF THE SEA, ESPECIALLY BY HYDROCARBONS.

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FOLLOWING FROM UKREP BRUSSELS.

FOREIGN AFFAIRS COUNCIL, LUXEMBOURG 22 APRIL.

EUROPEAN COUNCIL PREPARATIONS.

1. FRANCOIS-PONCET (FRANCE) PRESENTED A MEMORANDUM ON MARITIME POLLUTION AS IN PARAGRAPH 2 BELOW, ASKING THAT IT BE BRIEFLY DISCUSSED AT THE EUROPEAN COUNCIL AND RECALLING SIMILAR DISCUSSION AT COPENHAGEN AND BREMEN EUROPEAN COUNCILS IN 1979.

2. MEMORANDUM DU GOUVERNEMENT FRANCAIS SUR LA SECURITE DES TRANSPORTS MARITIMES ET LA LUTTE CONTRE LA POLLUTION PAR HYDROCARBURES TRANSPORTES PAR VOIE DE MER

AU COURS DE CES DERNIERER ANNEES, ET NOTAMMENT DE CES DERNIERS MOIS, LES ACCIDENTS DE MER SE SONT MULTIPLIES DANS L'ENSEMBLE DU MONDE AVEC LEURS CONSEQUENCES DRAMATIQUES POUR LES EQUIPAGES ET DANS LE CAS DU TRANSPORT D'HYDROCARBURES, DES DOMMAGES TRES GRAVES CAUSES PAR LA POLLUTION A L'ECOLOGIE MARINE ET AU LITTORAL.

LA SITUATION EST PARTICULI REMENT ALARMANTE EN EUROPE, NOTAMMENT DANS LES ETATS RIVERAINS DE LA MANCHE ET DE LA MER DU NORD, PAR OU TRANSITE PRES DE LA MOITIE DES HYDROCARBURES TRANSPORTES DANS LE MONDE PAR VOIE MARITIME.

CETTE EVOLUTION INQUIETANTE, DONT L'OPINION PUBLIQUE DES ETATS EUROPEENS S'EMEUT A JUSTE TITRE, CONDUIT LA FRANCE - QUI VIENT DE SUBIR LES CONSEQUENCES D'UN NOUVEAU ET GRAVE ACCIDENT AU LARGE DE SES COTES - A DEMANDER UN EXAMEN ATTENTIF DE L'ENSEMBLE DE LA QUESTION DE LA SECURITE MARITIME ET DE LA LUTTE CONTRE LA POLLUTION PARS LES HYDROCARBURES, ET A PROPOSER DES INITIATIVES INTERNATIONALES VIGOUREUSES DANS CE DOMAINE.

/LE

LE GOUVERNEMENT FRANCAIS NOTE QUE LES PROBLEMES DE SECURITE MARITIME NE PEUVENT ATRE EXAMINES SANS REFERENCE A L'ORGANISATION ECONOMIQUE ET SOCIALE DU TRANSPORT MARITIME MONDIAL ET SOUHAITE NOTAMMENT QUE SOIT ACCENTUEE LA LUTTE ENTREPRISE CONTRE LA PRATIQUE DES NAVIRES SOUS NORMES (1) ET DES PAVILLONS DE COMPLAISANCE (2)

---

(1) OK.
(2) NOT NECESSARILY THE PROBLEM

AU PLAN DES MESURES TECHNIQUES DE SECURITE IL CONSIDERE QUE SEULE UNE ACTION INTERNATIONALE PERMETTRA DE FAIRE FACE AUX DEFIS AUXQUELS LES ETATS, NOTAMMENT EUROPEENS, SONT CONFRONTES. IL SE FALICITE DE L'ACTION EFFICACE DEJA ENTREPRISE PAR L'O.M.C.I. POUR CONDUIRE LES ETUDES TECHNIQUES ET DEFINIR LES INSTRUMENTS JURIDIQUES EN LA MATIERE, ET SOUHAITE QUE LES TRAVAUX DE CETTE ORGANISATION SOIENT ENCORE ACCELERES.

DANS CETTE OPTIQUE, LE GOUVERNEMENT FRANCAIS SOUHAITE QUE LES ETATS EUROPEENS CONCERNES PRENNENT D'URGENCE DES INITIATIVES AU NIVEAU REGIONAL, MONTRANT AINSI L'EXEMPLE A LA COMMUNAUTE INTERNATIONALE.

LES ETATS CONCERNES POURRAIENT PRENDRE DES MESURES COORDONNEES, NOTAMMENT POUR ACCELERER L'ENTREE EN VIGUEUR DANS LES ZONES DE LEUR SOUVERAINETE DES CONVENTIONS INTERNATIONALES PERTINENTES, POUR ASSURER LE CONTROLE DE LEUR APPLICATION AUX NAVIRES DE LEUR PAVILLON, AUX NAVIRES SE RENDANT DANS LEURS PORTS OU AUX NAVIRES TRAVERSANT DES ZONES DE HAUT RISQUE POUR LEUR LITTORAL, ENFIN POUR LANCER UN PROGRAMME COMMUN D'EQUIPEMENT QUI TRADUIRAIT CONCRETEMENT LA SOLIDARITE QUI DOIT UNIR LES BENEFICIAIRES DU COMMERCE INTERNATIONAL MARITIME ET CEUX QUI ENCOURENT LE RISQUE DU PASSAGE DES NAVIRES LE LONG DE LEURS COTES.

LES MESURES QUE LE GOUVERNEMENT FRANCAIS PROPOSE A CEETE FIN PEUVENT ETRE REGROUPEES AUTOUR DES THEMES SUIVANTS:

A. -

ACCELERATION DE L'ENTREE EN VIGUEUR DES CONVENTIONS TOUCHANT A L'EQUIPEMENT ET A LA SECURITE DES NAVIRES.

LES ETATS EUROPEEENS DEVRAIENT APPLIQUER DE MANICRE ANTICIPEE, LES DISPOSITIONS ESSENTIELLES DES PROTOCOLES DE 1978 AUX CONVENTIONS MARPOL 1973 ET

SOLAS

SOLAS 1974 QUI INSTAURENT CERTAINES OBLIGATIONS (LAVAGE AU BRUT DES PETROLIERS, INERTAGE, ETC...). CETTE OBLIGATION DEVRAIT ETRE ETENDUE A L'ENSEMBLE DES NAVIRES PETROLIERS NEUFS OU ANCIENS FREQUENTANT LES PORTS EUROPEENS, QUEL QUE SOIT LEUR PAVILLON. LE GOUVERNEMENT FRANCAIS RAPPELLE QUE LES ETATS UNIS D'AMERIQUE ONT DECIDE DE FAIRE APPLIQUER CES DISPOSITIONS, A COMPTER DE JUIN 1981, AUX NAVIRES ENTRANT DANS LEURS EAUX.

B. -

ACCELERATION DE L'ENTREE EN VIGUEUR DES CONVENTIONS INTERNATIONALES EN MATIERE DE QUALIFICATION DES EQUIPAGES ET DE SECURITE DU TRAVAIL A BORD.

LES ETATS EUROPEENS DEVRAIENT DECIDER DE METTRE EN VIGUEUR PAR ANTICIPATION LES DISPOSITIONS DE LA CONVENTION 147 ADOPTEE PAR 1'OIT EN 1976.

C. -

AMELIORATION DE LA SECURIT DE NAVIGATION DANS 1A MANCHE.

LA FRANCE ATTACHE UNE TRES GRANDE IMPORTANCE AUX REGLES DE CIRCULATION DANS 1A MANCHE ET AU RENFORCEMENT DES EQUIPEMENTS DE RADIO-COMMUNICATION ET DE POSITIONNEMENT DES NAVIRES ENTRANT DANS CETTE ZONE.

ELLE ATTEND EN CONSEQUENCE LE SOUTIEN DE SES PARTENAIRES EUROPEENS AUX PROPOSITIONS QUI SERONT FAITES A 1'OMCI A CET EGARD.

D. -

DETERMINATION DES CONDITIONS D'ACCES ET DE CONTROLE DES NAVIRES DANS LES PORTS EUROPEENS.

AFIN DE FAIRE RESPECTER LES NORMES DE SECURITE QU'ILS AURONT DEFINIS EN COMMUN, LES ETATS EUROPEENS DEVRAIENT DETERMINER, D'UNE MANIERE HOMOGENE, LES CONDITIONS D'ACCES ET DE CONTROLE DES NAVIRES ENTRANT DANS LEURS PORTS. LES ELEMENTS D'INFORMATION AINSSI RECUEILLIS POURRAIENT PERMETTRE L'ESTABLISSEMENT D'UN FICHIER EUROPEEN DES NAVIRES.

E. -

RENFORCEMENT DES EQUIPEMENTS DE PREVENTION DES ACCIDENTS.

LA SECURITE DE LA NAVIGATION DANS LA MANCHE OU EN MER DU NORD CONDITIONNE LE MAINTIEN ET LA CROISSANCE DU COMMERCE MARITIME DE L'ENSEMBLE DES PAYS EUROPEENS.

IL EST DONC SOUHAITABLE QUE CEUX-CI PARTICIPENT A L'EFFORT TRES IMPORTANT QUI EST CONSENTI PAR LES PAYS RIVERAINS DANS LE DOMAINE DE LA PREVENTION DES ACCIDENTS, NOTAMMENT POUR LES AIDES A LA NAVIGATION.

F. -

LUTTE CONTRE LA POLLUTION CAUSEE PAR LES DEVERSEMENTS D'HYDROCARBURES EN MER.

IL CONVIENT DE DONNER RAPIDEMENT UNE SUITE CONCRETE AUX ETUDES REALISEES EN APPLICATION DU PROGRAMME D' ACTION DES COMMUNAUTES EUROPEENNES APPROUVE PAR LE CONSEIL DES MINISTRES DU 26 JUIN 1978.

EN VUE D'AMELIORER LA LUTTE CONTRE LA POLLUTION, IL EST SOUHAITABLE QUE LES ETATS EUROPEENS DISPOSENT AU NIVEAU REGIONAL DES MOYENS ADAPTES. LES ETATS EUROPEENS DEVRAIENT DONC COOPERER AFIN DE:

-CONCEVOIR, REALISER ET METTRE EN OEUVRE DES SYSTEMES DE LUTTE CONTRE LA POLLUTION ET EN PARTICULIER DE RECUPERATION EN MER.

-METTRE AU POINT DE NOUVEAUX PRODUITS EN VUE DE TRAITER LES NAPPES DE PETROLE EN MER ET DE FACILITER LE NETTOYAGE DES COTES (UNE HARMONISATION DES PROCEDURES D'HOMOLOGATION DES PRODUITS DEVRAIT ETRE RECHERCHEE).

DE MANIERE GENERALE, LA FRANCE DEMANDE QU'UN EFFORT PARTICULIER SOIT PORTE AU NIVEAU EUROPEEN SUR LA RECHERCHE ET L'EXPERIMENTATION DES MOYENS DE LUTTE CONTRE LES POLLUTIONS AINSI QUE SUR LA GESTION DES MOYENS D'INFORMATION. DANS CE DOMAINE, LA COOPERATION ENTRE LES ETATS S'AVERE HAUTEMENT NECESSAIRE. A CET EFFET, LA FRANCE, QUI S'EST DOTEE D'UN ORGANISME APPROPRIE: LE CEDRE (CENTRE DE DOCUMENTATION, DE RECHERCHE ET D'EXPERIMENTATION POUR LA LUTTE CONTRE LES POLLUTIONS), EST PRETE A LE METTRE A LA DISPOSITION DE SES PARTENAIRES.

— — —

LA GOUVERNEMENT FRANCAIS DEMANDE QUE LA MISE EN OEUVRE DES PROPOSITIONS CI-DESSUS SOIT ENTREPRISE IMMEDIATEMENT SUIVANT LES MODALITES CI-APRES:

-IL PROPOSE LA REUNION A PARIS D'UNE CONFERENCE INTERNATIONALE A CARACTERE REGIONAL AU NIVEAU MINISTERIEL QUI SERAIT CHARGEE D'ELABORER UNE CONVENTION ENTRE LES ETATS SUR LES QUESTIONS RELATIVES S LA SECURITE DES TRANSPORTS MARITIMES ET EVOQUEES DANS LE PRESENT MEMORANDUM.

/SIMULTANEMENT

-SIMULTANEMENT, DANS LE CADRE DOMMUNAUTAIRE, IL DEMANDE A LA COMMISSION DE FAIRE DES PROPOSITIONS AUSSI RAPIDEMENT QUE POSSIBLE ET NOTAMMENT EN VUE DES PROCHAINES SESSIONS DU CONSEIL DES MINISTRES CONSACREES AUX TRANSPORTS ET A L'ENVIRONNEMENT.

PARALLELMENT A LA MISE EN OEUVRE DE CES MESURES, LE GOUVERNEMENT FRANCAIS SUGGERE QU'UNE MISSION D'ETUDES, DE FEFLEXIONS, ET DE PROPOSITIONS SUR LES PROBLEMES PARTICULIERS DES NAVIERES ET DU TRANSPORT PETROLIER, SOIT CONFIEE A UN GROUPE RESTREINT D'EXPERTS EUROPEENS DE HAUTE QUALIFICATION.

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10 April 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL

NORTH/SOUTH MATTERS

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To avoid discussion.

POINTS TO MAKE

2. North/South matters in general not ripe for discussion. But no objection to taking note of Brandt Report in conclusions of the Council, adding that it is worthy of future study.

3. (If raised). We do not favour a North/South Summit. Hard to see what it could achieve. Full preparation would be needed. Expectations bound to be raised.

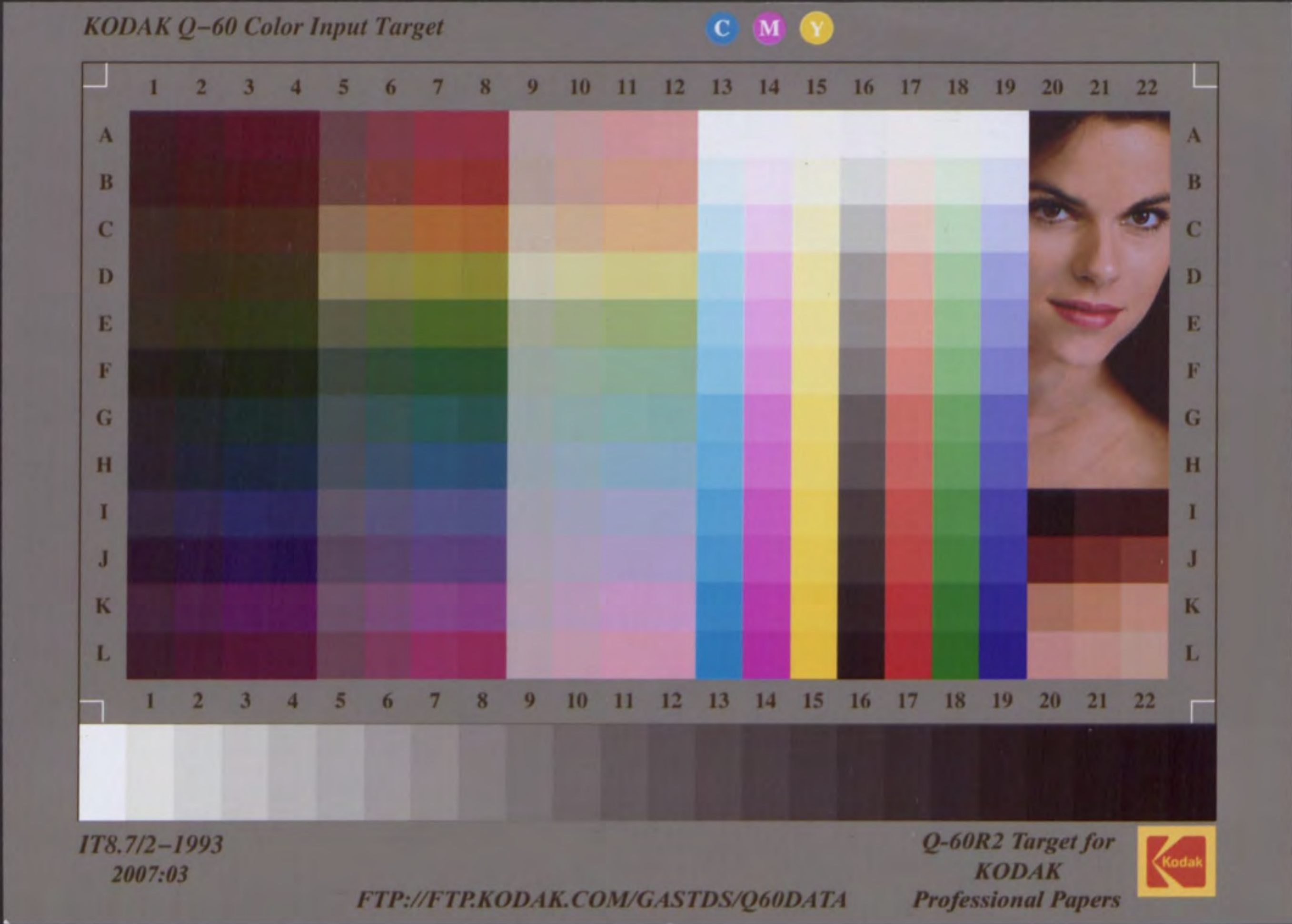
BACKGROUND

References: Nil.

4. (Not for use). We understand that the Germans will propose that the conclusions of the European Council should take note of the Brandt Report and acknowledge it as worthy of future study. They fully accept that discussion would be premature but would like to make the gesture to the Third World and, no doubt, to Herr Brandt. We can go along with this but should oppose discussion during the Council meeting itself.

5. (Not for use). Brandt Report proposed a North/South Summit of 25. Chancellor Schmidt has publicly lent his support to this suggestion but, speaking privately to Lord Carrington, he was sceptical about additional Summit meetings. The Americans seem to be unenthusiastic as do some of the developing countries. Dr Waldheim, however, is interested and President Giscard may be. Mr Manley is trying to generate support within the Non-Aligned Movement (NAM) and has raised the matter with President Castro, the current Chairman. We have been cool in public but have not ruled it out; the proposal might gain acceptance and we might wish to attend.

Foreign and Commonwealth Office
10 April 1980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