

PART 33

CONFIDENTIAL FILING

THE COMMUNITT BUDGET

EUROPEAN

DEVELOPMENTS IN THE EUROPEAN
COMMUNITY

POLICY

PART 1: MAY 1979

PART 33: OCT 1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PART 33 ends:-

Craxi (PM Italy) to PM (T228B/86)

PART 34 begins:-

Italian Ambassador to CDP 1.12.86

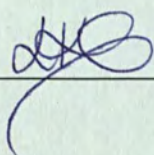
Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. Cmnd. 9907 – Statement on the 1986 Community Budget Presented to Parliament by the Minister of State to the Treasury by Command of Her Majesty, October 1986
Published by HMSO.
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2. Cmnd. 9911: White Paper "Developments in the European Community, January-June 1986
HMSO, 31 October 1986
[ISBN 0 10 199110 X]

Signed



Date

24/09/2014

PREM Records Team

SUBJECT
cc master
ops

Text of the message addressed
to the Rt. Hon. Margaret Thatcher, MP
by Signor Bettino Craxi President
of the Italian Council of Ministers.

Italian Embassy
11, Three Kings Yard,
London, W.1.

Rome, 29th November, 1986

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 228/B/86

TEXT OF THE MESSAGE

"Caro Primo Ministro,

in relazione alla Sua gentile lettera del 21 novembre, desidero assicurarLe che condivido le sue preoccupazioni per il ritardo nel processo di completamento del mercato interno comunitario rispetto al calendario che ci eravamo prefissati e che prevede la creazione di un mercato unico entro il 1992.

Mi auguro che il Consiglio Europeo di Londra fornisca il necessario impulso politico per il rilancio dei lavori. Il Ministro Fabbri, che guida la delegazione italiana al Consiglio mercato interno, mi ha assicurato che in quella sede continueremo ad affrontare i diversi problemi specifici con spirito costruttivo, avendo in mente l'obiettivo finale del completamento del mercato interno. Lo stesso Ministro Clark d'altro canto ha più volte espresso il suo apprezzamento per il contributo della nostra delegazione al progresso dei lavori in seno al Consiglio mercato interno.

Sono certo quindi che il nostro comportamento negoziale continuerà ad essere per quanto possibile aperto e costruttivo.

Con i miei migliori saluti.

Bettino Craxi"

FROM: Signor Bettino Craxi
TO: The Rt Hon Margaret Thatcher, MP
Date: Rome, 29th November, 1986

ROUGH TRANSLATION

Dear Prime Minister,

I refer to your kind letter of the 21st November and wish to assure you that I share your preoccupations for the delay in the process of completion of the Internal Market in relation to the calendar we have set ourselves, which foresees the creation of a single market by 1992.

I hope that the European Council to be held in London will provide the necessary political momentum for the re-launching of the proceedings.

Minister Fabbri, who heads the Italian delegation at the Internal Market Council, has assured me that in that context we shall continue to tackle the various specific problems with a constructive spirit, bearing in mind the final goal of the completion of the Internal Market. Minister Clark himself, on the other hand, has on several occasions expressed his appreciation for the contribution of our delegation to the progress of the proceedings within the Internal Market Council.

I am therefore certain that our negotiating stance will continue to be as open and as constructive as possible.

With my best regards,

Signed: Bettino Craxi

cc pg



24 BELGRAVE SQUARE
LONDON SW1X 8QA

SPANISH AMBASSADOR

London, 29th November, 1986

Dear Prime Minister,

I have much pleasure in enclosing the text, with an unofficial translation, of the message which the President of the Spanish Government, has requested that I transmit to you.

In my name

Jose J. Puig de la Bellacasa
JOSE J. PUIG DE LA BELLACASA.

The Right Honourable
Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10, Downing Street,
London S.W.1.

B.R. POL; Budget; A33.

THE SECRETARY OF STATE
LONDON SW1A 2AA

SPANISH AMBASSADOR
LONDON SW1A 2AA

I have much pleasure in enclosing the part
of an official journal, of the nature which
the Government of the Spanish Republic, has requested
that I should forward to you.

Yours faithfully,
The Secretary of State

The Right Honorable
Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10, Downing Street,
London S.W.1.

SUBJECT
C MASTER
O PS

UNOFFICIAL TRANSLATION.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL NO. T 227/86

Madrid, 28th November, 1986.

Dear Prime Minister,

In connection with your message of the 20th November, seeking my personal support in the effort to overcome some problems that have arisen at the Internal Market Council, I wish to make the following points.

During the negotiations that led to the Single European Act, Spain gave her support, without reservation, to the creation of an Internal Market, looking towards 1992, as a way of strengthening economic and social cohesion and the introduction of common policies in the fields of research and development, as well as the environment.

Our firm conviction of the need to advance along the way towards European unity, leads us to believe that the movement forward envisaged in the Single Act, should be accomplished in a harmonious and balanced manner, in order that a proper European internal entity is achieved to cover every respect.

On the question of the concern you express in your message with regard to achieving definite results at the forthcoming Internal Market Council, the British Presidency may count on the support of the Spanish Delegation, whose members will make every effort possible to find adequate solutions to the problems that may yet arise.

Sincerely,

(Signed) FELIPE GONZALEZ

President of the Spanish Government.

1991, November 1988, 1989

1991, November 1988, 1989

In 1988, the Commission proposed a budget for 1989. The budget was approved by the Council in December 1988. The budget for 1989 was 100 billion ECU. The budget for 1990 was 100 billion ECU. The budget for 1991 was 100 billion ECU.

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Señora Primer Ministro:

En relación con su mensaje del pasado día 20, en el que pedía mi apoyo personal para intentar superar ciertos problemas existentes en el Consejo de Mercado Interior, quisiera señalarle lo siguiente:

Durante las negociaciones que condujeron al Acta Unica Europea, España apoyó sin reservas tanto la creación de un Mercado Interior en el horizonte de 1992, como el refuerzo de la cohesión económica y social y la articulación de políticas comunes en materia de la investigación y desarrollo, así como del medio ambiente.

Nuestra firme convicción sobre la necesidad de avanzar en el camino de la construcción europea, nos lleva a pensar que el avance en todos los aspectos contemplados por el Acta Unica debe realizarse de forma armónica y equilibrada, para alcanzar un verdadero espacio interior europeo en todas sus dimensiones.

Por lo que se refiere a la preocupación expresada en su mensaje, con vistas a la obtención de resultados concretos en el próximo Consejo de Mercado Interior, la Presidencia británica puede contar con el apoyo de la delegación española, que se esforzará al máximo en encontrar soluciones apropiadas a los problemas que aún se presenten.

Afentuosamente,

Felipe González
Presidente del Gobierno de España

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COPE

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FROM: A W KUCZYS
DATE: 28 NOVEMBER 1986

MR LAVELLE

COPE
20/11

cc PS/Economic Secretary
Sir G Littler
Mr Mortimer
Mr Crabbie
Miss Sinclair
Miss Barber
Mr Powell - No.10
Sir D Hannay - UKREP
Mr Bostock - UKREP
PS/C&E

COREPER (DEPUTIES): TRAVELLERS ALLOWANCES DIRECTIVES

The Chancellor has seen the attached telegraph from Sir D Hannay. He has commented that this is outrageous behaviour by the Commission. Lord Cockfield said nothing to the Prime Minister when she raised it, either.

AWK

A W KUCZYS

FCO

MR RENWICK
MR BAATHWAITE

RESIDENT CLERK
HD/ECD(I) (3)
HD/NEWS DEPT
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HD/ECO (PS)
HD/
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<p><u>CABINET OFFICE</u> MR D WILLIAMSON MR JH HOLROYD MR MERCER MR M H JAY</p>	<p><u>DTI</u></p> <div style="border: 1px solid black; padding: 5px; text-align: center;">IMMEDIATE</div>	<p><u>PLUS CGD's</u> MR P KENT HM CUSTOMS & EXCISE N KNOX HMC N GARRETT HMC</p>
<p><u>H M TREASURY</u> Pst. <i>Conferences</i> SIR GEOFFREY LITTLER MR J E MORTIMER MR C D CRABBIE I MR R G LAVELLE N SINCLAIR N BARCEL</p>	<p><u>M A P P</u> PERMANENT SECRETARY</p>	<p>N FRENCH HMC N LAMBSON D/T</p>

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FRAME ECONOMIC
COREPER (DEPUTIES) : 27 NOVEMBER 1986
7TH AND 8TH TRAVELLERS ALLOWANCES DIRECTIVES (DUTY FREE SHOPS,
INCLUDING CHANNEL FIXED LINK)

SUMMARY

1. COMMISSION ANNOUNCE WITHOUT WARNING THEIR INTENTION TO WITHDRAW THE PROPOSAL FOR A 7TH DIRECTIVE, MENTIONING THE CFL AS ONE OF THE REASONS. COMMISSION WILL MAKE NEW PROPOSAL TO COVER THE DANISH DEROGATION, AND OTHER PROBLEMS WILL BE "DEALT WITH". ONLY BELGIUM AND LUXEMBOURG INDICATE SERIOUS PROBLEMS WITH THE SUBSTANCE OF THE PRESIDENCY COMPROMISE PACKAGE. REPORT WILL BE MADE TO THE ECOFIN COUNCIL ON 8 DECEMBER.

DETAIL

2. KNUDSON (COMMISSION) SAID THE THE COMMISSION HAD FUNDAMENTAL OBJECTIONS BOTH OF FORM AND OF SUBSTANCE TO THE PRESIDENCY'S PACKAGE. HE COULD NOT ACCEPT THE DELETION OF VENDOR CONTROL; THREE ELEMENTS OF THE PACKAGE FELL OUTSIDE THE COUNCIL'S POWER TO AMEND THE DIRECTIVE AND REQUIRED PROPOSALS FROM THE COMMISSION: BUTTERSHIPS, THE IRISH DEROGATION FOR BEER IMPORTS, AND THE DEROGATION FOR DANISH TRAVELLERS; PROVISION FOR DUTY FREE SHOPS FOR THE CFL WAS ALSO OBJECTIONABLE SINCE IT WOULD NOT COME INTO OPERATION UNTIL AFTER 1992; AND THE LINK BETWEEN THE THIRD COUNTRY ALLOWANCE AND THE INTRA-COMMUNITY ALLOWANCE SHOULD NOT BE CUT.

3. THE COMMISSION HAD THEREFORE COMPLETELY REVIEWED ITS POSITION. THEY WERE TREATING SERIOUSLY THE CONCERNS OF PARTICULAR MEMBER STATES, AND A PROPOSAL TO COVER THE DANISH DEROGATION WOULD BE PUT FORWARD IN THE NEXT FEW DAYS, ALTHOUGH IT WOULD NOT NECESSARILY MATCH WHAT WAS IN THE PRESIDENCY'S PACKAGE. THE COMMISSION WAS ALSO DEALING WITH THE OTHER ITEMS OF CONCERN TO MEMBER STATES. BECAUSE OF ALL THE DIFFICULTIES THE COMMISSION HAD DECIDED THAT IT WOULD WITHDRAW ITS PROPOSAL FOR A 7TH DIRECTIVE (BUT NOT THE 8TH DIRECTIVE) AND OFFICIAL CONFIRMATION WOULD ARRIVE THROUGH THE USUAL CHANNELS WITHOUT DELAY.

DIRECTIVE) AND OFFICIAL CONFIRMATION WOULD ARRIVE THROUGH THE USUAL CHANNELS WITHOUT DELAY.

4. IN REPLY TO A QUESTION FROM ELLIOTT (PRESIDENCY), KNUDSON SAID HE WAS UNABLE TO SAY WHAT OTHER ELEMENTS OF THE PACKAGE THE COMMISSION WAS DEALING WITH, OR WHAT THE RESULTS OF THEIR CONSIDERATIONS WOULD BE.

5. ELLIOT COMMENTED THAT THE COMMISSION'S REMARKS WERE NOT HELPFUL, AND THAT ALTHOUGH THEY HAD PARTICIPATED IN THE ECOFIN COUNCIL LUNCH AT WHICH THE CONCLUSIONS HAD BEEN TO PRODUCE A PACKAGE, THEY NOW SEEMED TO BE DISAVOWING THAT DISCUSSION. THE PRESIDENCY HAD ATTEMPTED TO CARRY OUT THE MANDATE OF FINANCE MINISTERS, AND THE COMPROMISE PACKAGE OFFERED A PROSPECT OF SOLVING INDIVIDUAL PROBLEMS AND MAKING PROGRESS. THE PRESIDENCY HAD HOPED THE COMMISSION WOULD FIND IT POSSIBLE TO ASSIST THE COUNCIL WITH CERTAIN ELEMENTS OF THE PACKAGE, AND ELLIOTT RESERVED THE POSITION OF THE COUNCIL ON THE FORMAL WITHDRAWAL OF THE PROPOSAL FOR A 7TH DIRECTIVE.

6. LEPOIVRE (BELGIUM) SUGGESTED THAT IT WAS NOW POINTLESS TO DISCUSS THE PRESIDENCY'S PACKAGE IN SUBSTANCE, BUT DENMARK, IRELAND AND THE NETHERLANDS DISAGREED, AND REMINDED THE COMMISSION OF MINISTERS' DECISION THAT A PACKAGE SHOULD BE PREPARED.

7. FORNASIER (COUNCIL LEGAL SERVICE) SAID THAT IT WAS OPEN TO COREPER TO TRY TO REACH A COMPROMISE AGREEMENT BUT ON THE UNDERSTANDING THAT THE FORMAL POSITION REMAINED OPEN DEPENDING ON THE DECISION OF THE COMMISSION ON WITHDRAWAL OF THE PROPOSAL.

8. IN A TABLE ROUND ONLY LUXEMBOURG AND BELGIUM EXPRESSED RESERVES ON THE WHOLE PACKAGE. OTHER DELEGATIONS HAD HESITATIONS ON ONLY ONE OR TWO ASPECTS OF THE COMPROMISE, AND GENERALLY EXPRESSED A WILLINGNESS TO SEEK AN OVERALL SOLUTION IF ALL MEMBER STATES COULD GO ALONG WITH IT. BOSTOCK (UK) SAID THAT THE COMPROMISE RESPONDED TO PRACTICAL PROBLEMS IN THE REAL WORLD AND WOULD ALSO ASSIST ONE OF THE MAJOR PROJECTS FOR THE COMMUNITY OVER THE NEXT FEW YEARS (THE CFL). HE DEEPLY REGRETTED THAT THE COMMISSION SEEMED TO BE SEEKING TO FRUSTRATE EVEN THE SMALL MEASURE OF ASSISTANCE WHICH THE 7TH DIRECTIVE COULD GIVE TO THE CFL PROJECT.

9. ELLIOTT CONCLUDED THAT MOST DELEGATIONS' REACTIONS PRESENTED A REASONABLE PROSPECT FOR THE PRESIDENCY'S COMPROMISE PROPOSAL. IT WAS ODD THAT THERE WAS A DISCREPANCY BETWEEN THE VIEWS EXPRESSED BY MINISTERS AT THE ECOFIN LUNCH IN NOVEMBER AND THE COMMENTS WHICH WERE NOW BEING MADE BY CERTAIN DELEGATIONS. HE CONFIRMED THAT THERE WOULD BE A REPORT TO THE DECEMBER ECOFIN COUNCIL, BUT RESERVED THE POSSIBILITY FOR A FURTHER COREPER DISCUSSION NEXT WEEK AFTER CONSULTATION WITH THE COUNCIL LEGAL SERVICE AND THE COMMISSION.

COMMENT

10. THE COMMISSION'S ANNOUNCEMENT WAS AS MUCH OF A SHOCK TO THE PRESIDENCY AS TO OTHER DELEGATIONS : IN CONTACTS ONLY A FEW HOURS EARLIER THE COCKFIELD CABINET HAD GIVEN NO HINT THAT SUCH AN ANNOUNCEMENT WOULD BE MADE TODAY.

11. WE NEED NOW TO DECIDE HOW TO REACT TO THE COMMISSION'S ANNOUNCEMENT. IT IS CLEAR THAT WE SHOULD KEEP TRAVELLERS' ALLOWANCES ON THE AGENDA OF THE 8 DECEMBER ECOFIN COUNCIL. THIS WAS WHAT WAS AGREED AT THE NOVEMBER COUNCIL. AS A MATTER OF PRINCIPLE THE COMMISSION SHOULD BE OBLIGED TO EXPLAIN, AT A POLITICAL LEVEL, WHAT LIES BEHIND THEIR DECISION. AND SO FAR AS THE CFL IS CONCERNED WE SHALL ALSO WANT TO EXTRACT THE BEST POSSIBLE UNDERTAKING FROM THE COMMISSION THAT THEY WILL, IF NECESSARY, PROPOSE LEGISLATION IN DUE COURSE TO ENSURE THAT THERE IS EQUAL COMPETITION BETWEEN THE CFL AND OTHER MEANS OF CROSSING THE CHANNEL SO FAR AS DUTY FREE SALES ARE CONCERNED.



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FROM: PETER BROOKE

DATE: 28 November 1986

PRIME MINISTER

EC BUDGET COUNCIL, 26-27 NOVEMBER

As you will now be aware, the Budget Council did succeed yesterday in establishing a second reading budget for 1987 within budget discipline limits. The attached arranged Parliamentary Answer summarises the outcome.

The southern Member States and Ireland held up agreement throughout the night in an attempt to wring concessions on non-obligatory expenditure from the northern Member States but did finally agree to settle within the 'maximum rate' of increase.

The Commission's proposal to budgetise in part the large prospective revenue shortfall this year attracted only limited support. It is virtually certain therefore that there will be a deficit of the order of 1 billion ecu to be carried forward from this year to next, and the Commission will have to bring this to account in a supplementary and amending budget in the middle of next year when firm figures on 1986 are available.

Looking ahead, it is hard to predict how the European Parliament will vote on the Council's 1987 proposals in the second week of December. The Parliament are anxious, however, to make a démarche about the urgency of CAP reform. They want in particular to bring maximum pressure on the Council to reduce milk quotas, with accompanying measures to soften the impact on small producers, and to tackle the problem of excessive stocks, notably of beef and butter. It is clear that key members of the Parliament are thinking seriously about linking adoption of the budget to the outcome of the Agriculture Council on 8-9 December. The vote on the budget is on 10 December or, more probably, 11 December.

In the meantime, the Parliament's growing impatience for CAP reform is likely to enhance the willingness of some at least

mt
Prime Minister
CDP 28/11/86

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of the Heads of Government at next week's European Council to call for prompt and adequate action on milk and beef.

I am copying this minute to Geoffrey Howe, Michael Jopling, David Young, Paul Channon and Sir Robert Armstrong.

P.B.

PETER BROOKE

CONQUEROR



MR To ask the Chancellor of the Exchequer if he will report on the outcome of the latest meeting of the European Community's Budget Council.

[NB: FIGURES SUBJECT TO CONFIRMATION BY COUNCIL SECRETARIAT]

MR PETER BROOKE

The Budget Council met in Brussels on 26-27 November to consider the European Parliament's amendments and draft modifications to the first reading budget for 1987 established by the Council in September. I chaired the meeting, and my Hon Friend the Economic Secretary represented the United Kingdom.

The Council established by unanimity a second reading budget within the budget discipline limits.

The Council's proposals provide for total expenditure of 37.4 billion ecu in commitment appropriations (£23.5 billion at the budget exchange rate of 1.5939 ecu to the £) and 36.2 billion ecu (£22.7 billion) in payment appropriations. The proposals leave 729 mecu (£457 million) of unused resources within the 1.4 per cent VAT ceiling.

The Council's proposals continue to provide for keeping the growth of agricultural market support expenditure within the budget discipline limit, though the Commission has again warned that on present policies a substantial overrun is likely. In response to wide-ranging modifications proposed by the European Parliament, the Council opened a new budget line for measures resulting from the work now under way in the Community on surplus production and agricultural stocks.

The growth of non-obligatory expenditure between 1986 and 1987 implied by the Council's proposals is 757 mecu (£475 million or 8.09 per cent) for commitment appropriations and 617 mecu (£387 million or 7.37 per cent) for payment appropriations. These increases are within the maximum rate of increase for 1987, as laid down in the Treaty, of 8.1 per cent. Payment appropriations are ~~69~~⁶² mecu (£~~43~~³⁷ million) below the maximum rate.

The Council's proposals continue to make provision of 1,633 mecu (some £1024 million) for the United Kingdom's VAT abatement in respect of 1986.

The Council's proposals for the 1987 budget were influenced by the expectation that a substantial deficit would have to be carried forward from the current year: the Commission is projecting a shortfall of revenue this year, particularly customs duties, of some 1.3 billion ecu (£0.8 billion), which is likely to be offset only in part by shortfalls in expenditure. The Commission re-submitted to the Council its earlier proposal for a 1986 amending budget to budgetise 776 million ecu of the expected deficit. There was, however, no qualified majority in the Council for this, and the Council noted instead that, in accordance with the Community's Financial Regulation, the Commission would propose a supplementary and amending budget next year, when firm figures are available, to take account of the 1986 deficit.

The European Parliament is due to consider the Council's second reading budget for 1987 in the week beginning 8 December.

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AND TO DESKBY 270930Z TREASURY
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FRAME ECONOMIC

BUDGET COUNCIL : 26/27 NOVEMBER 1986

1986 AND 1987 BUDGETS

SUMMARY

1. NO QUALIFIED MAJORITY TO ESTABLISH 1986 DRAFT AMENDING BUDGET. COMMISSION WILL IMPLEMENT BUDGET AS IT STANDS AND BRING FORWARD PROPOSAL TO DEAL WITH EVENTUAL DEFICIT (ESTIMATED AT OVER ONE BECU) IN AMENDING BUDGET IN JUNE 1987.

2. COUNCIL CONCLUDED SECOND READING OF 1987 BUDGET BY RE-ESTABLISHING DRAFT BUDGET WITHIN BUDGET DISCIPLINE LIMITS. DNO COMMITMENTS AT MAXIMUM RATE; DNO PAYMENTS 62 MECU BELOW MAXIMUM RATE. REPLY TO EP'S 'MESSAGE' ON AGRICULTURE GIVEN IN A NEW FEOPA LINE FOR MEASURES TO REDUCE SURPLUS PRODUCTION AND STOCKS (WITH A P.M. ENTRY).

3. FURTHER CONFIRMATION FROM EUROPEAN PARLIAMENT OF IMPORTANCE OF PROGRESS ON AGRICULTURAL REFORM FOR NEGOTIATIONS ON 1987 BUDGET IN DECEMBER.

4. MR BROOKE (MINISTER OF STATE TREASURY) CHAIRED THE COUNCIL AND MR STEWART (ECONOMIC SECRETARY TREASURY) REPRESENTED THE UK.

DETAIL TRILOGUE

5. BEFORE THE COUNCIL MET, MR BROOKE PARTICIPATED IN A TRILOGUE MEETING WITH CHRISTOPHERSEN (COMMISSION) AND PFLIMLIN (PRESIDENT OF EUROPEAN PARLIAMENT) ON CLASSIFICATION OF EXPENDITURE. THE TRILOGUE MADE LITTLE PROGRESS. CHRISTOPHERSEN SUGGESTED THAT A PROVISIONAL CLASSIFICATION MIGHT BE AGREED FOR 1987 AND THE OUTSTANDING PROBLEMS BE ADDRESSED IN THE CONTEXT OF THE EX-NOVO REVIEW. MR BROOKE INDICATED THAT THIS MIGHT BE ACCEPTABLE IF NO CHANGES WERE MADE TO THE 1986 DNO BASE, ANY PROVISIONAL CLASSIFICATION FOR 1987 WAS NOT SUBSEQUENTLY CHANGED, AND ANY PROVISIONAL CLASSIFICATION IN 1987 WAS WITHOUT PREJUDICE TO CLASSIFICATION IN LATER YEARS. THE PARLIAMENTARY DELEGATION REPLIED THAT IT COULD NOT AT THIS STAGE ACCEPT THE COUNCIL'S CONDITIONS BUT THAT THE COMMISSION'S PROPOSAL COULD PROVIDE THE BASIS FOR AN AGREEMENT LATER IN THE BUDGETARY PROCEDURE. (DETAILED ACCOUNT BY HAND OF DONNELLY, HMT). IT IS NOT CLEAR WHAT THE NEXT STEPS WILL BE.

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/MEETING

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MEETING WITH EUROPEAN PARLIAMENT

6. THE EP DELEGATION CONSISTED OF PFLIMLIN, CURRY, COT, CHRISTODOULOU, LANGES, AIGNER, DANKERT, BARBARELLA, SCOT HOPKINS, SCRIVENER AND BONDE.

7. CURRY (1987 BUDGET RAPPORTEUR) INTRODUCED THE PARLIAMENTS'S AMENDMENTS AND MODIFICATIONS WHICH HE DEFENDED AS BALANCED AND MODERATE. THE MOST IMPORTANT ISSUE WAS AGRICULTURE. PARLIAMENT WAS PREPARED TO ACCEPT THE FINANCIAL GUIDELINE FIGURE, THOUGH A 'BUDGETARY FICTION' GIVEN THE POTENTIAL OVERSPEND OF 3.4 BECU IN 1987 AND A 6 BECU OVERVALUATION OF STOCKS. THE EP'S MODIFICATIONS WERE INTENDED TO APPLY THE MAXIMUM BUDGETARY PRESSURE FOR RAPID DECISIONS ON AGRICULTURAL REFORM. ON MILK, THE KEY FEATURE WAS THE NEED TO COMPENSATE PRODUCERS FOR A QUOTA CUT. THE EP HAD LEFT A MARGIN WITHIN THE 1.4 PER CENT AND HAD INDICATED IN ITS AMENDMENTS THE PRIORITY IT ATTACHED TO AID, RESEARCH AND THE STRUCTURAL FUNDS. FOR 1986, THE COUNCIL SHOULD ADOPT THE SUPPLEMENTARY AMENDING BUDGET TO HELP DEAL WITH THE 1.3 BECU REVENUE DEFICIT.

8. MR BROOKE REPLIED THAT THE PARLIAMENT'S POLITICAL MESSAGE ON AGRICULTURE HAD BEEN CLEARLY RECEIVED BY BOTH THE AGRICULTURE AND BUDGET COUNCILS. A SERIOUS AGRICULTURAL DEBATE WAS UNDER WAY, AND IT WAS INTENDED THAT THE 8-9 DECEMBER AGRICULTURE COUNCIL WOULD TAKE DECISIONS ON THE REFORM PROPOSALS FOR MILK AND BEEF. A DE-STOCKING FUND COULD, HOWEVER, PROBABLY NOT BE AGREED. ON DNO, THE COUNCIL WAS SURPRISED AT THE IMBALANCE BETWEEN COMMITMENTS AND PAYMENTS PROPOSED BY THE EP, WHICH WOULD CREATE A NEW 'COST OF THE PAST'. FINALLY, IT WAS ESSENTIAL TO BE CLEAR WHETHER THE PARLIAMENT WAS ASKING FOR CO-DECISION ON A NEW MAXIMUM RATE FOR COMMITMENTS.

9. IN THE ENSUING DISCUSSION, SEVERAL MEPS STRESSED THE IMPORTANCE OF DOING SOMETHING ABOUT AGRICULTURAL STOCKS AND CONFIRMED THAT THE OUTCOME OF THE 8 DECEMBER AGRICULTURE COUNCIL WOULD SUBSTANTIALLY AFFECT THE OUTCOME OF THE EP'S SECOND READING OF THE BUDGET. COT (CHAIRMAN OF EP BUDGETS COMMITTEE) SAID THEIR ANSWER TO MR BROOKE'S QUESTION ON THE MAXIMUM RATE WAS 'MAYBE YES, MAYBE NO': IT DEPENDED ON THE OUTCOME OF DISCUSSIONS ON CLASSIFICATION. TAKING A RATHER DIFFERENT LINE, PFLIMLIN CONCLUDED THAT THE PARLIAMENT DID WANT AGREEMENT ON THE MAXIMUM RATE AND CLASSIFICATION ISSUES BEFORE THE END OF THE BUDGET PROCEDURE. (OVER LUNCH, HE REPEATED HIS DETERMINATION TO DECLARE A 1987 BUDGET ADOPTED BEFORE HE RETIRES AT THE END OF THE YEAR).

1986 BUDGET

10. CHRISTOPHERSEN SAID THAT THE COMMISSION'S REVISED REVENUE FORECAST SHOWED A DEFICIT OF SOME 1.3 BECU IN THIS YEAR'S BUDGET. THE AMENDING BUDGET (SAVING 776 MECU) WOULD LIMIT THE DEFICIT TO BE

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COVERED IN 1987. IF NO DECISION WAS TAKEN ON THE 1986 SUPPLEMENTARY THE COMMISSION WOULD EXECUTE THE BUDGET AS IT STOOD. THE 450 MECU FEOGA AND THE 1985 CARRYOVERS WOULD BE UNFROZEN AND USED BEFORE THE END OF THE YEAR UNLESS IT WAS LEGALLY IMPOSSIBLE TO DO SO. THE POTENTIAL SAVING ON 1985 CARRYOVERS (257 MECU) WOULD THEREFORE BE LOST. THE DEFICIT CARRIED OVER TO 1987 WOULD THEN BE AT LEAST ONE BECU, EXCEEDING THE 629 MECU STILL AVAILABLE WITHIN THE 1.4 PER CENT CEILING FOR 1987. THERE MIGHT ALSO BE A SHORTFALL OF OWN RESOURCES IN 1987 ITSELF. THE COMMISSION WOULD IN ANY CASE PRESENT AN AMENDING BUDGET IN JUNE 1987 TO COVER THE EVENTUAL DEFICIT FROM 1986.

11. A TABLE ROUND REVEALED THAT THERE WAS NO CHANCE OF A QUALIFIED MAJORITY FOR AN AMENDING BUDGET: MR BROOKE SUMMED UP ACCORDINGLY. CHRISTOPHERSEN REPEATED THAT THE COMMISSION COULD NOT COMMIT ITSELF TO FIND SAVINGS WITHOUT AN AMENDING BUDGET.

1987 BUDGET

12. AN INITIAL TABLE ROUND ADDED LITTLE TO POSITIONS TAKEN IN COREPER. MR BROOKE WAS ABLE TO CONCLUDE THAT NO QUALIFIED MAJORITY EXISTED FOR AN INCREASE IN THE MAXIMUM RATE. THE IDEA OF BUDGETISING NOW PART OF THE EXPECTED 1986 DEFICIT FOUND LITTLE FAVOUR, DELEGATIONS PREFERRING TO AWAIT THE COMMISSION'S 1987 PDAB.

FIRST COMPROMISE (2245 HOURS)

13. THE PRESIDENCY'S FIRST COMPROMISE (BY HAND OF DONNELLY) PROPOSED A STATEMENT ON THE NEED FOR AGRICULTURAL REFORM AND AGREEMENT ON MODIFICATIONS 681 AND 740 (REDUCING FINANCING COSTS OF AGRICULTURAL STOCKS AND USING THE SAVINGS TO DEPRECIATE STOCKS): ENDORSED COREPER'S POSITION ON DNO, EXCEPT FOR A 51 MECU REDUCTION IN PAYMENTS AND 350 MECU REDUCTION IN COMMITMENTS TO BE FOUND ENTIRELY FROM THE REGIONAL AND SOCIAL FUNDS. THIS WOULD HAVE BROUGHT DNO COMMITMENTS AND PAYMENTS RESPECTIVELY 30 MECU AND 112 MECU BELOW THE MAXIMUM RATE LEVEL.

14. THE DNO PART OF THIS COMPROMISE WAS ROUNDLY DENOUNCED AS INSUFFICIENT BY ITALY, IRELAND, SPAIN, GREECE AND PORTUGAL, AND, IN RESPECT OF COMMITMENTS, CRITICISED AS TOO GENEROUS BY FRANCE AND GERMANY. OTHER SUGGESTED THE REGIONAL AND SOCIAL FUNDS SHOULD NOT BE THE SOLE VICTIMS OF CUTS. THE STATEMENT ON AGRICULTURE ALSO CAME IN FOR CONSIDERABLE CRITICISM.

SECOND COMPROMISE (0200 HOURS)

15. AFTER FURTHER CONSIDERATION THE PRESIDENCY TABLED A SECOND COMPROMISE (BY HAND OF DONNELLY). THE STATEMENT ON AGRICULTURE WAS ABANDONED AND REPLACED WITH A PROPOSAL FOR A NEW LINE 293, DESCRIBED WITH DELIBERATE MYSTERY AS 'FOR MEASURES TO SECURE REDUCTIONS

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IN AGRICULTURAL STOCKS'', WITH A PM ENTRY. ON DNO IT PROPOSED THE COREPER FIGURES FOR PAYMENTS, THE PDB FIGURES FOR THE SOCIAL AND REGIONAL FUNDS, WITH FURTHER SAVINGS ON ARTICLE 930 (AID TO NON-ASSOCIATES), ARTICLE 580 (TRANSPORT INFRASTRUCTURE) AND ARTICLE 632 (ERASMUS). THESE WOULD LEAVE 62 MECU IN PAYMENTS AND 47 MECU IN COMMITMENTS BELOW THE MAXIMUM RATE LEVEL. AS SWEETENERS FOR THE NEW MEMBER STATES THE COMPROMISE ALSO INCLUDED A PM FOR AID TO PORTUGUESE INDUSTRY (ARTICLE 760) EXTRA PROVISION AND FOR FISH STRUCTURAL MEASURES (ARTICLE 470).

16. THE AGRICULTURAL PART OF THIS COMPROMISE RECEIVED A GENERALLY FAVOURABLE RESPONSE THOUGH ITALY, SPAIN AND GREECE STILL WANTED SOME FORM OF DECLARATION. THE SAME COUNTRIES AND IRELAND, HOWEVER, COULD NOT ACCEPT THE SCALE OF REDUCTIONS PROPOSED FOR DNO. SEVERAL NORTHERN MEMBER STATES DEFENDED THE ERASMUS PROGRAMME.

17. THE COUNCIL THEN WENT INTO RESTRICTED SESSION AT 0300 HOURS.

18. IT TOOK A FURTHER THREE AND A HALF HOURS TO BREAK DOWN THE RESISTANCE OF THE SOUTHERN MEMBER STATES TO A SOLUTION BASED ON THIS COMPROMISE. IN THE EVENT, AGREEMENT WAS FOUND BY UNANIMITY (THOUGH WITHOUT A FORMAL VOTE) BY INCREASING DNO COMMITMENTS TO THE MAXIMUM RATE AND ADDING FURTHER EXPENDITURE FOR FISH STRUCTURES. IN DETAIL THE OUTCOME IS:

A) FEOGA GUARANTEE: NEW LINE 293 FOR ''MEASURES TO BE TAKEN FOLLOWING REVIEW FOR REDUCTION OF SURPLUS PRODUCTION AND AGRICULTURAL STOCKS'': PM ENTRY:

B) DNO PAYMENTS: CONFIRMATION OF POSITION REACHED AT COREPER EXCEPT FOR PM FOR PORTUGUESE INDUSTRIAL DEVELOPMENT PROGRAMME: 62 MECU REMAINS BELOW MAXIMUM RATE:

C) DNO COMMITMENTS: ALL HEADROOM USED UP WITHIN THE MAXIMUM RATE, ERDF AND ESF COMMITMENTS RESPECTIVELY 23 MECU AND 10 MECU ABOVE PRELIMINARY DRAFT BUDGET. ARTICLE 930: 10 MECU ABOVE DRAFT BUDGET. ARTICLE 580: 30 MECU ABOVE DRAFT BUDGET. PORTUGUESE INDUSTRY PM AS FOR PAYMENTS OTHERWISE COREPER RESULTS:

D) FISHERIES: LINE 4701: 30.3 MECU COMMITMENTS: 1.7 MECU PAYMENTS.

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19. THE MINISTER OF STATE WILL PRESENT THE REVISED DRAFT BUDGET TO THE EP'S COMMITTEE ON BUDGETS ON 2 DECEMBER. THE EP'S SECOND READING WILL TAKE PLACE IN THE WEEK OF 8 DECEMBER.

HANNAY

YYYY
ADVANCE
RENWICK FCO
WALL FCO
BLOOMFIELD FCO
WILLIAMSON CAB
JAY CAB
MERCER CAB
WINTER ODA
HADLEY MAFF
PERRINS MAFF
PS/MST TSY
PS/CHANCELLOR TSY
PS/EST TSY
LAVELLE TSY
EDWARDS TSY
CRABBIE TSY
BONNEY TSY
DONNELLY TSY
BOGAN TSY
VINCENT D/EN
LEWIS D/EM
LAMBERT D/TP
SAVILLE DES
MAIN
FRAME ECONOMIC

UCLNAN 5490

REPEATED AS REQUESTED

FRAME ECONOMIC
ECDA)

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Qz.05473

PRIME MINISTER

Cabinet: Community Affairs

If it has not been dealt with under Foreign Affairs, you may wish to refer to the Anglo-French summit which you held with President Mitterrand and Monsieur Chirac on 21 November.

2. The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 24 November. The Council agreed to two significant trade measures: the protocol extending the multi-fibre agreement to 1991 with provisional application from 1 January 1987 of all 26 bilateral agreements concluded with the main supplier countries; and the 1987 Generalised Scheme of Preferences, which provides preferential trade access for developing countries. The Council also reached agreement, after difficulties with the Greeks and the Dutch, on a common position for discussion with Turkey on the movement of Turkish workers. Despite Turkish claims, there will not be free movement. This is a particularly important issue for the Federal Republic of Germany, as there are about 1.4 million Turks in the Federal Republic and Berlin. The Foreign and Commonwealth Secretary outlined the intention that discussion at the European Council on 5-6 December should concentrate on two main themes: improving the environment for business and jobs, including progress towards completing the internal market; and safeguarding the open society, including terrorism, drugs and immigration. This received general approval. He also drew attention to the initiative you have taken to press Heads of Government to authorise agreement on a "political package" of 13 measures in the internal market rolling programme. The Commissioner responsible for international trade negotiations, Monsieur de Clercq, reported on negotiations with the United States about compensation to the USA for the trade consequences of Spain and Portugal



joining the Community. These negotiations are due to be completed by the end of this year. They will soon reach a critical stage and one purpose of the discussion in the Council was to ensure that all member states present a common approach to the United States.

3. The Chancellor of the Exchequer may give a progress report on the meeting of the Budget Council which is taking place on 26-27 November. The Minister of State, Treasury minuted you about this on 25 November. The Council is considering the amendments and modifications to the draft 1987 budget for which the European Parliament voted at its plenary session on 13 November. With the support of the Germans, French and Dutch we remain determined that the 1987 budget should respect budgetary discipline and have some reasonable hope that agreement with the European Parliament can be reached this year.

4. The Secretary of State for Energy may report on the Energy Council on 26 November. The Council is expected to agree conclusions on the rational use of energy in transport; and to adopt a resolution on energy efficiency. As the Council which takes the lead in nuclear matters it will also have reviewed progress on the Commission's framework proposals on nuclear safety in the aftermath of the Chernobyl disaster.

5. The Secretary of State for the Environment will report on the outcome of the Environment Council on 24 November which was satisfactory. The Council agreed on new standards for limiting the discharge of asbestos into water and the air; controls on the disposal of waste oils; and standards designed to reduce the level of motor cycle noise. The latter measure is likely to be well received by British public opinion. Pressure was maintained on the Danes, who are still obstructing the package on vehicle emissions, and Spain and Portugal committed themselves to it. There was a first discussion



of our Presidency proposals on emission standards for large combustion plants. A majority of member states rallied to Presidency conclusions that highlighted the possibilities of establishing standards for new plants and of reaching a target 30 per cent reduction in emissions by 1993. We have no doubt that we have succeeded in the remit given to us by E(A), to change the terms of this debate in our favour. With the help of the French we were able to get an outcome to a discussion, promoted by the Commission, on nuclear safety which preserved the predominant position within the Community of the Energy Council and more widely of the International Atomic Energy Agency in Vienna. A resolution was also agreed on the recent serious industrial pollution of the Rhine.

6. There is an Education Council on 28 November; an important meeting of the Internal Market Council will take place on 1 December; there is a Fisheries Council on 3 December; and the European Council meets in London on 5-6 December.

A handwritten signature in dark ink, appearing to read 'D F Williamson', written in a cursive style.

D F WILLIAMSON

26 November 1986



FCS/86/278

PAYMASTER GENERAL

*ADD
26/11*

EC: Employment Initiative

- ✓ at Harp*
1. Thank you for your letter of 21 November about the state of negotiations on our employment initiative. It is encouraging to hear that there seems to be general acceptance that the resolution will be adopted in December.
 2. I have no difficulty with the changes which you have made to meet the concerns of other member states; I agree that you must be the judge whether to accept further minor amendments in order to achieve our objective of having the resolution based on our initiative adopted on 11 December.
 3. I am copying this letter to the Prime Minister, Nigel Lawson, Norman Fowler, Kenneth Baker and Paul Channon; and to Sir Robert Armstrong and Sir David Hannay.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
26 November 1986

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

26 November 1986

BUDGET COUNCIL, 26-27 NOVEMBER

The Prime Minister has seen your Minister of State's minute of 25 November about the forthcoming meeting of the Budget Council.

She has indicated that the Commission proposal to budgetise in part the prospective revenue shortfall in the current year is completely unacceptable. I understand that in fact there is no prospect of this proposal being adopted.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Minister of Agriculture, Fisheries and Food, the Employment Secretary, the Trade and Industry Secretary and Sir Robert Armstrong.

(C. D. POWELL)

Michael Norgrove, Esq.,
Office of Mr. Peter Brooke,
HM Treasury.

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*The President
of the European Parliament*

STRASBOURG

25.11.86 * S00333

Dear Prime Minister,

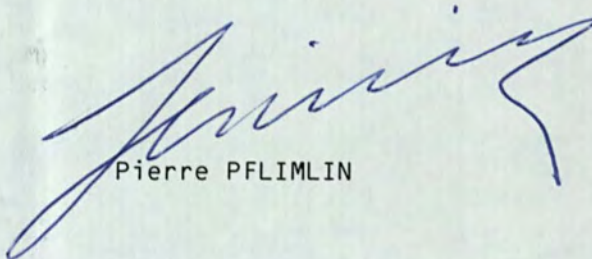
not enclosed.

You will find attached a copy of the statement which I made following my meeting at the White House with President Ronald Reagan on Thursday, 20 November.

Although I have had a long-standing invitation from President Reagan to visit the United States, the meeting was arranged last week at extremely short notice. I was nonetheless able to contact the General Secretariat of the Council of the European Communities and Mr Jacques Delors, President of the Commission, beforehand. In Washington I had talks with Sir Antony Acland, the United Kingdom Ambassador, who informed me of the conclusions reached during your discussions with President Reagan.

I look forward to seeing you again in Strasbourg at the next part-session of the European Parliament.

Yours sincerely



Pierre PFLIMLIN

The Rt. Hon. Margaret THATCHER, FRS, MP
Prime Minister, First Lord of the Treasury
10, Downing Street,
GB - LONDON SW1 A 2AL

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FROM: Minister of State

DATE: 25 November 1986

PRIME MINISTER

BUDGET COUNCIL, 26-27 NOVEMBER

No

The Budget Council meets again this week to try to reach agreement on a second reading of the Community budget for 1987. Also on the agenda will be a proposal by the Commission to budgetise in part a prospective revenue shortfall of some 1.3 or 1.4 billion ecu in the current year. I shall again be in the chair and Ian Stewart will again represent the United Kingdom.

2. The prospective revenue shortfall this year, which reflects amongst other things a sharp fall in customs duties following the dollar depreciation, is a matter for concern. Although there will technically be no breach of the 1.4 per cent VAT ceiling, the fact is that the Community will this year spend beyond its means as defined by the 1.4 per cent ceiling, and there will be a deficit, possibly of the order of 900 mecu after allowing for expenditure shortfalls, to be carried forward to 1987. There is no realistic prospect of obtaining savings on the scale required this year, but we will do all we can to ensure that the Council deals responsibly with this problem.

3. Perhaps the most positive aspect of the prospective deficit for 1986 is that it will strengthen the case of those, like the Germans, the French, the Dutch and ourselves, who remain determined that the 1987 budget should respect budget discipline. The position on the 1987 budget is, briefly, that:

- the Council's first reading budget in September respected budget discipline both for agriculture and for non-obligatory expenditure, which the Council proposed should grow at half the maximum rate;
- the Parliament's first reading budget proposes several changes in agricultural spending, some quite sensible in

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themselves but including a proposal that Member States should provide special financing of 2.5 billion ecu outside the budget towards reducing agricultural stocks. On non-obligatory expenditure, the Parliament proposes that budget discipline and the maximum rate should be exceeded by 598 mecu for commitments and 174 mecu for payments, leaving a margin of unallocated resources within the 1.4 per cent ceiling of just under 500 mecu (ignoring the Parliament's suggestions on agricultural spending);

- the Commission have warned throughout the budgetary procedure that, in the absence of appropriate policy decisions by the Council, the budget discipline figure for agriculture now incorporated in the 1987 budget will be overspent by perhaps 3 billion ecu.

4. Ian Stewart will argue strongly at this week's Council for establishing a second reading budget within the budget discipline limits, both on agriculture and on non-obligatory expenditure, and for a statement responding favourably to the Parliament's general thesis about the need for CAP reforms. I think we have a reasonable chance of reaching agreement on such an outcome in the Council. Certainly there will on present indications be no qualified majority for raising the maximum rate of increase in non-obligatory expenditure. The southern Member States and Ireland may, however, try to use their blocking minority power to prevent agreement on line by line changes in the budget to give effect to the reductions needed to bring the Parliament's figures in aggregate back within the maximum rate. If so, we could end up with an inconsistent conclusion from the Council - no agreement to raise the maximum rate, but no agreement either on what savings should be made to bring this about. We shall however do everything in our power to avoid this and to obtain agreement to a consistent budget which respects budget discipline.

5. The Parliament will be meeting in the second week of December, after the European Council, to consider the Council's second

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reading budget. We hope that it may be possible for the Council and the Parliament to reach agreement then on a budget which respects budget discipline; but some factions in the Parliament will be tempted to muddy the waters by reclassifying expenditure to their own advantage, as well as making a démarche about CAP reform, and the goal of agreement before Christmas may well prove elusive.

6. I hope that you will be content with an approach along the lines set out above, which is of course fully consistent with the objectives defined in Charles Powell's letter of 18 July.

7. I am copying this minute to Geoffrey Howe, Michael Jopling, David Young, Paul Channon and Sir Robert Armstrong.

P.B.

PETER BROOKE

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Paymaster General
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

25 November 1986

Dear Ken,

FILE WITH COP

Thank you for sending the Treasury a copy of your letter of 21 November to Geoffrey Howe.

2. I agree that there is a valuable prize to be gained if we can divert the work of the Social Affairs Council away from social engineering and into measures to remove labour market rigidities. But we must not pay too high a price for that. I am grateful for your assurance that you will concede nothing which would be difficult domestically or inconsistent with our own economic and employment policies. I would like to emphasise four such areas which concern me.

3. Employment is created by competitive businesses making realistic wage settlements, in the context of flexible markets and of sound financial policies on the part of the Government. I think it very important that you avoid changes which compromise that line. In particular, there must be no concession to the view that the problem of unemployment can be solved by reflation. Any clause which could be interpreted in that way would be likely to be used against us.

4. For similar reasons, the preamble on pages 7-8 to the section on long term unemployment would benefit from two changes. The UK has an impressive record of rapidly increasing employment opportunities; in our case, attributing the level of long term unemployment to "the shortage of employment opportunities in general" may be pointing in an unhelpful direction. I am particularly concerned about that phrase in combination with the suggestion that effective action "requires active intervention by Government". I think it important that the first phrase be replaced by something like "rigidities in the labour market" and the second qualified, eg by putting "to encourage the better functioning of the labour market" after "by Government".

5. Similarly, the words "between now and 1990" in the first full paragraph on page 2 might cause difficulties for the Government in forthcoming NEDC meetings and elsewhere; my view is that they should be removed if at all possible.
6. My second area of concern is expenditure from the European Social Fund. An overriding priority must be EC Budget discipline. It is therefore crucial that the resolution should make it clear that we are not advocating any increase in ESF (or other EC Budget) expenditure. I was pleased to see the phrases about keeping within available resources in the third indent on page 2 and in the first line of the last paragraph. I think it very important that these phrases should not be weakened.
7. Thirdly, the exercise could become self-defeating if too much were to hang on the social partners or if more weight were put on maintaining social protection. I very much hope that you will be able to avoid any further concessions here.
8. You may also be aware that NEDC on 3 December will consider the Autumn Statement, with the EC Annual Economic Report taken as a relevant document. You may want to check the outcome of the NEDC in case it is relevant to the "social dialogue" and "social partners" points on pages 2 and 8 of your draft resolution. We propose to take the following line at NEDC:
- a. that "social dialogue" means dialogue between management and the workforce, without Government interference;
 - b. that, while we do not wish to discourage such dialogue, we believe that it is most valuable, not on a national or regional level, but in the factory, workshop and office;
 - c. that it has a role in the discussions of such basic problems as the need for lower unit labour costs.
9. Fourthly, it is important that the resolution should include nothing that could add to pressure for extra UK public expenditure.
10. I would be grateful if you could also insert "industrially relevant" before "research and development" in the preamble to the enterprise section. The sixth indent on page 1 would be improved by the addition of the words "soundly based" before "economic growth".
11. I understand that from 1 December you will have to negotiate the text without further reference to your colleagues. But it would be most helpful if your officials could keep mine closely in touch, and in particular could let them have a copy of the draft as it emerges from the working group meeting on 1 December.
12. I am sending copies of this letter to the Prime Minister, Norman Fowler, Kenneth Baker and ~~to~~ Paul Channon; and to Sir Robert Armstrong and Sir David Hannay.

L. ever

Peter

PETER BROOKE

EURO PAU : Budget PT33





From the Minister of State
for Industry and Information Technology

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215
GTN 215) 5147
(Switchboard) 01-215 7877

GEOFFREY PATTIE MP

Miss Alison Smith
Private Secretary to the
Rt Hon John Biffen MP
Lord Privy Seal
Privy Council Offices
68 Whitehall
LONDON SW1A 2AT

EDP
25/11

25th November 1986

Dear Miss Smith,

EUROPEAN COMMUNITY FRAMEWORK PROGRAMME OF COMMUNITY ACTIVITIES IN
THE FIELD OF RESEARCH AND TECHNOLOGICAL DEVELOPMENT (1987-91)

Further to Mr Pattie's letter of 7 November, this is the motion
my Minister would propose to table for debate:

"That this House takes note of European Community Document No 8764/86, a draft proposal for a Regulation concerning the Framework Programme of Community Activities in the Field of Research and Technological Development (1987 to 1991) and the Explanatory Memorandum from the Department of Trade and Industry and the Cabinet Office dated 24 September 1986; endorses the view that the Framework Programme offers an effective means of assessing priorities for European Community Research and Development and for monitoring its implementation; and welcomes the United Kingdom's endeavours to secure a cost-effective Programme of high quality scientific and technological research with the main emphasis on activities aimed at promoting Europe's industrial competitiveness."

I am copying this letter to the Private Secretaries to the members of L and OD(E) Committees and to Sir Robert Armstrong.

Yours sincerely,

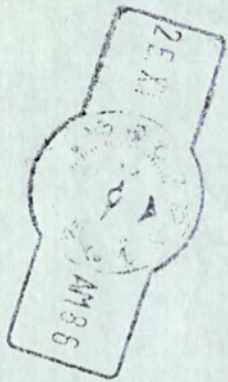
Timothy Abraham

T P ABRAHAM
PRIVATE SECRETARY

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BICENTENARY

Euro Poli Budget PT 33





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CCP

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-934 9000

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FROM THE SECRETARY OF STATE

CDP
257M

The Rt Hon Kenneth Clarke QC MP
Paymaster General
Department of Employment
Caxton house
Tothill St
London SW1A 9NF

25 November 1986

Am Ken

File with CDP

EC : EMPLOYMENT INITIATIVE

Thank you for sending me a copy of your letter of 21 November to Geoffrey Howe.

I welcome the way in which your initiative is developing and recognise the need for a section dealing with the implications for training. I am however uneasy about the reference to Council encouragement in connection with education during the compulsory school period since this may be seen as an invitation to the Commission to bring forward substantive proposals in that area. As you may know, the Treaty of Rome does not provide specific powers for the Community in education and we have argued against introducing powers of that kind.

Since the proposed Resolution begins by referring to the Treaty, I shall be grateful if you can ensure that references to developments in education are not framed in terms of possible action by the Community. This means, I think, that the reference to education during the compulsory school period should feature in the introductory paragraph about training rather than in a list of Council measures and that the other references in that section should be to vocational training rather than education and training. I attach a list of possible modifications on this basis which I hope you will be able to accommodate.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson, Norman Fowler, Paul Channon, Sir Robert Armstrong and Sir David Hannay.

Ken
Ken

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EC : EMPLOYMENT INITIATIVE

SUGGESTED AMENDMENTS TO TEXT ACCOMPANYING MR KENNETH CLARKE'S
LETTER OF 21 NOVEMBER

SECTION ON TRAINING (PAGE 6)

After second sentence of introductory paragraph add:-

".... access to the employment market. A sound foundation for this training is the provision by Member States of high quality education during the compulsory school period, including the encouragement of links between schools and the world of work. In this respect ..."

In next indent, replace "vocational programmes of education and training" by "vocational training" and delete first sub-indent.

In second and third sub-indent: replace "vocational education and training" with "vocational training".

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~~CPBG~~



Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213.....5949
Switchboard 01-213 3000

~~CDP~~

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
LONDON SW1A 2AH

21 November 1986

Dear Secretary of State,

*Await comments
of colleagues
21/11*

EC: EMPLOYMENT INITIATIVE

As you know, I recently tabled a draft of the resolution which we aim to get adopted at the December Social Affairs Council to give effect to our employment initiative. As with our earlier paper, I was able to put the resolution forward in the names of my Irish and Italian colleagues along with my own.

The draft has now been given a first full reading at Working Group level in Brussels. Both the Commission and the Belgians tabled copious amendments with a smaller set put in by the French. Some of these inevitably attracted support from other Member States. What was encouraging, however, is that all concerned - including the Commission - now seem to accept that we will get our resolution in December, subject, of course, to our producing an acceptable text. If this is right, it will be a major coup to have turned this Council on to an almost diametrically new course and away from its past obsession with social engineering proposals such as parental leave and Vredeling.

To get there we shall, of course, have to make some movement towards accommodating the views of the less enthusiastic Member States and of the Commission. I do not intend that this should be at the expense of any of our own key objectives. Accordingly, I attach a revised text which takes on board some (but by no means a majority) of the Belgian, French and Commission amendments and of other points raised at the Working Group. Because time is now extremely short, I should be grateful to receive, by next Tuesday (25 November) please, any substantive comments which you or other colleagues have on the draft. Changes from the last draft are sidelined for ease of reference.

We shall be tabling the revised text for a second, and final, working group meeting on 1 December. In agreement with UKREP and the Council Secretariat, COREPER on 2 December will almost certainly be invited simply to take note of progress as a forerunner to the Council itself on the 11th.



Given the time constraints as we run up to the end of this exercise - and in particular the need to table texts in all languages a week before the Council - I will not I am afraid have any opportunities to consult Departments on any further drafting amendments which we feel obliged to accept either after the 1 December meeting or at the Council itself. Nevertheless, I believe I am well seized of the points which you and colleagues regard as important. I will take care to use my Presidency position to ensure that the eventual text does not concede anything which would be difficult domestically or inconsistent with our own economic and employment policies. The great bulk of the Resolution will, of course, be an endorsement by the Community of our own policies in the employment field.

I am copying this letter to the Prime Minister, Nigel Lawson, Norman Fowler, Kenneth Baker and Paul Channon; and to Sir Robert Armstrong and Sir David Hannay.

FCS

Yours sincerely,

PP. KENNETH CLARKE
(Approved by the Minister
and signed in his absence)

COUNCIL RESOLUTION OF 11 DECEMBER 1986

On an action programme on employment growth.

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

- Having regard to the Treaty establishing the European Economic Community
- Having regard to previous resolutions of the Council concerning youth employment, long-term unemployment, labour market policies, local employment initiatives, vocational training, the introduction of new technologies and equal treatment between men and women
- Having regard to the conclusions of the European Council in The Hague on 26/27 June which called for a comprehensive programme of action to combat unemployment,
- Having regard to the document "Employment Growth into the 1990s - A Strategy for the Labour Market" submitted on 28 May 1986 by the Ministers for Employment representing Ireland, Italy and the United Kingdom
- Having regard to the opinions of the European Parliament on the subject of the labour market and employment, and to discussions in the Standing Employment Committee, in particular those which took place on 14 May 1986 and 7 November 1986,
- Acknowledging that increased employment must come about mainly through economic growth
- Acknowledging the role of measures to improve the functioning of the labour market within the Community's strategy of co-operative economic growth and within the overall economic policies of Member States,
- Acknowledging that a strategy to improve the labour market should not put at risk basic rights in the areas of social security, social protection and conditions of work,

- Acknowledging that such a strategy should take full account of the views of the social partners, and of the social dialogue,
- Acknowledging that such a strategy should also distinguish between those areas where the Community has responsibility and those within the responsibility of the Member States,
- Acknowledging that the European Social Fund, in the use of its available resources and in its priorities, must play an increased role in the Community's efforts to fight unemployment,

TAKES FULL ACCOUNT of the Community's strategy of co-operative economic growth as endorsed in the conclusions of the Council (ECO/FIN) on 1985 [and 8 December 1986] and in particular of the need to maintain soundly based economic growth and to work towards a sustained reduction in unemployment between now and 1990; and notes that amongst the key elements in that strategy are the need to improve the adaptability of the markets for goods, services, capital and labour.

EXPRESSES THE COMMITMENT to concentrate its work and to develop further the cooperation between Member States in the areas of promoting new enterprise and employment growth; more efficient labour markets; better training for young people and adults; and more help for long-term unemployed people; and further expresses the commitment, in full agreement with the Commission, to take the decisions and measures necessary to achieve the following:

Promoting new enterprise and employment growth

Large employers will continue to play a major role in providing employment. To that end the agreed policies of the Community - and in particular those directed towards the completion of the internal market, the maintenance of soundly based economic growth and enhanced support for research and development - will all assist large employers to improve their competitiveness and continue to provide a major source of employment. At the same time the Council recognises that the greatest potential for future employment growth lies with small and medium sized enterprises. It therefore wishes to assist the development of such enterprises by

- the rapid implementation of the Commission's action programme concerning small and medium sized enterprises ⁽¹⁾ as endorsed in the conclusions of the Council of 20 October 1986, especially with respect to:
 - the undertaking of special efforts to publicise Community Programmes of benefit to SMEs
 - the identification and promotion of means whereby large companies and the private sector in general can assist the creation and growth of SMEs, in particular through training and specialist advice
 - an examination of how Member States might best be assisted in providing small firms with support services including services from the appropriate labour market authorities; initial low cost workspace and accommodation; and advice on the introduction of new technology
- a reduction in the administrative constraints on the creation and expansion of enterprises, including support for the efforts being made within the Member States to encourage the setting up and expansion of one person businesses and SMEs, in particular through
 - simplified guidance for SMEs and the self employed
 - a campaign to reduce unnecessary administrative constraints, whose aims should include making Community legislation more easily understood
 - measures to increase the number of persons, particularly young people and the unemployed, going into self-employment
 - a review of existing instruments at all levels to identify whether changes are necessary to remove unnecessary or unintended obstacles to the number of persons taking up self-employment
- encouragement of the growth of cooperatives and local employment initiatives (taking full account of the Council resolution of June 1984⁽²⁾ especially with respect to:

(1) Doc 8992/86 ECO 83

(2)

- identification of legislative or other barriers within Member States which put cooperatives at a disadvantage compared with other forms of business
- Community-level support for the provision of training for those who run cooperatives
- an examination of the possibility of drawing up a model legal framework for cooperatives
- efforts to provide on-the-spot advice and counselling to co-operatives and SMEs.

More efficient labour markets

The need to ensure more adaptable patterns of work and to increase the access to the labour market of all those seeking a job implies a need for greater adaptability in the labour market, both internal and external to the enterprise.

To this end the Council wishes to bring about

- the encouragement of initiatives at local level which, while taking account of national and regional characteristics, aim to involve local interests in the development and implementation of employment and training policies in their locality
- steps to make it easier for workers to move to jobs which attract them and to respond to geographical and other shifts in the demand for labour, in particular those connected with the decline and restructuring of traditional industries, through:
 - encouraging Member States so far as possible to remove obstacles to mobility within their own countries including through the provision of rapid and effective placement services
 - the provision of improved information and advice about employment opportunities and about pensions, social security and other relevant rights and arrangements throughout the Community, so as to remove obstacles to movement between Member States, using as appropriate the SEDOC system

- the identification of means to improve the portability of personal entitlements from occupational pension schemes for workers who move to different jobs and from one Member State to another
- greater mutual recognition by Member States of vocational qualifications by means of:
 - the accelerated implementation of Community decisions on the comparability of vocational training qualifications (including consideration of a common vocational training pass)
 - the identification of and action on further areas where the absence of mutually recognised qualifications or comparability between qualifications is a serious impediment to free movement of labour
- the removal of obstacles to the development of new forms of work both in and on the periphery of traditional sectors of employment and in the sector of personal services with the aim of meeting the changing requirements of Society.
- the removal of obstacles to the development of part-time and temporary work, fixed term contracts and job sharing whilst maintaining due regard for the need for social and employment protections
- the greater involvement of employees within their undertakings by the encouragement of whatever methods are most appropriate in the light of the structures and circumstances of Member States; for example by making the advantages of employee share ownership more widely known and by co-ordinating exchanges of information between Member States on the operation of existing share ownership schemes in the Community
- an increase in the equality of access to, and opportunity within, the labour market for women by:
 - the implementation of the Community's medium term programme 1986-1990
 - Community level support for efforts within Member States to encourage women to set up their own businesses

- the promotion of training for occupations where women are under-represented (notably those connected with new technology)
- a re-examination of the need for certain types of restrictive legislation affecting women's employment, as for example that relating to night work
- an increase through the taking of similar measures in the equality of access to, and opportunity within, the labour market for disabled people, migrant workers (including those returning to their original Member States), and disadvantaged residents of inner city areas

Training

A key factor in securing employment growth is to have a labour force that has both the skills and the flexibility necessary to meet the changing requirements of industry and commerce, particularly at a time of rapid change arising from the growth of new technologies. In addition both young people and adults need to have available to them opportunities for training which will enhance their access to the employment market. In this respect the Council therefore wishes to bring about

- more effective vocational programmes of education and training for young people through the taking of measures to encourage:
 - the provision by Member States of high quality education during the compulsory school period so as to provide a sound foundation for later training and vocational specialisation, including in particular improved vocational education arrangements, and the encouragement of links between schools and the world of work
 - the greater involvement of industry and commerce in the design and delivery of vocational education and training
 - up to two years' vocational education and training (including, where appropriate, training at the work place under a training contract and not excluding other training arrangements of more than two years duration) for school leavers, leading to recognised vocational qualifications

- special provision for the disadvantaged and disabled
- an increase in the recruitment prospects of those young people leaving programmes of education and training
- an increase in the levels of training and retraining opportunities available to adults through the taking of measures to:
 - promote amongst both employers and employees a greater awareness of the importance of training both in encouraging economic growth and in meeting the personal and professional aspirations of individuals
 - encourage employers to invest more in training in industry
 - aid the development of more responsive training systems, including the use of new technologies and distance learning for the provision of education and training
- the establishment of a series of Community actions designed to examine ways of:
 - overcoming restrictions on access to training, particularly where training for certain jobs is not widely available to some sectors of the population
 - identifying the developing training needs of enterprises, particularly at local level as part of the Commission's continuing work in the field of training and in the development of local employment initiatives
 - providing more flexible and cost effective forms of training, particularly through the use of new technologies

Long term unemployed

The continued growth of long-term unemployment in the Community reflects both the shortage of employment opportunities in general and the way in which unemployment affects disproportionately certain areas and certain groups in

the labour market. Effective action to combat long-term unemployment requires active intervention by Government, wherever possible with the support of the social partners, as already agreed within the Council resolution of December 1984⁽¹⁾. In view of the continued rise in long-term unemployment since that date, however, the Council considers that further action is urgently needed in respect of

- the promotion and encouragement of schemes in Member States which will be of benefit to the long term unemployed including schemes of or including training, job counselling and guidance, and which will increase the proportion of employment service resources devoted to the long-term unemployed.
- the adoption of a Community policy, taking account of the experience and individual circumstances of Member States, with regard to recruitment aids for the long-term unemployed
- the identification of other means of helping more long-term unemployed people (particularly those under the age of 25) into jobs following discussions of the means of doing so with the social partners
- early agreement on Community-wide comparable statistical data on the duration of unemployment
- an examination of the impact on the long-term unemployed of social security systems within Member States.

Social Dialogue

The Council recalls Article 22 of the Single European Act which requires the Commission to endeavour to develop the dialogue between management and labour at European level. The Council supports the efforts which the Commission has undertaken to carry out this remit and expresses the hope that the dialogue will continue and will lead to conclusions being reached between the social partners which will give added impetus to the programme set out in this resolution.

Implementation of the Programme

THE COUNCIL, acknowledging the important role of the Commission in implementing this programme, INVITES the Commission to submit to it, during the period 1 January 1987 to the end of its present mandate on 31 December 1988, proposals such as may achieve the detailed implementation by the Community or, where appropriate, Member States of the programme set out above, and otherwise to promote employment

THE COUNCIL FURTHER INVITES the Commission to assist in the rapid dissemination of information throughout the Community on new initiatives taken in the areas covered by the Programme building as far as possible on the existing structures and information systems, and in particular MISEP.

THE COUNCIL INVITES the Commission in preparing such proposals to take account both of the views and the responsibilities of the social partners, and of such jointly agreed conclusions as they may reach or have reached in the framework of the social dialogue; and of the best practices already in existence in the Member States.

THE COUNCIL UNDERTAKES to act on such proposals as soon as possible once it has been informed officially of the Opinions given by the Parliament and by the Economic and Social Committee on the proposal or communication in question, and with the maximum endeavour to reach agreement. The Council in particular invites the Commission to submit to it, before 31 December 1987 proposals and communications concerning youth and adult training and long-term unemployment.

In this context THE COUNCIL RECALLS its conclusions of 13 June 1985 which called upon the Commission to examine the possibility of promoting coordinated action to develop experimental or exemplary Community and/or national projects aimed at creating new job opportunities and undertakings; particularly as regards the long-term unemployed and the young, and also to examine the possibility to this end of making better use of that element of the resources of the European Social Fund currently devoted to innovatory measures; and requests the Commission to report on the results of these examinations by 31 December 1987.

THE COUNCIL INVITES the Commission to furnish the Council, once every six months, with a report on progress made in implementing the Programme and on future developments. The Commission is requested to use meetings of the Directors General for Employment and of the Directors of Employment Services for the preparation of these reports.

THE COUNCIL REQUESTS the Commission, within the available resources, to take into account the possibilities of helping the implementation of this Programme in its decisions on the various Community financial instruments, and in particular to bring forward as early as possible its proposals for the review of the European Social Fund.



Subject cc Master
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PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL NO. T216/86

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OF 191030Z NOVEMBER 86
AND TO IMMEDIATE OTHER EC POSTS
INFO PRIORITY UKREP BRUSSELS

MIPT: THE INTERNAL MARKET: UK PRESIDENCY

1. FOLLOWING IS MESSAGE FROM THE PRIME MINISTER:
BEGINS
DEAR

WE ARE ALL COMMITTED, UNDER THE SINGLE EUROPEAN ACT, TO COMPLETE THE INTERNAL MARKET BY 1992. WE REAFFIRMED THAT COMMITMENT AT THE EUROPEAN COUNCIL IN THE HAGUE IN JUNE AND UNDERLINED THE IMPORTANCE OF FURTHER SPEEDING UP DECISION-MAKING ON THE ACTION PROGRAMME PREPARED AT THE END OF THE DUTCH PRESIDENCY.

2. ALTHOUGH A NUMBER OF DECISIONS HAVE BEEN TAKEN, PROGRESS OVERALL REMAINS DISAPPOINTINGLY SLOW. OF COURSE THERE ARE DIFFICULT ISSUES WHICH HAVE TO BE RESOLVED, BUT ON MANY OF THE SUBJECTS NOW BEFORE THE COUNCIL DECISIONS REMAIN BLOCKED BECAUSE OF RELATIVELY MINOR OBJECTIONS FROM ONE OR OTHER MEMBER STATE.

3. MUCH OF THE REPUTATION OF THE COMMUNITY HAS BEEN STAKED ON MAKING PROGRESS TOWARDS THE SINGLE LARGE MARKET WHICH IS VITAL TO OUR INDUSTRY AND THE CREATION OF JOBS. IF WE ARE NOT TO LOSE IMPETUS I AM CONVINCED THAT MANY MORE DECISIONS NEED TO BE TAKEN

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BEFORE THE END OF THE YEAR.

4. THE INTERNAL MARKET COUNCIL HAS A PARTICULARLY IMPORTANT ROLE IN ENSURING PROGRESS AND I BELIEVE THAT AGREEMENT ((NEXT WORD UNDERLINED)) IS POSSIBLE ON

A SIGNIFICANT NUMBER OF MEASURES AT ITS 1 DECEMBER MEETING, IF WE ARE ALL PREPARED TO RENEW OUR POLITICAL COMMITMENT TO OVERCOMING THE OUTSTANDING OBSTACLES. I AM THEREFORE SENDING YOU WITH THIS LETTER A NOTE OF MEASURES WHICH ARE CAPABLE OF EARLY AGREEMENT GIVEN THE KIND OF EFFORT TO WHICH WE COMMITTED OURSELVES AT THE HAGUE. WE CANNOT ALLOW THE PACE OF DECISION TO BE DELAYED BY TECHNICAL OBJECTIONS. I PROPOSE THAT EACH OF US SHOULD BE PREPARED TO GIVE UP OUR RESERVATIONS ON INDIVIDUAL PROPOSALS LISTED IN THE ATTACHED NOTE IN EXCHANGE FOR OTHERS DOING THE SAME. I DO NOT BELIEVE THAT THIS WOULD INVOLVE THE SACRIFICE OF IMPORTANT INTERESTS BY ANY OF US.

5. WE SHALL BE FOLLOWING UP MY LETTER WITH DISCUSSION WITH YOUR MINISTERS AND OFFICIALS. BUT I WANT TO ASK YOU FOR ((NEXT WORD UNDERLINED)) YOUR SUPPORT

FOR THIS APPROACH. WITHOUT A CLEAR POLITICAL LEAD OF THIS KIND WE SHALL NOT MAKE THE PROGRESS TO WHICH WE ARE ALL COMMITTED AND WHICH INDUSTRY AND THE GENERAL PUBLIC EXPECT.

YOURS SINCERELY

MARGARET THATCHER

ENDS

6. COPENHAGEN ONLY: PLEASE ADD AN EXTRA PENULTIMATE PARAGRAPH AS FOLLOWS:

BEGINS

I SHOULD ALSO LIKE TO SEEK YOUR SUPPORT ON ONE OTHER INTERNAL MARKET ISSUE OF IMMEDIATE CONCERN - AIR TRANSPORT. IF THE COMMUNITY IS TO MAKE A REAL IMPACT ON PEOPLE'S LIVES IT CANNOT ALLOW THE EUROPEAN AIRLINES TO GO ON SHUTTING OUT COMPETITION AND KEEPING THE AVAILABILITY OF CHEAPER FARES UNJUSTIFIABLY RESTRICTED. I WAS VERY DISAPPOINTED TO SEE THAT AT THE TRANSPORT COUNCIL ON 10-11 NOVEMBER DENMARK JOINED WITH THOSE MEMBER STATES WHO WERE UNWILLING TO AGREE EVEN TO A FIRST STEP WHICH WOULD BRING SOME REAL BENEFITS. MAY I ASK YOU TO TAKE A LOOK AT THIS

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YOURSELF IN THE HOPE THAT WE CAN REACH AGREEMENT IN THE VERY NEAR
FUTURE.

ENDS

7. SEE MIFT.

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COPIES TO:

MR MOG, DTI

MR LOUGHEAD, DTI

MR JAY, CABINET
OFFICE

MR MOSS D TRANSPORT

MISS LANDELT. —" —

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OF 191230Z NOVEMBER 86
AND TO IMMEDIATE OTHER EC POSTS
INFO PRIORITY UKREP BRUSSELS

MY 2 IPTS: EC INTERNAL MARKET: UK PRESIDENCY INITIATIVE

1. FOLLOWING IS TEXT OF ANNEX TO PRIME MINISTER'S MESSAGE.
BEGINS
INTERNAL MARKET ACTION PROGRAMME
(NUMBERS IN PARENTHESIS ARE THOSE IN THE PROGRAMME SUBMITTED BY
THE NETHERLANDS PRESIDENCY TO THE INTERNAL MARKET COUNCIL ON
23 JUNE, DOCUMENT NUMBER 7724/86).

(7) COUNTERFEIT GOODS
REGULATION INTRODUCING MEASURES TO PROHIBIT THE RELEASE OF
COUNTERFEIT GOODS FOR FREE CIRCULATION WITHIN THE COMMUNITY.

(44) FRONT ROLL-OVER PROTECTION STRUCTURES (ROPS) ON NARROW-TRACK
WHEELED AGRICULTURAL OR FORESTRY TRACTORS
DIRECTIVE TO ESTABLISH COMMON STANDARDS FOR PROTECTION STRUCTURES
MOUNTED IN FRONT OF THE DRIVER'S SEAT FOR CERTAIN CLASSES OF
VEHICLE. IT IS ONE OF A SERIES OF DIRECTIVES RELATING TO THE
SAFETY OF AGRICULTURAL AND FORESTRY TRACTORS.

(69) TO (73) THE PHARMACEUTICAL PACKAGE

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PACKAGE OF FOUR DIRECTIVES AND A RECOMMENDATION TO LAY DOWN OR AMEND EXISTING PROCEDURES GOVERNING THE MARKETING AND TESTING OF HUMAN AND VETERINARY MEDICINES.

(74) GOOD LABORATORY PRACTICE

DIRECTIVE SPECIFYING MEASURES TO ENSURE THAT LABORATORY TESTS CARRIED OUT BY MANUFACTURERS AND IMPORTERS TO EVALUATE THE POSSIBLE RISKS TO HUMAN HEALTH AND THE ENVIRONMENT OF CHEMICAL SUBSTANCES THEY WISH TO PLACE ON THE MARKET ARE PERFORMED IN ACCORDANCE WITH INTERNATIONALLY AGREED PRINCIPLES.

(78) NOISE OF DOZERS AND LOADERS

DIRECTIVE PROVIDING FOR NOISE LIMITS TO BE IMPLEMENTED FOR HYDRAULIC DOZERS, LOADERS, EXCAVATORS AND EXCAVATOR- LOADERS. THE PROPOSAL IS PART OF THE COMMUNITY'S PROGRAMME TO ELIMINATE TECHNICAL TRADE BARRIERS IN CONSTRUCTION PLANT AND EQUIPMENT, AND IS ALSO A PART OF THE COMMUNITY'S PROGRAMME ON THE ENVIRONMENT.

(80) INDUSTRIAL TRUCKS

DIRECTIVE SEEKS TO ESTABLISH COMMON CONSTRUCTION AND SAFETY STANDARDS THROUGHOUT THE COMMUNITY FOR INDUSTRIAL TRUCKS (EG FORK LIFT TRUCKS) AND TOW TRACTORS.

(86) IMPROVEMENT OF DIRECTIVES ON PUBLIC PROCUREMENT (SUPPLIES)

DIRECTIVE MODIFYING THE EXISTING COMMUNITY DIRECTIVES, INCLUDING PROVISIONS ON DEADLINES, STANDARDS, COVERAGE AND PRE-PUBLICATION OF PURCHASING PROGRAMMES.

(120) STANDARDISATION IN THE FIELDS OF INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS

DIRECTIVE CONCERNED WITH THE IDENTIFICATION OF STANDARDS FOR PUBLIC PURCHASERS IN MEMBER STATES WHEN BUYING IT AND TELECOMMUNICATIONS EQUIPMENT.

(127) LEGAL PROTECTION OF MICROCIRCUITS

DIRECTIVE REQUIRING MEMBER STATES TO ENACT NATIONAL LAWS

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PROTECTING ORIGINAL DESIGNS FOR THE INTERNAL LAYOUT OF
SEMICONDUCTOR INTEGRATED CIRCUITS AGAINST UNAUTHORISED COPYING.

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(CCCI)

COPIES TO:-

MR MOGG } DTI
MR LOUGHEAD }

MR JAY CABINET OFFICE

MR MOSS

MR LAMBERT } DTP

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Ref. Qz.05463

PRIME MINISTER

Cabinet: Community Affairs

1. The Chancellor of the Exchequer will report on the Economic and Finance Council which met under his chairmanship on 17 November and at which the United Kingdom was represented by the Minister of State, Treasury (Mr Brooke). This was a productive meeting. It agreed two measures which are in the internal market rolling programme: the directive on capital movements and the 13th VAT Directive. The directive on capital movements will liberalise transactions in securities and has always been a United Kingdom objective: agreement has been welcomed by British business and press. The 13th VAT Directive deals with tax refunds to third country nationals: we had identified this as a VAT directive on which we could safely make progress and for which we could claim credit (on some other VAT directives our - unannounced - policy is exactly the opposite). The Council also reached agreement on 1500 million ecu of new lending for wider use of new technology in small and medium enterprises from funds raised by the Commission (NIC 1V) and the European Investment Bank. This will be very helpful in the discussion on small and medium enterprises at the European Council. The Council also made progress on a separate measure into which we are inserting provision for duty-free shops on the Channel Fixed Link in order to maintain its competitive position vis à vis the ferries. At the instigation of the Germans, French and United Kingdom the Council in its role as guardian of budget discipline also passed two resolutions designed to bring pressure to bear on the Research Council to consider a R&D Framework Programme substantially less than that proposed by the Commission (7.735 becu) and to put the brakes on over-ambitious plans in the Fisheries Council for measures on fish structures. The conclusions

were not as tough as we had aimed for but should nonetheless be useful.

2. The Minister of Agriculture, Fisheries and Food will report on the meeting of the Agriculture Council on 17-18 November at which he took the chair and at which the United Kingdom was represented by the Minister of State, Ministry of Agriculture, Fisheries and Food (Mr Gummer). This was a long Council which should have dealt with major Commission proposals to get the Community's dairy and beef markets under control. It largely failed to do so. The beef proposals, which involve a major reduction in intervention and a restructuring of premiums, have been pushed forward in a high level group of senior officials and as a result the Council was able to make a little progress, especially on the reduction of intervention. The high level group will continue with its work in the hope that agreement on beef may be reached at the Agriculture Council's next meeting on 8-9 December. On milk the Commission's original proposals for emergency action have now been supplemented by further proposals for quota cuts which together would have the effect of reducing production by $9\frac{1}{2}$ million tonnes over two years, with a substantial cut falling in the first year. Because the dairy sector is the most costly part of the Community budget a cut of this extent (10 per cent) would produce significant savings. But a reduction in dairy support affects the widest range of farmers across the Community and national difficulties were such that almost no progress was made. Discussion will resume at the December Council. There was also a discussion of green pound and green franc devaluations. At the beginning of the Council the Commission resisted pressure from us and the French to propose devaluations



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of the green pound and the green franc. After a late volte-face the Commission tabled proposals near the end of the Council for devaluing the green pound by 6 percentage points for beef and 2 points for sheep - the changes we had requested - and devaluing the green franc by 3.3 points for beef and 3.2 points for sheep. The franc changes were designed to help restrain the pressures from French sheep producers for illegal action; but the Commission did not propose the imposition of monetary compensatory amounts on sheepmeat exports from the United Kingdom as the French had wanted. Both the United Kingdom and France were prepared to support the Commission's proposal and, though there was simple majority in favour, Mr Jopling was forced by the attitudes of other member states, including Germany, Belgium, the Netherlands and Spain, to remit the matter for further official discussion in the hope of early agreement before the December Council. In view of Monsieur Chirac's very strong concern, which will no doubt be expressed at the Anglo-French summit on 21 November, to get some alleviation of the pressure from French sheep farmers, it was at least helpful that the United Kingdom and France were in broad agreement. But the failure to get a result is likely to leave British beef farmers and French sheep farmers very discontented unless the matter can be settled quickly at official level. The Council agreed on one further item from the internal market rolling programme and made some progress paving the way for agreement on two further items.

3. The Secretary of State for Trade and Industry may mention the meeting of the Industry Council on 18 November at which the Minister of State, Department of Trade and Industry (Mr Shaw) took



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the chair. The Council agreed on some further steps to liberalise the Community's steel production regime, including removing quotas from galvanised sheet steel. The Council also agreed on common standards for a Community-wide advanced telecommunication system, the Integrated Services Digital Network. It made progress towards agreement on a new regime for shipbuilding subsidies which will replace the regime that expires at the end of this year. Agreement should be possible at a meeting of the Industry Council in December on a basis which must allow us to maintain an adequate level of support to British Shipbuilders and Harland and Wolff.

Lower ceilings

4. There are meetings of the Foreign Affairs Council and the Environment Council on 24 November; the Energy Council will meet on 26 November; and the Budget Council meets on 26-27 November.

D F Williamson

D F WILLIAMSON

19 November 1986



PRIME MINISTER

PUBLIC EXPENDITURE AND THE EUROPEAN REGIONAL DEVELOPMENT FUND

We are to discuss the treatment of ERDF receipts by privatised industries at E(A) on Thursday.

I am deeply concerned about this issue. I believe that strict adherence to narrow definitions is obscuring the wider issues which we must address. Nicholas Ridley's minute of 17 November has highlighted some of these issues particularly as they affect the water industry. My own Departmental concern is British Gas. Although its past ERDF receipts are small compared with those in the water industry it remains politically important for them to continue post privatisation. But it will be impossible to find the compensating savings from my Department's other programmes. Thus even if the Commission agree, as I understand they may well do, to private sector utilities remaining eligible for grant we shall be unable to forward any further applications for gas projects.

The choice colleagues face is whether we pass ERDF grants to privatised industries, without compensating savings from Departmental budgets (at a cost of 66% through reduced abatement), or under existing rules risk the loss of the nation's entitlement to the available funds and its consequences on balance of payments, regional development policy and our privatisation programme.

Under the Fontainebleau mechanism receipts from ERDF reduce our abatement by 66% irrespective of whether they go towards public or private sector projects. Whilst I accept that receipts in respect of existing public sector projects benefit public expenditure, there is as Nicholas Ridley made clear, a real risk of there not being sufficient suitable public sector projects within existing plans to attract aid.

If privatised industries are discouraged from applying for aid we therefore risk losing our entitlements. The grants foregone less



abatment, will count against our balance of payments and will simply go to subsidise other Member States. That is surely undesirable.

As the privatisation programme proceeds the infrastructure projects eligible for grant, eg telecommunications, gas, water etc, will increasingly be in the privatised industries. We understand that the Commission are likely to decide that such projects will only be regarded as eligible for grant if they cannot otherwise be undertaken. Hence, in the absence of ERDF aid these projects will not go ahead and lack of this infrastructure will compound the difficulties of attracting other industries to the Assisted Areas which need all the help they can get to stimulate the local economies.

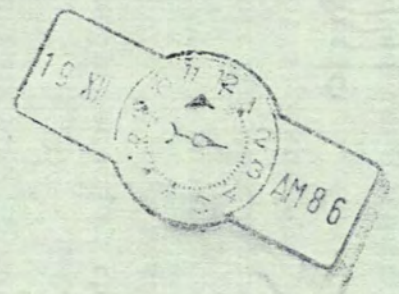
Through our privatisation policy we are already reducing the size of the public sector (including public expenditure in the Assisted Areas). Furthermore public expenditure derives a substantial one-off benefit from flotation proceeds, which in certain circumstances would be even higher if it was known at the time of flotation that ERDF would continue to be available to the privatisation candidate. In addition the gross investment by the industries in projects attracting aid is likely to benefit the Exchequer in other ways, eg higher PAYE and National Insurance Receipts, reduced unemployment benefits, higher Corporation Tax Receipts. To argue that passing grants to the privatised industries increases public expenditure therefore is an over simplification.

I am copying this to Geoffrey Howe, Members of E(A) and Sir Robert Armstrong.

SECRETARY OF STATE FOR ENERGY

19 November 1986

AT THE DIVISION OF



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PRIME MINISTER

*for the first item
at E(A) tomorrow.*

19 November 1986

*DRS
19/11*

ERDF RECEIPTS FOR PRIVATISED INDUSTRIES

This is a straightforward issue where the commonsense solution has been muddled by arguments over principles. We recommend that you confirm the existing Treasury policy but recognise that Mr Ridley may wish to request special funding to continue Government grants for the Mersey clean-up.

The Arguments

Our aim is to use ERDF to get some money back from Europe. To prevent overspending, current rules state that ERDF grants should be put towards programmes, including Nationalised Industry investment, which have been agreed within public expenditure totals.

Once an industry is privatised, however, a continuation of ERDF grants would represent additional public expenditure rather than an offset. The Treasury are right to argue that departments should only seek new ERDF grants for privatised industries if they are prepared to include this aid within their agreed expenditure plans. To abandon this principle would mean treating ERDF as if it was a free, extra bucket of funds outside of normal PES controls and priorities.

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The spending departments have put forward two arguments for changing this general principle, neither of which is convincing.

1. They argue that we will be unable to take up our full quota of ERDF money if applications from privatised industries are disallowed.

However, while the industries which have been or are scheduled to be privatised since 1983/84 still account for 31% of total ERDF receipts (reflecting prior year commitments), in 1985 they represented only 10.5% of new commitments.

	<u>1983/4</u>	<u>1984/5</u>	<u>1985/6</u>	<u>1986/7</u> <u>forecast</u>
% of receipts from privatisation candidates	25.6%	18.5%	31%	31%
	<u>1983</u>	<u>1984</u>	<u>1985</u>	
% of UK commitments from privatisation candidates	36%	29%	10.5%	
UK share of ERDF commitments	21.2%	27%	24%	

We have already filled most of the gap, and both the Welsh and Scottish offices are prepared to take up more if required.

In any case, we should not spend money on programmes we would not otherwise undertake just to fill our quota. Under the Fontainebleau arithmetic, every extra £1 of ERDF grant we receive costs the UK exchequer 66p in lost rebate.

2. They argue that a decision to stop applications for ERDF grants could lead to the privatised industry curtailing programmes to which the Government has been committed.

The key example is the North West Water Authority and the Mersey clean-up project. The DoE case is that:

- a. The proposed level of investment to meet quality standards exceeds what could be justified commercially.
- b. The current EFL projections, based on forward investment plans, therefore implicitly include a hidden element of Government spending against environmental objectives which should be maintained (on top of other programmes) when the EFL disappears.
- c. It would be politically embarrassing for the ERDF grant to be withdrawn as a result of privatisation, endangering environmental objectives.

But this one case - however well justified - does not make the case for a wholesale change in general rules. We cannot presume that the existence of ERDF funding justifies a continued Government grant after privatisation. In the BT situation, for example, the ERDF commitments were for normal commercial investment which the company could fund itself.

Mr Ridley's memorandum proposes that public expenditure plans should include a separate line for ERDF grants which departments would then bid for. What is the logic for this? Surely it would simply reinforce the notion of a hand-out on top of other programmes?

If Mr Ridley believes that there is a special case for maintaining Government support for the Mersey clean-up project, he should put forward a specific proposition. The Treasury have already agreed that existing ERDF commitments should be kept and any new commitments would probably not affect expenditure until 1989. However, the current E(A) paper does not provide a basis on which that decision can be made.

Conclusion

The argument for a general abandonment of the non-additionality rule on ERDF receipts is a back door way of getting an easy source of new funds. We recommend that you

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- 5 -

support the Treasury line and request that special cases are dealt with in the normal way.

You might also use this opportunity to squash proposals from some departments that we should argue in the ex-Novo review for the ERDF fund to be increased as a proportion of the EEC budget - ostensibly to help put further pressure on CAP. The only consequence would be a higher total budget - and since we are now likely to be net contributors to ERDF, we have nothing to gain. The discussion on privatised industry receipts only goes to prove once again how pointless it is to have to go through the exercise of cycling our money through a European Bureaucracy. We should argue consistently to put a limit on all EEC budgets.

Norman Blackwell

NORMAN BLACKWELL

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Qz.05464

MR NOBGROVE (10 Downing Street)

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY
SUB-COMMITTEE ON ECONOMIC AFFAIRS (E(A)),
11.45 am, 20 NOVEMBER 1986

I attach briefs for the Prime Minister on the two items on the agenda of tomorrow's E(A) meeting:

1. Public expenditure treatment of Regional Fund receipts by privatised industries
2. European Community research and development Framework Programme.

I am sending copies of this minute to Mr Woolley and Mr Unwin.

D F WILLIAMSON

19 November 1986

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MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON ECONOMIC AFFAIRS (E(A)), 11.45 am, 20 NOVEMBER

Item 2: European Community Research and Development Framework Programme, 1987-1991

References: E(A)(86)54. Note by the Secretaries covering a note by the Chairman of the Steering Committee on European Questions
Secretary of State for Trade and Industry's minute of 18 November
Secretary of State for Energy's minute of 19 November

CONCLUSIONS

1. You may be able to conclude that:

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i. to reach agreement during our Presidency on the European Community's 1987-1991 Framework Programme for research and development (R and D) is a desirable but not an essential aim. The United Kingdom should stand by the objective of a 5 becu programme on the basis endorsed by E(RD); →

ii. the Fontainebleau abatement should not be taken into account in calculating the expenditure implications for departments of the R and D programme, since this would increase public expenditure;

iii. the distribution of the current EuroPes provision for R and D should be changed to reflect the changed emphasis in the new programme, following the method outlined in Annex B of E(A)(86)54; but, if so;

iv. the Secretary of State for Energy, the Chief Secretary and the Chief Scientific Adviser should discuss ways of reducing the adverse consequences for the Department of Energy's R and D programme, especially in the early years of the new Community Programme;

v. officials should biennially review the new EuroPes allocations to see that they match the pattern of expenditure as particular projects get under way.

5 becu

7.7

BACKGROUND

2. The background to the current negotiations is summarised briefly in paragraphs 2-7 of E(A)(86)54. Essentially, the Single European Act (SEA) will for the first time provide a formal basis for the strategic ("framework") decisions within which Community-sponsored research is carried out. The current framework programme expires at the end of 1986 (though many of its individual elements will continue thereafter); about half of this is devoted to research in the field of energy. In line with the SEA - and with the United Kingdom's own priorities - the emphasis under the new programme will switch to research designed to promote Europe's industrial competitiveness, especially in areas such as telecommunications and information technology.

3. As E(A)(86)54 says, the European Council is committed to increasing the proportion of the Community budget devoted to R and D. In the United Kingdom's view simply to hold Community R and D at its present level would require a 4.3 becu Framework Programme for 1987-1991 (the formally-agreed view within the Community is however that 4.89 becu would constitute level funding). The Commission originally proposed a grossly inflated programme of 10.35 becu which received virtually no support. The formal proposal, at 7.735 becu, is also much too high in the view of the three countries (the United Kingdom, France and Germany) who will have to foot most of the bill. It contains a high proportion of non-essential elements and research which is better supported at national level.

4. The sub-Committee on Research and Development of the Ministerial Steering Committee on Economic Strategy (E(RD)), took the view that the ideal outcome for the United Kingdom in relation to our research priorities and political commitments would be a programme of 5 becu with the emphasis on industrial competitiveness. E(RD) endorsed as a United Kingdom aim in the

negotiations an outcome at the bottom of the range 5-6 becu. In the negotiations so far, the United Kingdom has argued for an outcome below 5 becu, as have France and Germany. All other member states favour at least 6 becu and half support the Commission's figure. This suggests that we shall be doing well if we reach agreement on 5 becu: very slightly above this looks a more likely outcome.

5. Public expenditure implications. The United Kingdom's line in the negotiation needs also to take into account the implications for public expenditure of possible outcomes. Under the EuroPes arrangements agreed at E(A) in February 1984, Departments were allocated a notional level of provision corresponding to their share of Community expenditure on the first R and D Framework Programme. The provision has since been uprated each year in line with the planned increase in domestic public expenditure. Departments are expected to find offsetting savings to meet the United Kingdom's contribution to Community expenditure in excess of the baseline.

6. Hitherto, this has not caused significant difficulties, because the baseline has generally covered prospective Community expenditure. But the new R and D Framework programme will cause strains for three reasons:

i. the baseline will accommodate Community expenditure on R and D of 3.5 becu (around £2.5 billion) between 1987 and 1991, significantly less than the feasible minimum of the new Programme. Departments will have to make offsetting savings, involving reductions in their other programmes, in order to cover the shortfall;

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ii. the Treasury and the spending Departments disagree over whether the Fontainebleau abatement mechanism should be taken into account in calculating the offsetting savings which Departments will have to make. E(A) agreed in February 1984 that the EuroPes arrangements would need to be reviewed when a corrective budgetary mechanism was adopted. Ministers have not collectively discussed the matter since then; but there was agreement between Treasury and other departmental officials in 1985 on a method of calculating the net public expenditure cost of additional Community spending which would take the Fontainebleau abatement into account. Treasury Ministers believe that this agreement was misconceived. Considerable sums are at stake. For a Framework Programme of 5 becu, the application of the Fontainebleau abatement would reduce the cost to Departments by around £90 million between 1987 and 1991 (from £190 million to £100 million); public expenditure would be correspondingly higher;

iii. there is a mis-match between the shares of the EuroPes baseline held by individual Departments and the expected pattern of Departmental responsibility for the new Programme (Annex A of E(A)(86)54). The main problem concerns the Departments of Trade and Industry (DTI) and Energy. The DTI has less than 20 per cent of the baseline but is likely to be responsible for over half of the expenditure under the new Programme; the Department of Energy has almost 40 per cent of the baseline compared with less than a quarter of expected expenditure. If the baseline were reallocated to remove these disparities, the DTI would still have to pick up the largest part of the bill for the new Programme, but its share would fall by some £120m. The cost to the Department of Energy, on the other hand, would rise by some £55 million (more if the Joint Research Centre is included) even though the absolute level of expenditure on energy-related research is unlikely to be any lower in a new Programme of 5 becu than it is in the current Programme.

MAIN ISSUES

7. The public expenditure implications are significant for tactics during the rest of the negotiations and in particular whether we should table a presidency compromise before the 9 December Research Council. During the presidency we have more direct influence than we shall have in the future on the content of the Programme, and this is valuable from the research and industrial point of view. The two succeeding presidencies (Belgium and Denmark) both support a high level of expenditure. On balance it would be better to settle, if possible, during our Presidency but we should not be too concerned if the negotiations do go on longer.

8. There is likely to be little dispute in E(A) that a settlement below 5 becu is virtually unattainable, not least because it would be hard to argue that a lower figure was consistent with the objective of increasing the Community's R and D effort. We should, however, continue, in conjunction with France and Germany, to argue for a maximum figure at that level. We shall have done well in negotiation if, whenever the Programme is adopted, its total cost is significantly under 5.5 becu. In short, 5 becu should be our objective, with only the smallest margin of negotiating manoeuvre for Mr Pattie.

9. Applicability of the Fontainebleau mechanism. The spending Departments will argue that rules agreed by officials for operating EuroPes provide for the Fontainebleau abatement mechanism to be taken into account when calculating the net public expenditure cost of additional community expenditure; and that if no allowance were made for the abatement, the new Programme would lead to a reduction in public expenditure because of large enforced cuts in domestic research programmes. The Chancellor of the Exchequer will say that Ministers have not agreed any firm rules for the operation of the EuroPes system; and that he was not consulted about what he regards as the erroneous calculations set out by his officials in, eg,

PESC(EC)(85)8. He will argue, rightly, that the Fontainebleau mechanism was designed to reduce the impact on public expenditure of our contribution to the Community budget and that its effect would be dissipated if part of the abatement were used to subsidise the cost to Departments of Community R and D.

10. The distribution of the EuroPes baseline. Positions on this issue are entrenched. The Secretary of State for Trade and Industry is unlikely to agree to a new Programme which exceeds existing EuroPes provision unless the provision is reallocated; the Secretary of State for Energy is unlikely to support such a Programme if the provision is reallocated. The Chancellor of the Exchequer and the Secretary of State for Foreign and Commonwealth Affairs may support the Secretary of State for Trade and Industry's argument that it would be inequitable to determine the offsetting savings which Departments will have to find on the basis of a distribution of provisions which bears little relation to the pattern of expenditure under the new Programme. The Secretary of State for Energy may point out that any aggregate overspend on current EuroPes provision arising from the new Programme would be the result of additional expenditure for which other Departments, notably the DTI, are responsible; and that - however worthy such expenditure may be - it should not be financed at his Department's expense. It may not therefore be easy to reach agreement on a redistribution of the baseline - for which there is, in logical terms, a strong case - unless the Department of Energy were to be relieved of at least part of the consequential burden, particularly in the early years of the new Programme. The Chief Secretary to the Treasury will wish to comment; and may suggest that a partial solution may lie in the permitted carry-over to 1987 of savings totalling some £8 million in the Department of ~~Energy~~ Energy's EuroPes baseline. Other Departments (with the exception of the DTI) would no doubt bid for a share of any extra provision; but their difficulties are small compared with those of the Department of Energy.

11. The underlying problem is the effect of the operation of EuroPes. Clearly it is sensible to have an internal system designed to ensure where possible that Community expenditure in the United Kingdom displaces expenditure which would otherwise have been undertaken by the United Kingdom public authorities. The difficulties arise when it becomes necessary to consider a change in the shape and scale of some Community expenditure programme. By definition the EuroPes provision available will be inadequate, and the only way to prevent domestic difficulties would be to ensure that the additional Community expenditure does not happen. If this result cannot be achieved, then either there has to be a charge on the Reserve, or Departments have to make offsetting savings. In the present context an increase in Community expenditure relevant to industries sponsored by the DTI is in prospect; as the Secretary of State's minute of 18 November accepts, some at least of this expenditure can reasonably replace DTI funding which would otherwise have been provided. So far as the Department of Energy is concerned, however, there seems to be no prospect of cutting back on Community expenditure to which the Department attaches lower priority (and for which it has hitherto had EuroPes provision), so that the effect of applying the current rules would be to cut back on domestic R and D to which the Department do attach importance. (Energy have no flexibility to find offsetting savings elsewhere, since their total programme contains only domestic housekeeping, R and D, and payments to redundant mineworkers.) So far E(RD) has not been able to establish a rational basis for cutting back one Department's R and D programme for the benefit of another's, although the possibility of such reallocation will remain a theme in that Committee's work. But the effect of EuroPes in the context of the Community R and D Framework will be seen by the Department of Energy as imposing an arbitrary reduction in their domestic programme for the benefit of other Departments, for reasons which have nothing to do with them.

HANDLING

12. You might invite the Chairman of the Steering Committee on European Questions (Mr Williamson) to introduce E(A)(86)54 very briefly, before inviting the Secretary of State for Trade and Industry to speak. He may ask the Minister of State, Department of Trade and Industry (Mr Pattie) to describe the prospects for the negotiations in more detail. You might then try to reach conclusion on the two significant points of disagreement on public expenditure (paragraphs 9 and 10 above). The Foreign and Commonwealth Secretary, Ministers of spending Departments and the Chief Secretary will want to comment.

Cabinet Office

19 November 1986



MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON ECONOMIC AFFAIRS (E(A)), 11.45 am, 20 NOVEMBER 1986

Item 1: Public Expenditure treatment of Regional Fund receipts by privatised industriesChairman's brief

References: Chief Secretary's minute of 13 November to the Prime Minister
Secretary of State for the Environment's minute dated November 1986 to the Prime Minister
Secretary of State for Energy's minute of 19 November

CONCLUSIONS

1. You may be able to conclude that:

- i. The Government's existing policy on the public expenditure treatment of European Regional Fund receipts by privatised industries remains valid; and there is no case for a general waiver of the rule that Departments should find offsetting savings.
- ii. The Government's commitment to some programmes (such as the Mersey Basin clean-up programme) may be such as to cause difficulties if the programme were to be checked solely because of privatisation: in such cases the public expenditure treatment of European Regional Fund receipts will need to be decided by Ministers ad hoc.
- iii. Consideration should be given at official level to ways in which we might seek to ensure that sufficient, high quality, public sector projects are found to enable the United Kingdom to continue to fill its Regional Fund quota as the privatisation programme gathers further momentum.

BACKGROUND

2. The European Regional Fund. This Fund was set up largely as a result of United Kingdom pressure at the time of accession, in order that there should be a Community instrument which would bring financial benefits to the United Kingdom and help to offset our large net contribution to the Common Agricultural Policy (CAP). In 1985 Regional Fund commitments to the United Kingdom were £345 m (24% of total commitments).

3. Each member state is allocated a quota range for commitments. A member state is guaranteed commitments of at least the minimum of its quota range provided that it submits enough applications which satisfy the criteria laid down in the regulation. (Other things being equal, it will get more than its minimum share if it submits more good quality applications than other member states.) In 1985 the United Kingdom's quota range was 21.42 - 28.56%. From 1986, following the accession of Spain and Portugal, it is 14.5 - 19.31%.

4. Public expenditure treatment. Existing policy on receipts for the European Community is to:

i. maximise the United Kingdom's share of receipts without compromising budget discipline;

ii. use the receipts, as far as possible, to finance existing public expenditure programmes (thereby reducing public expenditure, after taking account of the Fontainebleau abatement system, by 34% of the receipts) and not additional programmes (which could, of course, be useful investments but would increase public expenditure, after taking Fontainebleau into account, by 66% of the receipts). A consequence of this policy is that a Department which wants to use Regional Fund receipts to finance an additional public sector programme or to pass the receipts to a private sector body is normally expected to find offsetting savings.

5. British Telecom. When British Telecom (BT) was privatised it was agreed that the normal rules should apply: ie the Department would need to find offsetting savings for any Regional Fund money passed to BT. It was, however, agreed that offsetting savings would not be required for payments made to BT from grants agreed before privatisation.

ISSUES

6. The Secretaries of State for Energy, the Environment and Transport believe that the policy should be changed to allow newly privatised industries to receive Regional Fund money without a requirement that the sponsoring Department find offsetting savings - which they will not be able to afford. The Treasury see no case for change. The arguments are set out in paragraphs 16-28 of the Note by Officials attached to the Chief Secretary's minute of 13 November. The main arguments advanced are as follows:

i. Take-up of Regional Fund. Receipts by industries which have been or are about to be privatised account for around 30% of total United Kingdom receipts, amounting to about £67 m in 1985/86. Spending Departments think it will be very difficult to find enough good quality public sector projects to make up the shortfall after privatisation - all the more so, the Secretary of State for the Environment argues, because of the present system of controls on local authority capital spending. Unless some mechanism exists to allow the rules on finding offsetting savings to be waived, receipts will fall and we shall fail to reach our quota range. The amount of receipts at risk would rise if, as has been suggested, the Commission declines to make grants to local authority airports and bus companies unless the BAA and the NBC continue to receive grants after privatisation.

The Treasury considers that Departments must do their best to find good projects and that they can put in a bid for additional PES funds if they feel that exceptional treatment would be justified. The Treasury does not believe that the argument about local authority spending control is relevant.

ii. If we cannot fill our quota, we should be giving up a real income transfer to the United Kingdom paid by the taxpayer of other member states equivalent to about 34% of the Regional Fund grants forgone. Departments - but not the Treasury - argue that the benefit to the economy from this may be greater than the loss associated with the corresponding increase in public expenditure equivalent to 66% of the Regional Fund grant.

iii. Account needs to be taken of the benefits to the Exchequer of Regional Fund receipts, in the form of flowbacks such as increased corporation tax receipts and lower unemployment benefits; and of the greater sales proceeds resulting from the inclusion in privatisation prospectuses of Regional Fund commitments.

The Treasury argue that taking account of flowbacks will be tantamount to extra reflation.

iv. Special problems arise over water privatisation, in particular over expected receipts from the Regional Fund of about £500 m for the North West Water Authorities' £1.7 billion project to clean up the Mersey Basin. The Department of the Environment say they will not be able to find this money by offsetting savings and if the Regional Fund money is as a result not accepted, the project will be delayed and/or water charges put up. They do not believe that this would be an acceptable consequence of the Government's privatisation programme.

7. The public expenditure decisions announced in the autumn statement may encourage Departments to see further ways of evading the planning totals. It is important, therefore, not to make any change in the public expenditure rules that might open the way to this. The Committee may, however, consider that the Government's public commitment to some programmes - such as the Mersey Basin clean-up programme - is such that difficulties would arise if the programmes were checked solely because of privatisation; and that it should be possible to consider such cases on merits on an ad hoc basis, and not necessarily only as part of the annual public expenditure survey process. The Committee may also consider that further work should be carried out at official level to seek good quality, eligible projects which might wholly or partly replace grants for privatised industries.

HANDLING

8. The Chief Secretary to introduce his letter and the accompanying notes by officials. He will argue for no change in the existing arrangements. The Secretaries of State for the Environment, Energy and Transport will want to argue for a change, concentrating respectively on the problems the existing policy may cause for water, gas, and BAA privatisation. The Secretary of State for Wales and the Secretary of State for Employment (who is concerned about the impact on tourism of any check in the programme for cleaning up British beaches) may want to support the Secretary of State for the Environment over water.

Cabinet Office

19 November 1986

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PS/ Secretary of State for Trade and Industry

19 November 1986

A C S Allan Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

NBM

Dear Sir

ERDF : REGIONAL DEVELOPMENT PROGRAMME

file on B/UP

Thank you for your letter of 7 November about the note of procedure used in preparation of the UK Regional Programme 1986-90, which was sent to David Norgrove under cover of our letter of 22 October.

You may recall that I said in that letter that we had not had the opportunity to clear the note with other Departments and indeed we are compiling the definitive version of the note in the context of the enquiry which is being carried out into this issue at the Prime Minister's request. We shall be sending Treasury officials a copy of this in draft but officials have already been in touch about the points to be covered. We are taking similar action with all other Departments involved.

It is very helpful to have your comments, which, with the exception of consultation on the New Community Instrument in a letter from the DTI of 27 June, accurately reflect the Treasury involvement and the state of our consultation with you. We will ensure that the final note fully reflects these and we will certainly ensure that you are fully consulted at any later stages of this exercise and on future exercises of this kind.

I send copies of this letter to David Norgrove (No.10) and to the Private Secretaries to the Secretaries of State for Environment, Transport, Health and Social Security, Wales, Scotland and Employment and the Chancellor of the Duchy of Lancaster.

Yours sincerely

C Bradley

CATHERINE BRADLEY
Private Secretary

JFLACQ

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BICENTENARY

Budget: EURO POL. P433.



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PRIME MINISTERCCPC
Bluep**EC RESEARCH AND DEVELOPMENT FRAMEWORK PROGRAMME**

We are to discuss at E(A) tomorrow, our approach to Community negotiations on the Framework Programme for Research and Development and its budgetary implications (E(A)(86)54 refers).

The report from Cabinet Office of discussions at official level includes the proposal that existing EUROPEs provision should be re-allocated among Departments. The main gainer would be the Department of Trade and Industry and my Department would be the main loser. Under the EUROPEs system Departments have to find savings to offset the UK contribution to increased EC R&D expenditure above their baseline provision - changes in the baseline are not therefore a matter of detail.

There is no domestic expenditure in my programmes which I am ready to cut to make way for Community R&D. In accordance with the logic of the existing EUROPEs system, I have already concluded that in negotiations over the proposed Framework Programme, the UK should insist on an energy element (other than that carried out at the JRC which is under separate review) no higher than 1095 mecu compared with the Commission proposal of 1370 mecu. As the EUROPEs baseline is at present distributed, this would obviate the need for me to find offsetting cuts in my domestic programme.

The re-allocation of the baseline proposed by Cabinet Office officials alters the picture. The highest energy element in the Framework Programme which would not require cuts in domestic programme would then be about 680 mecu. Despite, therefore, the difficulties of negotiating such a figure, an energy element no higher than 680 mecu would have to be an essential part of our negotiating position.

I believe therefore that the proposed re-allocation of EUROPEs provision would be an obstacle to settling our position for negotiations with Community partners and would undermine the more disciplined approach to Community expenditure which we have been



trying to achieve in Whitehall. I do not see how Departments can sensibly plan ahead if EUROPE'S provisions are subject to sudden change or, if, when they have reduced EUROPE'S bids to a minimum, they are called upon to make further cuts to offset increased expenditure on programmes in other areas.

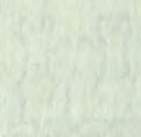
Beesley

SECRETARY OF STATE FOR ENERGY

19 November 1986



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PRIME MINISTER

19 November 1986

E(A) MEETING, 20 NOVEMBER

EUROPEAN COMMUNITY R & D FRAMEWORK PROGRAMME

Since taking up this post, I have been struck by how much of my time has been spent on international - particularly Community affairs. As you may know, during the UK Presidency, I represent the UK at the Research Council while Mr Pattie has the Chair. I shall be attending EA tomorrow but it may be helpful to let you know my views in advance.

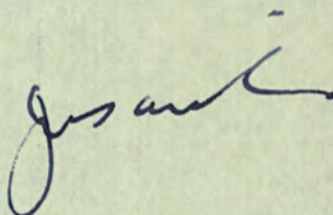
2. In brief I agree with the conclusion reached by the new Ministerial Committee on R & D (E(RD)), namely that a Community R & D Framework Programme at 5.0 becu can be defended in scientific and technical terms, provided that it gives increased emphasis to promoting industrial competitiveness. This is an essential point and one which I think we have a better chance of achieving while we have the Chair. Europe must come closer together technologically if we are to compete at all with the US and Japan. The Community Framework, coupled with other collaboration such as EUREKA, is a means to that end. I believe therefore that it is worthwhile trying to get an agreement.

3. Whether we will be able to reach agreement on a Framework at no more than 5 becu is a judgement which we will be better able to make after Mr Pattie has completed his planned round of bilaterals. It will not be easy. If we had to settle slightly above 5 becu, then we would obviously try to make sure that those extra resources do give us value for money in technical terms. A decision on whether this would be worthwhile should probably be taken closer to the Research Council when we can see more clearly whether further delay would lead to a higher or lower figure. In the meantime Mr Pattie needs some room for manoeuvre.

4. The question of redistribution of EUROPE'S is difficult. Since the

available provision will not cover a 5 becu Programme, there must be some losers. Even after redistribution DTI will be a major contributor to the deficit, which is right given the industrial emphasis. But the new pattern would, in my view, be more equitable even though it will bear hard on Department of Energy.

5. I hope therefore that tomorrow EA will be able to conclude that the UK should go for an industrially oriented Framework at 5 becu, while allowing a small margin of manoeuvre for Mr Pattie; and that in principle at least some redistribution of EUROPES would be equitable in light of the priority we accord to the industrial dimension.

A handwritten signature in blue ink, appearing to read 'John W Fairclough', is centered on the page.

JOHN W FAIRCLOUGH
Chief Scientific Adviser





BM

10 DOWNING STREET
LONDON SW1A 2AA

19 November 1986

From the Private Secretary

THE INTERNAL MARKET

The Prime Minister has considered the Foreign Secretary's minute of 18 November suggesting ways in which we could unblock various measures relating to the internal market in advance of the Internal Market Council on 1 December.

Bf|| The Prime Minister is content with the course proposed and agrees to send a message to her European colleagues in the terms of the draft attached to the Foreign Secretary's minute. This may, therefore, be despatched.

I am copying this letter to the Private Secretaries to the Secretary of State for Trade and Industry, to the other members of OD(E), to the Secretary of State for Transport and Sir Robert Armstrong.

(C.D. POWELL)

C.R. Budd, Esq.,
Foreign and Commonwealth Office

LB



CCBG
VUP

CONFIDENTIAL

PRIME MINISTER

E(A), 20 NOVEMBER - EC R&D FRAMEWORK PROGRAMME

We are due to discuss with colleagues in E(A) on Thursday our attitude to the proposed EC R&D Framework Programme. This proposal poses substantial domestic public expenditure problems for my Department, which we need to resolve now, so that we can decide on our national and Presidency position in advance of the 9 December Research Council.

2 The European Secretariat's paper (E(A)(86)54) discusses the main issues in terms reflecting the differing views among Departments about both substance and tactics for the Council. I think it is however important that you and colleagues should be aware, before the meeting, of how difficult these decisions are for my Department. My main concerns are with redistribution of the EUROPE'S baseline, and with the size of the Framework Programme. The wrong decisions on either would present me with severe public expenditure problems.

Redistribution

3 The allocation of EUROPE'S baselines was set in 1984. However as the European Secretariat's paper states the new Framework Programme will involve a completely different pattern of spend. Expenditure under even a 5 becu programme will significantly exceed baselines, requiring offsetting savings on Departments' budgets. The issue of redistribution is essentially a question of how this should be allocated amongst Departments.

DWLCFE



CONFIDENTIAL

4 Redistributing baselines would mean that the overspend would be allocated pro rata to expected expenditure on programmes. This approach is logical and equitable, and is fully supported by the Treasury as well as ourselves. Since in line with the Government's negotiating objectives, the new Framework Programme will concentrate more on industrially relevant programmes, DTI would still be left with the greatest overspend over the 5 year programme. While I recognise that the Department of Energy would face particular difficulties in the early years, there can be no argument for allowing them to retain 37 per cent of the baseline against an expected share of the new Programme of only 23 per cent, with DTI holding only 19 per cent compared with an expected share of 53 per cent. This would distort the disciplines that EUROPES is intended to impose on all Departments, and have the paradoxical effect of forcing DTI to argue, against current policy, for reducing the industrial relevance of the eventual programme in order to reduce our liability to find offsetting savings. A failure to redistribute the baselines would leave DTI with a further bill of over £200m on a 5 becu programme with virtually no cost at all to any other Department. This would necessitate a major cut back in our support for domestic R&D where the budget already shows no increase in real terms over the PES years.

5 I am afraid that I could not, therefore, accept even a 5 becu programme at the 9 December Council unless E(A) takes a firm decision to redistribute on the basis set out at Annex B of the Secretariat paper.

DWLCFE



CONFIDENTIAL

A programme above 5 becu

6 The Secretariat paper recognises that settlement at 5 becu will be difficult to achieve at the Council. Some colleagues may therefore argue that we should be prepared to go somewhat beyond, to get a settlement. This would provide even more difficulties for my budget which I could not countenance. My firm view, which I understand the Treasury share, is that we should not go higher than 5 becu. In any case I am not convinced that the UK Presidency will provide an opportunity for the lowest possible settlement on a Framework Programme, recognising the pressures that our Presidency inevitably places on us to compromise. And so long as France and Germany support us, future Presidencies will not readily see off the arguments for a smaller programme, as budgetary constraints become more apparent.

Conclusion

7 For these reasons, I consider it essential that E(A) decides now on a redistribution of EUROPE'S baselines, as set out in the Secretariat paper. Without this I could not agree even to a 5 becu programme at the 9 December Research Council. I also believe that we should confirm that 5 becu remains our negotiating limit, even if this proves insufficient to achieve a settlement. We need to settle these questions quickly, so that Geoffrey Pattie knows where he stands in his bilateral Presidency contacts with other Member States later this month.

DWlCFE



CONFIDENTIAL

8 I am copying this to other Members of E(A), to Geoffrey Howe and to Sir Robert Armstrong.

P.C.

PAUL CHANNON

18 November 1986

DEPARTMENT OF TRADE & INDUSTRY

DW1CFE



CCP 1

Yes and Prime Minister
 Agree to send a
 message to EC Heads of
 Government, to urge them
 to break the log-jam
 on the internal market
 by 1 December? The text of
 the message (flagged) is
 unexceptionable.

PM/86/071

THE PRIME MINISTER

The Internal Market

1. We have made the internal market a main priority of our Presidency. We have so far succeeded in securing the adoption of fourteen measures but decisions on others are blocked because of outstanding objections by member states. Few of these objections are significant on their own but, taken together, they risk holding up agreement on another thirteen proposals.

CDP
18/11

2. We discussed this problem in OD(E) last week. Paul Channon and Alan Clark have now developed an initiative to unblock progress in the Internal Market Council. The package, which has the support of Jacques Delors and Arthur Cockfield, concentrates on measures which are close to agreement. It would require some shift in position by virtually all member states. But each would see that it was not alone in having to make a move. On some issues, we would have to move from our current position. But it was agreed at OD(E) that we should be ready to do so to reach an

/overall



overall agreement, and given that no very important UK
/ interest is affected. I enclose a copy of the list of the
measures on which we shall be concentrating with an
indication of the kind of shift of position which needs to
be made to get agreement.

3. Alan Clark and his officials will be visiting Community
capitals to try to get agreement to our initiative before
the 1 December Internal Market Council. The only way we
shall make progress, however, is if other Governments are
willing to give effect to their political commitment to make
the internal market a top priority and to stick to 1992 as
the target date for its completion. It was Heads of
Government who first took the decision to try to unblock
progress on the internal market and it may well require
their intervention to get decisions taken now. I therefore
hope that you could agree to send a message to all EC
Community Heads of Government asking them to give the
necessary political direction to break the deadlock. I
/ enclose a draft in the form of a telegram to our posts.

4. In order to have a real prospect of success, our
initiative has been confined to those items which fall to be
decided in the Internal Market Council on 1 December.
Michael Jopling is considering separately how best to make
progress on these items on the internal market agenda which
are due to be decided at the November and December
Agriculture Councils. John Moore, as you know, is working
on those Member States who blocked agreement on air
transport at the Transport Council last week but he would
find it helpful if you could refer to transport in your
message to Poul Schluter, whose Aviation Minister has taken
a more unhelpful line than we might have expected.

/We



5. We shall certainly wish to raise Internal Market issues, including Transport, at the European Council. The exact terms in which we do so must depend on what we achieve at the 1 December Internal Market Council. I shall have some ideas to put to you on this.

6. I am copying this minute to the Secretary of State for Trade and Industry, other members of OD(E), the Secretary of State for Transport and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

18 November 1986

CONTENTS OF THE PROPOSED INTERNAL MARKET PACKAGE

COUNTERFEIT GOODS. The proposed Council Regulation lays down measures to prevent the importation of counterfeit goods (eg cheap and unsafe car spares). The UK strongly supports the proposal, but has an outstanding difficulty over the allocation of resources to implement it. Italy has a problem over the Community's competence to conclude agreements with third countries.

FRONT ROLL-OVER PROTECTION STRUCTURES (ROPS) ON NARROW TRACK

WHEELED AGRICULTURE OR FORESTRY TRACTORS. The draft Directive is one of a series relating to the safety of agricultural and forestry tractors and will establish common standards for roll-over protection on narrow tractors (there is similar provision for normal tractors under existing directives; narrow tractors are particularly vulnerable to rolling over). We are trying to find a satisfactory solution to Spanish difficulties over the procedure for testing whether structures meet the new standards.

THE PHARMACEUTICAL PACKAGE. The package consists of four draft Directives and a recommendation laying down procedures governing the marketing and testing of human and veterinary medicines. They extend existing Community rules and bring them up to date with recent developments in biotechnology. Two separate sets of problems have arisen:

Two directives and the recommendation

The Germans and Greeks are unhappy with the proposed committee system which they believe would give the Commission too much power (we are content with it). However, the Germans and Greeks have recently hinted that they could accept a compromise.

Remaining Two Directives

Spain objects in principle to the protection against copying which these Directives would give to new and innovative medicines. However, Spain is out of step with the rest of

the Community (including the UK) and our latest information suggests that they may be susceptible to pressure.

GOOD LABORATORY PRACTICE. The proposal would require laboratory tests on chemical substances (carried out by manufacturers and importers to evaluate health and environmental risks) to conform to internationally agreed principles. We are close to agreement, and await the submission of a Commission document to deal with German problems over the freedom of member states to conclude agreements with third countries.

NOISE OF DOZERS AND LOADERS. The proposal sets noise limits for hydraulic diggers and excavators. The Danes are holding out for stricter controls than the directive specifies and will be pressed to concede.

INDUSTRIAL (FORKLIFT) TRUCKS. The proposal would establish common construction and safety standards throughout the Community for industrial trucks (eg forklifts) and tow tractors. It has been blocked on the question of a standard pedal layout because of German concern to protect their domestic producer. We are aiming for a solution to their problem which does not create difficulties for the UK (as the other major European producer).

AMENDMENTS TO THE SUPPLIES DIRECTIVE. The proposals would amend the existing directive on public procurement (which aimed to encourage more open and competitive tendering procedures). The intention is to tighten up compliance, improve the transparency of tendering procedures and promote the use of European standards. A substantial number of detailed points remain to be resolved, and to ensure that this gets done by the end of the year some further political impetus would be helpful.

STANDARDISATION IN THE FIELDS OF INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS. The intention is to define standards for public purchasers in member states to use when buying IT and telecommunications equipment. The UK and Germany had reservations

about the original text. The UK (with partial German endorsement) has been negotiating a satisfactory compromise with the Commission. We may need to put pressure on Germany to accept it.

LEGAL PROTECTION OF MICROCIRCUITS. The proposal would require all member states to enact national laws protecting original designs for the internal layout of semi-conductor integrated circuits. We have been arguing for stricter controls on copying than other member states are prepared to accept, but could accept a statement in the Council minutes calling on the Commission to reopen the question if problems develop in practice.

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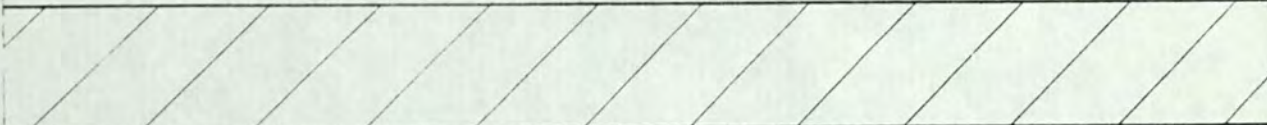
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9 **INFO PRIORITY UKREP BRUSSELS**
10
11 **EC INTERNAL MARKET: UK PRESIDENCY INITIATIVE**

12
13 **1. In a Presidency initiative to reach agreement at the Internal**
14 **Market Council on 1 December on some 13 blocked items in the**
15 **internal market action programme DTI Ministers will be visiting a**
16 **number of Community capitals in the next fortnight. The visits**
17 **will focus on the Member States with most outstanding reserves on**
18 **the 13 items. Mr Alan Clark, Minister for Trade and Chairman of**
19 **the Internal Market Council will be visiting Bonn, Rome and**
20 **Copenhagen on 26/27 November. Lord Lucas, Parliamentary Under**
21 **Secretary for Trade and Industry, and Mr Clark's Deputy at the**
22 **Internal Market Council will be visiting Athens and Madrid**
23 **earlier that week. Mr Channon will also have discussions with**
24 **Bosson at the Anglo-French Summit following Mr Clark's meeting**
25 **with Bosson here on 6 November which established that the French**
26 **are unlikely to have problems on more than a couple of items in**
27 **the package.**

28
29 **2. The Presidency initiative was foreshadowed by Mr Clark at the**



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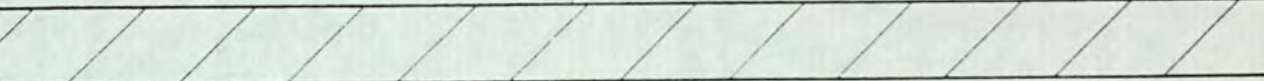
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1 <<<<
2 Internal Market Council on 3 November (UKRep telno 3687) and is
3 being launched with the wholehearted support of the Commission.
4 Senior Commission officials will therefore accompany Mr Clark and
5 Lord Lucas.
6
7 3. Senior DTI officials will also be visiting the Hague and
8 Brussels as the preceding and succeeding Presidencies with whom
9 we have worked closely on the internal market programme.
10
11 4. To get decisions taken at the 1 December Internal Market
12 Council will require a political effort by all member
13 governments. The rate of progress in the Internal Market Council
14 has been disappointingly slow, in part because Ministers who
15 attend the Council frequently have instructions which give them
16 little or no negotiating flexibility even on relatively minor
17 issues. This reflects the fact that for the most part they do
18 not have direct Ministerial responsibility for the proposals
19 under discussion.
20
21 5. Following very thorough preparation throughout our Presidency
22 in COREPER and the working groups we expect that 13 measures are
23 capable of resolution at the 1 December Internal Market Council.
24 In virtually every case agreement will require no more than a
25 couple of Member States to lift essentially non vital objections.
26
27 6. We therefore propose to proceed on the basis of an overall
28 political package involving the 13 measures to be adopted at the
29 1 December Council. The essence of the approach would be a
30 political commitment by all concerned to lift their remaining
31 reserves: each Member State would surrender one or more
32 reservations in exchange for other Member States doing the same.
33
34 7. To improve the prospects of political commitment we are



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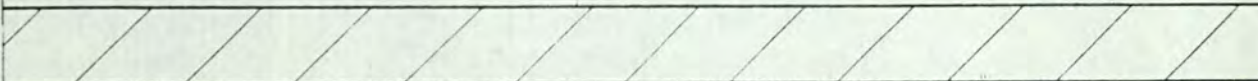
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1 <<<<
2 seeking the intervention of other Heads of Government. MIFT
3 contains a message from the Prime Minister. Grateful if you
4 would deliver it together with the list of measures (my second
5 IFT) as soon as possible. Please also make sure that the list of
6 measures in the package is given to the Ministry with overall
7 responsibility for the internal market and make clear that
8 although agreement is near on some of these items past experience
9 suggests clear political instructions may be needed to ensure that
10 all outstanding reserves (even on relatively minor details) do
11 not block agreement at the last minute.
12
13 8. The package covers items on the agenda on the Internal Market
14 Council only. Items which fall to other Councils (notably
15 Agriculture and Transport) are being handled separately.
16
17 9. In handing over the message you should also make clear that
18 this is a Presidency initiative with strong Commission support
19 designed to give effect to the political commitment of all member
20 governments to complete the internal market by 1992. All member
21 states are being asked to make a serious effort. None is being
22 asked to sacrifice a very important interest. In this way we
23 hope to settle these issues at the 1 December Internal Market
24 Council so that they do not have to be raised at the European
25 Council.
26
27 10. Paris: Please explain that Mr Channon will wish to review the
28 prospects with Bosson at the Summit on 21 November, although as
29 Mr Clark explained to Bosson here on 6 November we do not
30 consider France to be one of the problem member states.
31
32 11. Bonn, Copenhagen, Rome: Please explain that Mr Clark hopes to
33 be visiting them on 26 November (Bonn, Rome) and 27 November
34 (Copenhagen) to see Schlecht, Fabbri, Wiljhelms (and Tygesen).

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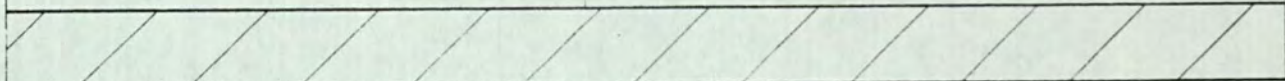
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3	12. Brussels, the Hague: Please explain that we will be keeping
4	them in close touch even though they do not have substantial
5	difficulties with the proposed package.
6	
7	13. Madrid, Athens: Please explain that Lord Lucas, Mr Clark's
8	Deputy on internal market matters, who will be attending the
9	Council, hopes to visit them at the beginning of the week on
10	24 November.
11	
12	14. Dublin, Lisbon, Luxembourg: Please explain that they are not
13	included in the list of visits because of our assessment that
14	they do not have substantial difficulties with items in the
15	package, but we count on their continuing support in the Council.
16	
17	15. See MIFT
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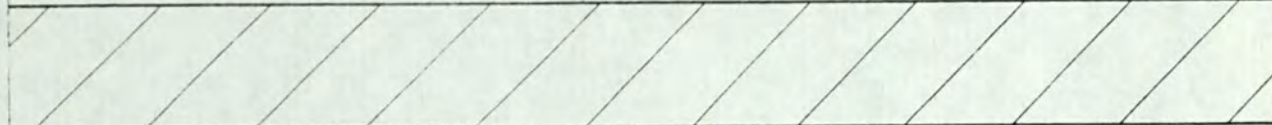
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OUT TELEGRAM DRAFT MESSAGE

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8	AND TO IMMEDIATE OTHER EC POSTS
9	INFO PRIORITY UKREP BRUSSELS
10	
11	MIPT: THE INTERNAL MARKET: UK PRESIDENCY
12	
13	1. Following is message from the Prime Minister:
14	BEGINS
15	Dear
16	We are all committed, under the Single European Act, to complete
17	the internal market by 1992. We reaffirmed that commitment at
18	the European Council in the Hague in June and underlined the
19	importance of further speeding up decision-making on the action
20	programme prepared at the end of the Dutch Presidency.
21	2. Although a number of decisions have been taken, progress
22	overall remains disappointingly slow. Of course there are
23	difficult issues which have to be resolved, but on many of the
24	subjects now before the Council decisions remain blocked because
25	of relatively minor objections from one or other member state.
26	3. Much of the reputation of the Community has been staked on
27	making progress towards the single large market which is vital to
28	our industry and the creation of jobs. If we are not to lose
29	impetus I am convinced that many more decisions need to be taken



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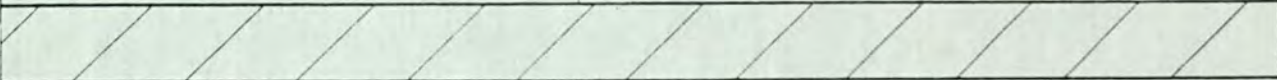
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1 <<<<
 2 before the end of the year.
 3 4. The Internal Market Council has a particularly important role
 4 in ensuring progress and I believe that agreement is possible on
 5 a significant number of measures at its 1 December meeting, if we
 6 are all prepared to renew our political commitment to overcoming
 7 the outstanding obstacles. I am therefore sending you with this
 8 letter a note of measures which are capable of early agreement
 9 given the kind of effort to which we committed ourselves at The
 10 Hague. We cannot allow the pace of decision to be delayed by
 11 technical objections. I propose that each of us should be
 12 prepared to give up our reservations on individual proposals
 13 listed in the attached note in exchange for others doing the
 14 same. I do not believe that this would involve the sacrifice of
 15 important interests by any of us.
 16 5. We shall be following up my letter with discussion with your
 17 ministers and officials. But I want to ask you for your support
 18 for this approach. Without a clear political lead of this kind
 19 we shall not make the progress to which we are all committed and
 20 which industry and the general public expect.
 21 Yours sincerely
 22 Margaret Thatcher *Annal*
 23 ENDS
 24 6. Copenhagen only: Please add an extra penultimate paragraph as
 25 follows:
 26 BEGINS
 27 I should also like to seek your support on one other internal
 28 market issue of immediate concern - air transport. If the
 29 Community is to make a real impact on people's lives it cannot
 30 allow the European airlines to go on shutting out competition and
 31 keeping the availability of cheaper fares unjustifiably
 32 restricted. I was very disappointed to see that at the Transport
 33 Council on 10-11 November Denmark joined with those member states
 34 who were unwilling to agree even to a first step which would



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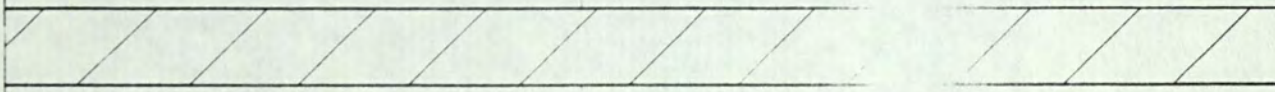
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2	bring some real benefits. May I ask you to take a look at this
3	yourself in the hope that we can reach agreement in the very near
4	future.
5	ENDS <i>ms</i>
6	7. See MIFT.
7	
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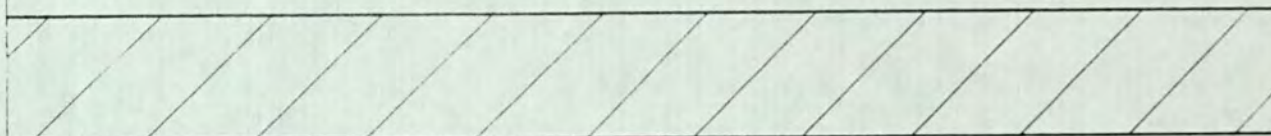


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AND TO	8	AND TO IMMEDIATE OTHER EC POSTS
	9	INFO PRIORITY UKREP BRUSSELS
	10	
	11	MY 2 IPTS: EC INTERNAL MARKET: UK PRESIDENCY INITIATIVE
	12	
	13	1. Following is text of Annex to Prime Minister's message.
	14	BEGINS
	15	INTERNAL MARKET ACTION PROGRAMME
	16	(Numbers in parenthesis are those in the programme submitted by
	17	the Netherlands Presidency to the Internal Market Council on
	18	23 June, Document Number 7724/86).
	19	
	20	(7) COUNTERFEIT GOODS
	21	Regulation introducing measures to prohibit the release of
	22	counterfeit goods for free circulation within the Community.
	23	
	24	(44) FRONT ROLL-OVER PROTECTION STRUCTURES (ROPS) ON NARROW-TRACK
	25	WHEELED AGRICULTURAL OR FORESTRY TRACTORS
///	26	Directive to establish common standards for protection structures
//	27	mounted in front of the driver's seat for certain classes of
/	28	vehicle. It is one of a series of directives relating to the
	29	safety of agricultural and forestry tractors.



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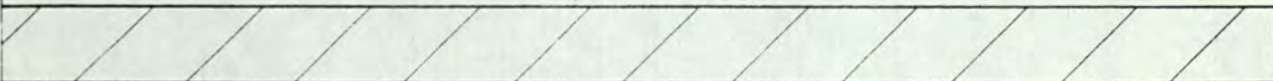
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1	<<<<
2	(69) to (73) THE PHARMACEUTICAL PACKAGE
3	Package of four Directives and a Recommendation to lay down or
4	amend existing procedures governing the marketing and testing of
5	human and veterinary medicines.
6	
7	(74) GOOD LABORATORY PRACTICE
8	Directive specifying measures to ensure that laboratory tests
9	carried out by manufacturers and importers to evaluate the
10	possible risks to human health and the environment of chemical
11	substances they wish to place on the market are performed in
12	accordance with internationally agreed principles.
13	
14	(78) NOISE OF DOZERS AND LOADERS
15	Directive providing for noise limits to be implemented for
16	hydraulic dozers, loaders, excavators and excavator-loaders.
17	The proposal is part of the Community's programme to eliminate
18	technical trade barriers in construction plant and equipment, and
19	is also a part of the Community's programme on the environment.
20	
21	(80) INDUSTRIAL TRUCKS
22	Directive seeks to establish common construction and safety
23	standards throughout the Community for industrial trucks (eg
24	fork lift trucks) and tow tractors.
25	
26	(86) IMPROVEMENT OF DIRECTIVES ON PUBLIC PROCUREMENT (SUPPLIES)
27	Directive modifying the existing Community Directives, including
28	provisions on deadlines, standards, coverage and pre-publication
29	of purchasing programmes.
30	
31	(120) STANDARDISATION IN THE FIELDS OF INFORMATION TECHNOLOGY AND
32	TELECOMMUNICATIONS
33	Directive concerned with the identification of standards for
34	public purchasers in member states when buying IT and

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	2		telecommunications equipment.
	3		
	4		(127) LEGAL PROTECTION OF MICROCIRCUITS
	5		Directive requiring member states to enact national laws
	6		protecting original designs for the internal layout of
	7		semiconductor integrated circuits against unauthorised copying.
	8		
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PRIME MINISTER

PUBLIC EXPENDITURE AND THE EUROPEAN REGIONAL DEVELOPMENT FUND

We are to discuss the treatment of ERDF receipts for privatised industries at E(A) on Thursday on the basis of the Chief Secretary's minute to you of 13 November. ~~ATTACHED~~

My purpose in this note is to inform colleagues of the widespread damage which the present public expenditure treatment of ERDF receipts could do if applied inflexibly to privatised industries; to report briefly on how the policy generally is affecting local authorities; and to offer some suggestions. I am sure that we need to solve the whole question of the handling of ERDF as it applies to both privatised industries and local authorities, before it causes us unnecessary risk of embarrassment and damage to our policies. The main facts are that:

- i. Industries which have been or are to be privatised now account for almost one-third of the UK's share of the ERDF;
- ii. In England at least local authority applications for ERDF grants are falling rapidly as the capital control system bites harder. This is because they do not give sufficient priority to them in the use of the scarce capital allocation. The number of applications was almost halved between last year and this and fell by 40% in value. The importance of bids from privatised industries therefore increases;
- iii. If the UK does not put enough bids in to take up its share of the ERDF, other member states will step in. The UK's deficit on the European Community budget (even after the Fontainebleau rebate) will increase.



More generally, the credibility of our water privatisation policy would be undermined if it were perceived that as a direct result ERDF assistance were cut off (or, alternatively, arbitrary and damaging cuts were sought from the remainder of my Department's expenditure programme).

In particular, my predecessors have initiated a massive programme for cleaning up the Mersey. The North-West Water Authority will contribute a substantial amount. Over the life of the project, ERDF grant of some £500m will be attracted to it. Without the grant, the time-scale will be extended or water charges will have to be substantially raised. We will be open to most damaging criticism from local as well as European interests if we were to withdraw support now. The attractiveness of the Water Privatisation Bill could also be seriously impaired.

The floatation price we could obtain for the water service PLCs would be reduced if ERDF grant is not going to be available. Or, in other words, the more we can honestly look forward to in a prospectus for sale by way of ERDF grant, the more we can expect the sale proceeds to contribute to the Exchequer.

The paper which is covered by the Chief Secretary's note, suggests (paragraph 20) that the investment which the ERDF grants support may bring in extra tax revenue and contributions from the industries and individuals concerned and reduce unemployment benefit. Against this background it would be unreasonable to expect Departments to have an arbitrary cut in their programmes on account of any ERDF grants received by industries they used to sponsor.

We need to find a more satisfactory way of channelling ERDF grants to privatised industries without undermining the general policy of non-additionality. Unless some solution is found, we cannot keep up our take from the ERDF. There simply will not be enough applicants to take the place of privatised bodies. The requirement



to make offsetting savings in public expenditure would have the effect of making the net cost of our contributions to the Community go up.

I quite understand the Chief Secretary's concern that ERDF transactions should be properly brought to account in the public expenditure arithmetic. One possible solution would be to make provision for a separate programme within public expenditure generally rather than take account in any individual departmental programme at the estimated level of receipts from the ERDF. This would preserve the principle of non-additionality in much the same way that we do now for ERDF receipts in general.

I should also refer to the impact on ERDF applications of our system of controls on local authority capital spending. It was my intention, had we overhauled the system before the Election to "top slice" the total allocation to local authorities in such a way that those local authorities which subsequently applied for ERDF grant could do so without having to find separate capital cover. Our existing commitments - including the 80% guarantee on capital allocations - make this for the most part impossible in 1987/88. We therefore continue to face considerable difficulty in squaring the need to encourage take up of ERDF grants with the need to control capital expenditure as a whole.

There is one short-term measure that will help with the worst cases which will result from this situation next year. Some £5m was deducted from the total available for local authority capital expenditure in 1987-88 before the allocation total was determined in anticipation of bids for ERDF grant from Local Authority companies. I shall therefore be able to allow payments to Local Authority companies.

The £5m is however only a palliative. The tighter we control local authority capital expenditure the less able are local authorities to submit applications for ERDF grant; and if we do not take up the grant, we increase our deficit with the Community. If we are



not to let this unsatisfactory situation persist, and expose ourselves to potential criticism and difficulty we need to decide now in the context of the future of the capital control system how this dilemma might be resolved. I hope we can discuss all these issues on Thursday.

One final point: the Water Authorities have been sufficiently worried by the Brussels embargo on water schemes, now lifted, to press me to agree that they will continue to be able to receive these grants after privatisation. I must tell them where they stand from the point of view of the United Kingdom Government.

I am copying this minute to other E(A) members and to Sir Robert Armstrong.

NR

17 November 1986

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PRIME MINISTER

Sir Robert Armstrong's minute below covers a DTI report on what went wrong with the preparation of the submission to the Commission on the ERDF, which caused so much trouble in Parliament.

Sir Robert suggests that you minute Ministers with the lessons of this episode.

Robert's report, which covers a more detailed one from the DTI, is reasonably comprehensive. But I disagree with his main conclusion. This is that material to be published by a Department, or prepared by one Department for publication by another, should be referred up for Ministerial clearance. I would put the emphasis differently. The important managerial point is that the responsible official (typically at Assistant Secretary level) should be under a duty to decide whether the material is of such sensitivity for it to be referred up to a Minister. Sometimes this will be the case, sometimes it will not. The whole thrust of the Financial Management Initiative is to delegate responsibility down. To give a blanket instruction that all relevant material has to be referred to a Minister undermines individual responsibility. *I think that might come from my cabinet conclusion*

I want to take this up with Robert, on his return from Australia, before submitting a minute for you to send to Ministers generally. But meanwhile I show you this report because ERDF receipts are on the E(A) agenda for Thursday. The matters referred to in Robert's report are not relevant to that discussion, but I thought you would want to know that your concerns about the preparation of the material on the ERDF last month have not been forgotten.

N. L. W.

N. L. Wicks

14 November 1986

CONFIDENTIAL



FROM: CHIEF SECRETARY

DATE: 13 November 1986

PRIME MINISTER

PUBLIC EXPENDITURE TREATMENT OF ERDF RECEIPTS BY PRIVATISED INDUSTRIES

Several colleagues in spending departments have suggested that we need to consider further how ERDF receipts by newly privatised industries should be treated for the purposes of public expenditure control. The attached note which incorporates contributions by officials from the Treasury and some of the other departments concerned, prepared in PESC(EC) and discussed in EQS, sets out the issues and the competing arguments.

2 I start from our objective of containing as far as possible the public expenditure impact of the Community budget, which includes not just our net budgetary contribution of approaching £1 billion a year but also spending of approaching £1½ billion a year by departments on Community-financed programmes which we would not necessarily have undertaken ourselves. That objective has led to our general policy on receipts which I can briefly summarise.

3 Our aim is:

- (a) to maximise the UK's share of receipts without compromising our posture on budget discipline and;
- (b) to use receipts to the greatest extent possible to finance existing public expenditure programmes, not additional programmes or private sector programmes.

This protects the public expenditure totals.

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4 This is the approach we have taken on receipts from the ERDF and the Social fund. Our aim is to avoid a position where receipts from these funds lead to increased public expenditure; rather we use them to help finance our own public expenditure programmes. In keeping with this, we have encouraged applications for grants for public sector projects while discouraging applications for private sector projects. If departments wish to claim ERDF grants for passing on to the private sector, the presumption is that they must protect the public expenditure totals and the taxpayer by making offsetting savings of the same amount elsewhere in their departmental programmes.

5 Before the privatisation programme got underway this approach raised no major problems. When BT was privatised, Ministers decided that the policy of private sector receipts should apply equally to their receipts. In the light of this DTI decided not to forward ERDF applications on behalf of BT but to concentrate on other projects instead. BT is therefore treated in the same way, in effect, as any other private sector company.

6 But as the privatisation programme proceeds departments have a new concern. About 30 per cent of our total ERDF receipts of some £250 million a year are currently going to nationalised industries which have been privatised or are planned to be privatised in the near future. So long as the industries are nationalised, these receipts have a favourable effect on public expenditure by helping to reduce external financing limits, although we lose 66 per cent of the receipts in the form of reduced Fontainebleau abatement the following year. After privatisation the industries will probably continue to be eligible for ERDF grants for projects which in the Commission's view would not otherwise have taken place; but unless Departments are prepared to make offsetting savings in their own programmes such grants would lead to an increase in public expenditure because there will no longer be any favourable effects on EFLs to

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set against the 66 per cent loss of Fontainebleau abatement.

7 I believe that it would be wrong to depart from our existing policy. We cannot consistently treat grants from Departments for newly privatised industries differently from grants to the existing private sector, subject to the qualification that we will not apply the offsetting savings condition to receipts already committed before privatisation (paragraph 25 of the officials' paper). Existing policy protects the public expenditure position. It applies the same control system to the payments for the private sector whether they are made direct from a Departmental budget or via the Community budget. We must not undermine that.

8 Colleagues argue that if they are expected to make offsetting savings they will not, in practice, feel able to forward applications for the newly privatised industries. They doubt that without the projects which would have been put forward by the newly privatised industries we will reach our full quota share of the ERDF receipts.

9 This is a problem which arises very largely in connection with the water industry, which currently accounts for just over 20 per cent of our total ERDF receipts. Within that over half of the receipts going to the water industry are currently destined for the North West Water Authority, which is unlikely to be one of the first candidates for privatisation.

10 I am doubtful whether the take-up problem is as marked as colleagues suggest. We can surely find other public sector projects, such as road projects and industrial support projects where Community grants would substitute for our own Regional Development Assistance. In the final analysis I believe it may be more important to keep to our public expenditure objectives than to maximise our ERDF share or to enable a particular privatised industry project to which

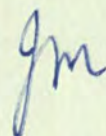
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we attach less priority to proceed at something of a discount. There seems to be an underlying assumption that it must be worthwhile incurring an extra 66 units of public expenditure in order to attract a further 34 units of net inflow into the UK. In practice I think that the trade-off between extra Community receipts and extra public expenditure is likely to be more unfavourable than that suggests.

11 I should stress however that existing policy is not totally inflexible. It is, and will remain, open to Departments to put forward additional bids in the Public Expenditure Survey or to make claims on the Reserve if they believe there to be compelling reasons for applying for a particular ERDF grant for a particular privatised industry without making an offsetting saving in their Departmental programme. As the paper brings out, the policy does not prohibit Departments from making such bids, though it does, rightly, establish a presumption against accepting them.

12 I hope that you and other colleagues will agree that our policy on private sector receipts should continue to be applied to privatised industry receipts, subject to the glosses above. If colleagues cannot agree to this, I understand that the Cabinet Office have in mind that this could be added to the Agenda of the meeting of E(A) fixed for 20 November.

13 I am copying this minute to Geoffrey Howe, members of E(A) and to Sir Robert Armstrong.



JOHN MacGREGOR

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PUBLIC EXPENDITURE TREATMENT OF ERDF RECEIPTS
BY PRIVATISED INDUSTRIESIntroduction

1. The purpose of this paper is to set out the existing public expenditure treatment of European Regional Development Fund (ERDF) infrastructure grants received by private and newly privatised industries, the reasons for that treatment, and departments' views on possible changes of the treatment.

Background

2. Industries which have been, or are scheduled to be, privatised have since 1983-84 received ERDF payments as follows:

	Date of Privatisation	1983-4	1984-5	1985-6	1986-7 forecast
Water	(after 1987)	21.4	17.9	50.5	55.0
Ports	(1984)	3.6	3.1	5.2	14.1
N.Bus ⁽¹⁾	(1986 onwards)	-	-	-	0.525
BAA ⁽¹⁾	(1987)	-	-	0.457	-
Gas (BGC)	(1986)	6.0	4.3	4.3	2.9
British Telecom (BT)	(1984)	15.0	11.6	6.8	3.5
TOTAL		46.0	36.9	67.3	76.0
% of total UK ERDF receipts		25.6%	18.5%	31%	31%

(1) It is possible that the Commission could refuse to support projects by local authority bus companies and airports if the UK decided as a matter of policy not to submit applications from privatised operators, on the grounds that to do so would involve distortion of competition. If this were to prove the case, the sums of money at stake in the transport sector could be significantly larger: Manchester International Airport, for example, is planning considerable expansion for which they would expect to get some ERDF support.

As the table illustrates, receipts by these industries presently account for about 30 per cent of the UK's total ERDF receipts. Among the industries by far the largest recipient, accounting for the lion's share of the receipts, is the water industry, and in particular the North West Water Authority: the industry is expecting this year to receive some 22.5 per cent of the total forecast ERDF receipts by the UK included in the latest Public Expenditure White Paper (Cmnd 9702), Table 3.3.2, compared with around 1.2 per cent for BGC.

3. BAA receipts could well increase in the next few years because of a specific project at Glasgow airport. The decline in BT's receipts is due to the policy adopted on privatisation (see paragraph 8 below): if a decision were taken to change this policy, their receipts could well increase again.

4. Decisions on ERDF funding are made in terms of commitments: each member state is allocated a range within which its total share of commitments ought to fall provided that sufficient eligible applications are forthcoming. The Commission can decide in one year to grant a certain amount of support to a project or programme while the payments flowing from that commitment will spread over several years. It is therefore relevant to look also at the commitment figures for the industries. These figures for 1983-85 are shown at the Annex. As the figures show, the industries listed in paragraph 2 accounted for 37 per cent of the new UK commitments in 1983, but the percentage fell to 9 per cent in 1985 because of the various embargos placed on ports, gas and water schemes by the European Commission while they looked at the privatisation issue.

Eligibility for receipts

5. There is some uncertainty at this stage about the extent to which privatised industries will continue to be eligible for ERDF receipts. ERDF grants for infrastructure projects have normally been limited to public sector undertakings, although there is a provision in the 1984 Regulation that private sector bodies acting in the same way as a public authority may be eligible for grant. European Commission officials have been considering the matter

and it is understood that they are recommending that eligibility should continue after privatisation subject to the additional criterion that the schemes undertaken by privatised bodies would not have gone ahead without ERDF. Private ports schemes are expected to feature in the 8th round of the Commission's 1986 ERDF approvals. In some industries, such as bus transport and airports, there is likely to be a mixture of newly privatised firms and existing private sector or continuing public sector undertakings. If for any reason ERDF grants are not in practice available to one sector of an industry, departments could be inhibited on grounds of fair competition from submitting ERDF applications from other parts of the industry both from a domestic and a Commission point of view. Even if the Government agrees to let applications go forward, there can be no guarantee, of course, that grants will in all cases be forthcoming. This applies to all ERDF applications.

Existing policy on Community budget receipts

6. The Government's general policy on receipts from Community sources, which Ministers have decided and reaffirmed on several occasions, provides for:

- (a) maximising the UK's share of receipts without compromising our posture on budget discipline, and
- (b) using the receipts, to the greatest extent possible, to finance existing public expenditure programmes, not additional programmes or private sector programmes.

The rationale which underlies (b) above is that use of Community receipts to finance existing public sector programmes reduces the demands made by the public sector on the taxpayer. More precisely, it helps to offset the increases in public expenditure which result from our gross contributions to the Community budget. Use of Community receipts to finance additional public expenditure or private sector programmes, on the other hand, does not have these beneficial effects on public expenditure. If therefore departments wish to use Community receipts to finance additional public expenditure programmes or to claim grants for passing on to the private sector, the presumption is that, with minor exceptions, they must protect the public expenditure

total and the taxpayer by making offsetting savings of the same amount elsewhere in their departmental programmes.

7. The policy outlined above has continued to be applied since the introduction of the Fontainebleau abatement system. Under that system, the net benefit to the UK of an increased share of Community budget receipts, whether public or private sector, is now 34 per cent of the gross value of the receipts: our abatement entitlement in the succeeding year falls by an amount equal to 66 per cent of the receipts. The case for maximising our share of receipts, on the basis set out in paragraph 6(a) above, remains, since a net inflow to the UK (or reduction in our net budgetary contribution) of 34 per cent of the gross receipts, though less favourable than a net inflow of 100 per cent of the gross receipts, is clearly preferable, other things being equal, to no net inflow. The net inflow, or reduction in our net budgetary contribution, will not, however, be reflected in a corresponding reduction in public expenditure unless the receipts are used to finance existing public expenditure programmes. On the contrary, if departments use them to finance additional public sector programmes the public expenditure total will rise by 66 per cent of the amount of the gross receipts, the reduction in our net budgetary contribution being more than offset by the extra spending from departmental programmes. In the case of receipts being claimed for private sector projects instead of public sector ones, there would be a similar adverse effect on public expenditure except in so far as the prospect of these receipts may increase the flotation price of the industry.

BT

8. Ministers considered the public expenditure treatment of ERDF receipts by newly privatised industries for the first time when BT was privatised in 1984. They agreed that the existing rules governing ERDF grants going to the private sector should apply to BT. As explained above, these rules provide that offsetting savings should be found for any ERDF money passed on to the private sector, in this case BT, and the Treasury will normally look to the sponsor department for these. Ministers also agreed that if

BT were to continue to receive ERDF grants, the same opportunities would have to be extended to competitor companies already in the private sector. The same rules on offsetting savings would have to be applied in these cases. The DTI, the department chiefly concerned in the BT case, concluded that, on balance, this would not be the most cost-effective use of their public expenditure resources. It was therefore agreed that, in future, applications from BT for ERDF grants would not be forwarded to the Commission. The decision was made at a time when there were no real difficulties with the take-up of the UK share of ERDF, and it was not seen as being applicable to all privatisations, the extent of which was not fully appreciated. It was agreed that payments flowing from grants made before privatisation could be passed on to BT without offsetting savings being sought, on the ground that these payments would have been reflected in higher receipts from the sale of BT.

9. Under the proposed STAR Community programme, ie a programme proposed by the Commission rather than Member States, ERDF aid of some £18m will be available for telecommunications infrastructure projects in Northern Ireland. British Telecom is the only serious contender for this aid but it is not yet clear to what extent (if any) aid will be applied for; the Secretary of State for Northern Ireland will decide this in the light of an economic assessment of the British Telecom proposals (and possibly others). Treasury Ministers have agreed in principle that this Community aid, if granted, can be passed on to British Telecom provided that the Northern Ireland Office makes public expenditure savings of equivalent amounts within the Northern Ireland expenditure block. This is consistent with the existing policy described in paragraph 6 above.

Possible problems on UK take-up of ERDF funds

10. There are considerable anxieties among departments which deal with the ERDF as to whether the UK will continue to be able to put forward public sector applications on a scale to cover our quota entitlement to 14.50-19.31 per cent of the Fund. These departments feel that to achieve the maximum of our quota range it is going to be necessary to put forward privatised industry projects as well, assuming that such projects are deemed eligible, and that it may even be necessary to do so to achieve the minimum.

11. The departments concerned point out that the main categories under which application can be made to the ERDF are

- aid to industry
- aid to infrastructure - paid for by local authorities
 - paid for by public authorities (or private organisations acting like a public authority)
 - paid for by central government

As already indicated in paragraphs 2-5, a substantial proportion of the commitments awarded in recent years has been through applications for aid to infrastructure carried out by the public authorities currently under consideration for privatisation. Clearly if those industries were not to receive ERDF assistance in future then, other things being equal, the difference would have to be made up by other applications if we are to maintain our quota share.

12. In the view of the departments concerned, this would be difficult. Because of controls on overall local authority spending their capital spending eligible for ERDF aid has been declining, and this has been reflected in a reduced volume of applications, and also in their quality and consequent success with the European Commission. There is no reason to suppose that this decline will be reversed. The main problem is in England, where, by way of illustration, 167 applications for ERDF aid worth £61m were submitted by English local authorities to DOE in 1986, compared with 319 similar applications, worth £106m, in 1985. The Welsh and Scottish Offices could take up in their countries any loss of ERDF aid caused by the loss of the privatised industry claims and could close some of the gap caused by the English losses. However, this would increase Commission and domestic objections to regional imbalance of ERDF assistance within the UK.

13. The other traditional sources of ERDF applications (ie aid to industry, public authorities not subject to privatisation and central government expenditure on infrastructure) are unlikely to come near to making up the remaining gap. On industrial aid, DTI has put to the Commission a draft Programme of Community Interest covering all industrial aid in Great Britain. If this were to

be accepted there could be a much increased level of commitment, but the initial Commission response is not favourable. In the Department of Energy's view the CEGB's capacity to increase its applications, for example, is also not significant since it is already putting forward all potential applications.

14. As regards central government expenditure on infrastructure, support for Trunk Road Projects is currently being sought to help offset the decline in English local authority applications. Those responsible for finding eligible schemes in England consider that they are exhausting their possible sources of Exchequer funded schemes. In looking at any new source the Commission criteria also have to be borne in mind.

15. In the judgement of the departments concerned, therefore, loss of ERDF assistance for privatised industries as a whole would significantly impair our ability to make sufficient applications to ensure a satisfactory level of take-up of the UK's annual quota share. The receipts available to industries already privatised or planned to be privatised could be of the order of £100m per year (mostly for water).

Case for changing the policy

16. The Departments of the Environment, Energy and Transport, supported by the Welsh Office and Scottish Office, take the view that the current treatment for private sector receipts should no longer be applied to newly privatised industries. This view is influenced by their concern about the UK's ability to secure its quota entitlement in the absence of ERDF grants for privatised industries, in particular when the water industry is privatised (see paragraphs 10-15 above). They also feel that there are wider political considerations which ought to be taken into account.

17. The Department of the Environment and the Welsh Office consider that the success of the Government's policy of privatising water authorities will be undermined unless the availability, after privatisation, of ERDF grant for eligible water and sewerage projects can be assured. Seven water authorities and three water companies

have benefitted from ERDF grants, which are more significant to their individual finances than to those of BT. For example, in 1985-86, ERDF grant (£6m) equates to 18 per cent of the Northumbrian Water Authority's capital programme, and 5 per cent of its turnover.

18. In the case of the North West Water Authority, the European Community has accepted as a National Programme of Community Interest the Mersey clean-up project and has so far approved £68m of ERDF aid to the programme, the greater part to the Authority. Over 25 years, capital expenditure by the Authority on the Mersey clean-up is expected to amount to £1.7 billion (40 per cent of its present annual rate of capital spend), and ERDF grant is expected to contribute £500m. The Mersey clean-up project, important as it is environmentally, for the regeneration of the area, and for tourism, brings no financial return to the Authority. The Department of the Environment therefore considers that without ERDF grant, the Mersey clean-up project, if it does not founder, will have its timescale considerably extended or will require water service charges to be raised by about 5 per cent (on top of the real increase in charges of about 10 per cent which will be necessary if the Authority is to be flitable). Successive Secretaries of State for the Environment have personally initiated and supported the Mersey clean-up programme. If the privatisation and EC receipts policies are allowed to set it back, or to put it in doubt, the Government will lay itself open to serious criticism from European, environmental and regional interests alike.

19. The Department of Employment have noted in addition that any reduction in ERDF grants to water authorities could well delay the rate at which desirable improvements to sewage disposal at resorts were made, and that any such delay would have an adverse effect on the tourism in the areas concerned.

20. Some departments also feel that a wider perspective ought to be adopted, even on the question of the costs to the Exchequer from ERDF private sector receipts. They suggest that in counting these costs, in particular the loss of public sector receipts or Fontainebleau abatement, account ought to be taken of possible offsets in the form of increased Corporation Tax payments from the industries, reduced unemployment benefits and increased income

tax and national insurance contributions from workers involved in the project benefiting from the ERDF money. In their view, the total effect on the Exchequer, after allowing for such offsets, could even be broadly neutral. Moreover, they consider that greater consideration should be given to the impact on investment and employment in the Assisted Areas where eligible projects are situated. They consider that in the absence of ERDF grants, the industries are likely to concentrate their investment in other areas, and that if the infrastructure is not available in the Assisted Areas, other industries too will be unlikely to invest there.

21. Some departments also argue that privatisations bring substantial gains to public expenditure in the form of flotation proceeds, and that it would therefore be reasonable to treat ERDF grants to privatised industries as relatively modest and acceptable offsets, to be set against these gains. Some of these offsets can be realised: to the extent that the EC Commission have committed themselves to ERDF grants, that can be stated in prospectuses when the company is offered for sale, and can be expected to enhance the sale proceeds pro tanto. In some cases, and especially in the longer term, ERDF grants are admittedly uncertain, and the possibility of future ERDF grants will have a relatively small and uncertain effect on sale proceeds. But in the case of most water authorities the effects on the flotation price will be partly quantifiable, and in one or two cases will be substantial. The ERDF grant aspect will need to be considered case-by-case along with all the other public expenditure implications of each privatisation.

22. Some departments also consider that it is unreasonable to expect them to make offsetting savings for privatised industries as this could only be done at the expense of other departmental programmes (eg Inner Cities). They point out that at present the expected ERDF receipts of nationalised industries generally count as internal finance and are taken into account during the annual Investment and Financing Review (IFR), and in the setting of the industries' External Financing Limits (EFLs) which are therefore lower than would otherwise be the case. Departmental budgets have not hitherto been affected. Finding offsetting savings will therefore be a new call on departments.

23. On presentation, some departments argue that it would be difficult to justify domestically a Government decision not to put forward to Brussels projects for privatised bodies which the European Commission deemed eligible for ERDF aid. They suggest that it would be even more difficult in the case of the water industry if schemes for England and Wales are not submitted when ERDF applications are made and approved by water authorities in Scotland and Northern Ireland.

24. To argue that applications for grants to privatised industries were not being made because under the domestic rules, the departments responsible would have to make offsetting savings from their own programmes would also not be well received in Europe, since it would be regarded as inconsistent with the Joint Declaration of the Council, the Parliament and the Commission in 1984 whereby ERDF aid will, in general, be an additional overall source of finance for the development of beneficiary regions or areas.

Case for maintaining the policy

25. In the Treasury's view the existing policy on private sector receipts is well-founded and should continue to be applied to the newly privatised industries, though it may in certain cases be reasonable, as with BT, that no offsetting savings should be sought for receipts flowing from grants committed in advance of privatisation.

26. The main and positive reason for taking this view is that control of public expenditure and protection of the taxpayer, which are the objectives of the Government's existing policy on ERDF receipts, are as important now as they have ever been. Public expenditure which is financed through the Community budget needs to be scrutinised and controlled just as much as expenditure that is financed directly from our own national budget. In the Treasury's view it would be perverse to allow the privatisation programme, after the initial proceeds from sales of the industries, to increase public expenditure and the demands on the taxpayer. Yet this would be the effect if receipts which have hitherto been used to reduce demands on public expenditure by reducing EFLs were in future not to perform that function.

27. As regards the other issues raised in the two preceding sections, the Treasury offers the following observations.

- (i) Public sector take-up. It is clear that privatisation will make the task of assembling sufficient public sector projects to cover our ERDF quota entitlement more difficult, though the impact of the privatisation programme seems unlikely to have major effects until after privatisation of the water authorities (which cannot now begin until the autumn of 1988 at the earliest). But the first response to this should be, not to change the existing framework of public expenditure control, but to identify areas where more public sector projects can be put forward (roads are one possible example) and more non-infrastructure industrial projects where ERDF grant can substitute for domestic regional assistance expenditure.

- (ii) Private sector projects. If there should turn out to be a residual shortfall which cannot be covered by other public sector projects, it will still be open to departments under the existing policy to put forward private sector infrastructure projects for ERDF support, including privatised industry projects, though the presumption will be that they will have to make corresponding savings in their own programmes.

- (iii) Water privatisation. Whatever the Government's domestic policy may be, there must be significant uncertainty as to the amounts of ERDF assistance which will be available to the Water Authorities over time, and the North West is the only Authority where really large sums are involved. It is therefore difficult to see how the availability or otherwise of ERDF assistance can decisively affect the success of the general privatisation programme for water. In the case of the North West Water Authority, similarly, £68 million of ERDF funds has been committed so far; but there is no commitment by either the UK Government or the EC to any specific levels or phasing of expenditure on the Mersey clean-up programme beyond the PES period. It is therefore difficult to see how

the possibility or even probability of further ERDF assistance (about whose scale and duration there would be no certainty) could of itself be the decisive factor in making the privatisation of this Authority viable.

- (iv) Sale proceeds. Extra public sector receipts from sale of the privatised industries are a by-product of a policy of asset transfers whose objectives are to roll back the public sector and enhance efficiency: they are not savings available for other public spending.
- (v) Flotation prices. The unavoidable uncertainty about the continuing availability and scale of ERDF grants for any particular privatised industry is bound to limit any favourable effects on flotation prices: privatisation prospectuses will have where appropriate to acknowledge this uncertainty.
- (vi) Flow-backs. The argument about flow-backs to the public sector in the form of extra Corporation Tax and Income Tax applies similarly to other forms of public expenditure and to tax reliefs: in the final analysis, it boils down to an argument for reflation.
- (vii) Direct expenditure and expenditure via Community budget. It would be hard to justify a system whereby departments would have a general exemption from the obligation to provide offsetting savings for Community funds diverted to the private sector when such savings will continue to be expected if departments provide funds for the private sector directly from their own budgets.
- (viii) Presentation. It is not clear why the Government needs to make any secret of its preference for taking Community receipts into public programmes (which are thereby enabled to be maintained at levels higher than would otherwise have been possible) and letting the private sector stand on its own feet.

28. It is of course open to departments to put forward additional bids in the Public Expenditure Survey or to make claims on the Reserve if they believe there to be an unavoidable clash between the receipts share maximisation and public expenditure objectives in paragraph 6 above and wish to apply for particular ERDF grants for private industries without making offsetting changes in their departmental programmes. The policy does not prohibit departments from making such bids. It does establish a presumption against accepting them.

Summary

29. The main points from this paper can be briefly summarised as follows:

- Industries already privatised or planned to be privatised at present account for some 30 per cent of ERDF receipts, with water authorities taking the lion's share.
- Although decisions have still to be taken, the Commission seems likely to decide that ERDF grants should continue to be available for suitable privatised industry projects which would not otherwise take place.
- There is anxiety among departments that privatisation may mean that there will no longer be enough public sector projects to enable the UK to take up a full share of the ERDF.
- Some departments conclude that, for this and other reasons set out in paragraphs 16-24, they should be allowed to forward claims for ERDF grant by privatised industries without being expected to offer offsetting savings.
- In the Treasury's view, for the reasons set out in paragraphs 25-28, it would be wrong to exempt Community financed expenditure in this way from the existing control processes, though it should remain open to departments to make proposals in individual cases if they feel that exceptional treatment is justified.

Next action

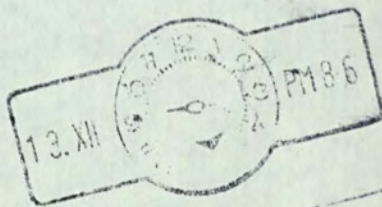
30. Ministers are invited to decide, in the light of the analysis in the paper, whether or not the policy on private sector receipts should continue to be applied to newly privatised industries, subject to the possible qualification noted in paragraph 25 above about grants already committed, or whether some different treatment should be envisaged either for privatised industry receipts or for private sector receipts generally.

HM Treasury
29 October 1986

ERDF COMMITMENTS: UK

	£m		
	1983	1984	1985(1)
Water	37.9	39.7	21.2(2)
Buses:			
NBC	0.4	0.4	-
Local Authority	8.2	3.0	2.2
Ports:			
ABP	0.9	1.8	0.5
Others	5.0	6.1	1.3
Airports:			
BAA	-	0.6	-
Local Authority	0.8	5.4	8.6
Gas	6.4	6.6	2.5
Telecom (BT)	34.9	29.9	-
TOTAL	94.5	93.5	36.3
% of total commitments	36%	29%	10.5%
TOTAL UK COMMITMENTS	262.8	327.7	345.0(2)
Quota achieved(3)	21.2%	27%	24%
Quota range	23.8%	23.8%	21.42%-28.56%
Quota achieved excluding privatisation candidates	13.6%	18.9%	21.5%

- (1) Applications for water and gas projects in 1985 were low because a number of applications were held back by the Commission pending decisions on the status of the industries. The water commitments held up is estimated at £12 million: that for gas is £4m. The same condition applies for applications for transport projects, but a figure for these is not at present available.
- (2) The Mersey Basin Clean-up is recognised by the EC as part of a National Programme of Community Interest, the value of water projects for which, covered so far by the 1985 NPCI, commitment is £25m. This is not included in the water figures quoted above for 1985 but is included in the total commitment figure. With this and the adjustment at (1) the total for the five industries in 1985 is estimated at a minimum of £72.4m.
- (3) Quota achieved = % share of commitments allocated to UK, not the UK's 'quota share', which is calculated on a different basis.





Your Ref

with compliments

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COO
12/12

R. Dyer



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Miss Teresa Rolleston
Office of the Government
Chief Whip
House of Commons
LONDON
SW1

12 November 1986

Dear Teresa,

EUROPEAN COMMUNITY BUDGET DOCUMENTS: DEBATE ON WEDNESDAY 19 NOVEMBER

When we spoke earlier today, I undertook to let you have the text of a motion on which the debate, you have scheduled for Wednesday 19 November (after 10pm for 1½ hours), might be founded. The text is enclosed below, and follows essentially the same pattern as that tabled last year and in 1984.

2. The Minister of State, Treasury (The Hon Peter Brooke) will move the motion and take charge of the ensuing debate for the Government.

3. A copy of this letter and enclosure go to Charles Powell (No.10) for information.

yours.
B O Dyer

B O DYER

MOTION FOR DEBATE OF EUROPEAN COMMUNITY BUDGET DOCUMENTS"EUROPEAN COMMUNITY BUDGETS

That this House takes note of European Community Document Nos. 1174/84, Development of European Monetary System; 5484/86, key figures for the 1987 Budget; 7113/86, the Preliminary Draft Supplementary and Amending Budget No.1 for 1986; 7068/86, key figures for the 1987 Budget; 7927/86, the Preliminary Draft General Budget for 1987; 9192/86, the Draft Budget of the European Communities for 1987; 8877/86, Letter of Amendment to the Preliminary Draft Budget of the European Communities for 1987; COM(86)360, Letter of Amendment to the 1986 Budget; 8876/86, the Preliminary Draft Amending Budget No.1 for the financial year 1986; 8883/86 and Add 1, the Commission's Communication on recent developments affecting the 1986 Budget and Preliminary Draft 1987 Budget, and supports the Government's efforts to achieve tighter restraint and better balance in the Community's budget."





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Ref. Qz.05444

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will mention the meeting of Foreign Ministers held in London on 10 November at which he took the chair. The main outcome was a satisfactory agreement on additional action designed to send Syria the clearest message that terrorist acts are unacceptable. The Foreign Ministers decided not to authorise new arms sales to Syria: to suspend high level visits to or from Syria: to review in each Community country the activities of Syrian diplomatic and consular missions; and to review and tighten security precautions surrounding the operations of Syrian Arab Airlines. Though Greece condemned the individual act of terrorism by Hindawi it would not join the remaining member states in condemning the Syrian Government and withheld its overall agreement to the package - though it seems likely to implement the measures.

2. The Foreign and Commonwealth Secretary is likely to refer to the successful outcome of the Development Council on 11 November at which the Minister for Overseas Development, Mr Patten, took the chair. The main item on the Council agenda was the revision of the Community's food aid regulations for which we have been pressing for some time. Led by the United Kingdom the Council agreed a common position which is designed to move away from using food aid as a means of disposing of agricultural surpluses towards techniques which will allow both food aid and other development aid to be used to enable developing countries to advance their own agriculture. One technique would be for Community aid to be used to buy food from developing countries and given to nations where there is famine. There has been general support in the media for



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the United Kingdom Presidency's success in bringing about this change of emphasis in Community aid policy. The Council's position will need to be discussed with the European Parliament before the new legislation is finally agreed.

3. The Secretary of State for Transport will report on the meeting of the Transport Council on 10-11 November. In extended discussions the United Kingdom, both in its national and its Presidency roles, made sterling efforts to agree liberalisation measures on air transport which would affect air fares, capacity (ie revenue-sharing) agreements and the access of additional airlines to routes in order to increase competition. Mr Moore had made it clear that these three major issues must be seen as a package and that agreement could only be on that basis. Agreement needs to be unanimous on each measure. Progress was made and a majority in favour of change now exists on both capacity and access but overall progress was slowest on discussions to reduce the restrictions on concessionary air fares, on which the Council is still split. It is a major British priority during our Presidency to achieve significant liberalisation of air transport and this is still possible. The right course in the immediate future is to keep pushing hard on the line we are now following. A further Transport Council is planned for 15-16 December: Mr Moore is likely before then to hold intensive bilateral discussions with countries who present difficulties: and the Commission remains in a position to threaten legal action against 12 of the Community's major airlines for breach of the Community's competition rules.

4. There is a meeting of the Cultural Affairs Council on 13 November; a meeting of the Economic and Finance Council on 17 November; a meeting of the Agriculture Council on 17 and 18 November; and a meeting of the Industry Council on 18 November.

D F WILLIAMSON



Ref. A086/3236

MR WICKS

Letter at flap

The Prime Minister asked me to consider the Department of Trade and Industry's report on what went wrong with the preparation of the United Kingdom Regional Development Programme submitted to the European Commission on 25 July 1986 and the way in which it was made public.

2. I attach a report by the Department of Trade and Industry, which I have discussed with Sir Brian Hayes. It is clear that those involved in the preparation of the programme concentrated on its (admittedly main) purpose of making a case for support from the European Community Regional Development Fund (RDF). They were aware that it would in due course become public in this country; but not all the Departments concerned did enough to make sure that the document was read with that in mind.

3. This was the third programme of its kind. The first version of the previous programme - that for 1982-86 - was criticised by the European Commission as not having enough detail about the problems of the regions and in particular as lacking job-deficiency forecasts. The preparation of the programme involved the Industrial Development Division (IDD) of the Department of Trade and Industry (DTI) collecting, compiling and collating contributions for other divisions of the DTI and from nine other Departments, many of who themselves consulted and invited contributions from local and other public authorities.

4. Both in the DTI and in other Departments this was regarded as essentially a fairly humdrum task of compilation, and the levels at which the work was carried on were accordingly



relatively junior. Only two of the Departments which were invited to contribute cleared their contributions at Ministerial level.

5. The Minister of State responsible at the DTI (then Mr Peter Morrison) was made aware of the programme but was not invited to read its 1500 pages or the summary (itself 174 pages). His attention was, however, drawn to the possibility of embarrassment from the publication of quantified forecasts of job deficits in each region, and he wrote accordingly to the Secretary of State for Employment, asking him to authorise his officials to supply the forecasts and drawing his attention to the extent to which the programme would be disseminated outside Government and the European Commission. The Secretary of State for Employment replied, saying that he had asked his officials to provide the necessary information. That correspondence was copied to the Prime Minister, other members of E(A), the territorial Ministers, and me. An Assistant Secretary (Grade 5) in the DTI made a submission to the Minister of State on 5 September, with proposals for making copies of the programme available to the Libraries of both Houses and (on request) to local authorities who had contributed to it. The submission did not draw attention to the political sensitivity of some of the material in the programme. The submission was approved by the Minister of State (by now Mr Giles Shaw) on 26 September.

6. I agree with the DTI's analysis, in paragraph 14 of the attached report, of the weaknesses which contributed to the embarrassment which resulted. I draw five main conclusions:

i. Material which is to be published by a Department should be approved by a Minister before it is sent for publication.

ii. Where a document is (as this one was) a compilation of material from different Departments, each Department should



obtain Ministerial approval for its material before sending it forward to the editing Department.

iii. That does not absolve the editing Department from obtaining Ministerial clearance for the document as a whole.

iv. Before material which is to be published is submitted to a Minister for clearance, it should be scrutinised for its political sensitivity (as well as for accuracy, comprehensiveness, clarity and so on) and the Minister's attention should be specifically drawn to any matters which seem likely to be politically sensitive or difficult. This scrutiny needs to be undertaken at a suitably senior level.

v. That does not absolve the Minister from scrutinising the material for himself (or herself) for its political sensitivity, before giving approval for its publication.

7. If the Prime Minister agrees, she may like to issue a minute on the lines of the draft attached. Since this in effect contains instructions to Ministers as well as instructions to officials, I think it would be as well if this issued as a Prime Minister's Personal Minute.

8. So much for the problem of political embarrassment. This matter also raises deeper issues of management. Does the maximisation of support from the RDF (obviously in itself a good cause) really require such a massive and time-consuming bureaucratic exercise? This looks like one bureaucratic machine generating paper for another to chew without sufficient consideration of "value for money" on either side. I am arranging for this matter to be separately pursued. I am putting in hand an examination of the matter within the British Government; and if (as I suspect) it is concluded that the exercise took the scale it did because of the need to meet what

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were seen as the requirements of the European Commission, I would propose to take the matter up with the Director General of the Commission.

RA

ROBERT ARMSTRONG

11 November 1986

DRAFT MINUTE FROM THE PRIME MINISTER TO THE
SECRETARY OF STATE FOR TRADE AND INDUSTRY

At Cabinet on 23 October 1986 (CC(86) 34th Conclusions, Minute 2) we had some discussion about the difficulties created for the Government by the publication of the United Kingdom Regional Development Programme submitted to the European Commission on 25 July 1986.

2. I have had a ~~full~~ report of the process of preparation of this programme and the way in which it was made public. It is clear that those involved in the preparation of the programme concentrated on its main purpose of making a case for support from the European Commission Regional Development Fund, and that only two of the ten Departments concerned took steps to make sure that the document was read with an eye to the fact that it was in due course likely to become public in this country. ~~Part of the problem was that so many Departments were involved and that the material was so voluminous that, by the time it was all put together, it had become an extremely indigestible lump.~~

3. From the report I have drawn certain general conclusions as to the handling by Departments of material for publication. ^E The conclusions are as follows:

i. Material which is to be published by a Department should be approved by a Minister before it is sent for publication.

ii. Where a document is (as this one was) a compilation of material from different Departments, ^{as} each Department should obtain Ministerial approval for its material before sending it forward to the editing Department.

iii. That does not absolve the editing Department from obtaining Ministerial clearance for the document as a whole.

iv. Before material which is to be published is submitted to a Minister for clearance, it should be scrutinised for its political sensitivity (as well as for accuracy, comprehensiveness, clarity and so on) and the Minister's attention should be specifically drawn to any matters which seem likely to be

politically sensitive or difficult. This scrutiny needs to be undertaken at a suitably senior level.

v. That does not absolve the Minister from scrutinising the material for himself (or herself) for its political sensitivity, before giving approval for its publication.

4. I suggest that the practice in every Department should conform with these conclusions.

5. There is a further and deeper question as to whether it was necessary to justifiably commit so much time and effort to the preparation of this programme for submission to the European Commission. I have asked the Head of the Home Civil Service to consider and advise whether the maximisation of support from the Regional Development Fund really required such a massive and time-consuming bureaucratic exercise. If the answer is that that was what was needed to satisfy the requirements of the European Commission, it may suggest that there are some questions to be asked of the Commission.

6. I am sending copies of this minute to all Ministers in charge of Departments and the Head of the Home Civil Service.



With the compliments of

CDP
15/11/61

THE PRIVATE SECRETARY

CShin

The Foreign Secretary
believes you & the PM would
find this of interest.

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

07 NOV 1995

CONTINENTAL DRIFT

*Timothy Garton Ash finds
Britain edging towards a role
in the European Community*

Brussels
'OOOH-LA-LA!' says the British official over the telephone. Just like a stage Frenchman, and without a trace of self-consciousness. Oooh-la-la. But it rubs the other way too. A French official talks with his superior about the presentation of a Commission document: 'Bon, je vais le donner un peu de *sex appeal*.' A Commission document — *sex appeal*! Jacques Delors, the Commission President, gives an off-the-record briefing. Before launching into criticism of American economic policy, he cautions, 'Alors, toujours *off*...'

It is a very strange world, Brussels. Or rather 'Brussels', for the world of Euro-administration centred on the Rond-Point Robert Schuman seems to exist in a different dimension not merely from the rest of Europe, but even from the rest of Brussels — the true bon-bourgeois-Belgian Brussels, city of cobbled streets and comfortable middle-aged pleasures. Looking at the glass-fronted Berlaymont headquarters of the Commission, I am irresistibly reminded of Harold Macmillan's description of the United Nations: a large glass house full of people throwing stones. But Brussels stone-throwing is in a different class from that at the UN: the average level of *politesse* and refinement is much higher — no Third-World boulders or Soviet bludgeons — the issues are usually much smaller, the time devoted to them disproportionately greater.

The amount of educated man-hours devoured in reaching the tiniest decision is staggering: Commission officials, senior civil servants of 12 nations, ambassadors of 12 nations (who may meet two or three times a week), and then ministers of 12 nations, all discussing, say, the size of chicken coops. Never in the field of human conflict have so many highly educated people spent so much time discussing so little. It is like one of those games of chess played on an outsize board with human pieces, except that here even the pawns speak three languages and a single game can last for years.

There are two ways of looking at this extraordinary game. One is to regard it as the ultimate triumph of bureaucracy, the

realisation of Max Weber's worst dreams, a world in which national sovereignty and democratic accountability are swallowed up in an impenetrable machine run by Eurocrats for Eurocrats; and a machine that is grinding to a halt. The other is to compare it with the manner in which the nations involved in this singular enterprise conducted their mutual relations during the first half of the 20th century. Looked at *this way*, you might find yourself observing (to adapt Churchill's remark about democracy) that the European Community is the worst possible way of ordering our affairs — apart from all the other ways that Europe has tried from time to time. If you doubt this, just look at the manner in which the European countries *not* inside the European Community conduct their mutual relations even today.

Whichever way you look at it, two facts are inescapable. Fact One: the power (not just influence) of the laws and institutions of the European Community over British lives has increased, is increasing, and is not about to be diminished. Fact Two: under Margaret Thatcher, than whom no one could be less continental, the British Government and Whitehall have become more deeply involved in the European Community than ever before.

The Single European Act which passed into British law after the House of Lords debate last month is not the monstrous assault on Queen, Parliament and the Courts so vividly depicted by Lord Denning. And the noble Lord's suggestion that it will pave the way for a federal Europe would be greeted with hollow and even bitter laughter from European federalists in Brussels and Strasbourg, who regard it as more of a defeat than a victory. In truth, by taking this curiously named bundle of miscellaneous provisions (neither Single nor an Act) onto our statute book, the United Kingdom makes no fundamental concession of principle *which we had not already made when we signed the Treaty of Rome*. There is some force in the snide remark of an Italian diplomat that one of the few virtues of the Single European Act is that 'it has finally made the British understand the Treaty of Rome'.

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Nonetheless, the effect of the Act, which should come into force on 1 January next year (provided all 12 national parliaments have ratified it by then), will undoubtedly be to increase the range and intensity of Community involvement in British affairs. Decisions on a wider range of issues will be made by 'qualified majority voting', which means that more decisions will be made. But, as Christopher Tugendhat points out in his valuable book *Making Sense of Europe*, qualified majority voting has already been used for some time in various councils (including the Budget Councils) without dramatic effect.

National votes are weighted according to size — the biggest, Britain, France, Germany and Italy, have 10 votes each, the smallest, Luxembourg, has 2 — and the necessary majority is 54 votes out of the total 76: so a coalition of just three or four states could still block most proposals. There are not that many bread-and-butter issues on which Britain is in a minority of one. There are far more bread-and-butter issues on which British interests lie with the majority presently being stymied by one other recalcitrant, such as Greece, the current joker in the Community pack.

The Act provides for a little more involvement of the European Parliament in the Community's legislative process. This does not mean that the British Parliament is correspondingly *less* involved, because the British Parliament has not been involved in this process anyway. Far from further unfettering the Eurocracy from democratic accountability, the effect of this provision may be a small net gain in parliamentary scrutiny. The Act also clears the way for more effective and closer co-operation between member states in research and technological development, in economic, monetary and foreign policy. It gives formal status to the bi- or tri-annual summit meetings of heads of government, correctly called the European Council. Finally it provides for the establishment of European courts of first instance — which accounts for most of Lord Denning's wrath.

So much for the Community's growing involvement in British affairs. What of Britain's growing involvement in Community affairs? As you probably hadn't noticed, since 1 July this year Britain has held the presidency of the European Community's Council of Ministers (not to be confused with the European Council). For six months Britain is, in effect, the chairman of the board. What has been remarkable about the British presidency (so far) is how unremarkable it has been.

During our two previous presidencies, in 1977 and 1981, the British chairman was simultaneously the outsider, at odds with the rest of the board and seen by them as neglecting the interests of the company in order to secure the best terms for himself. Now Britain is regarded as a more or less 'normal' chairman. Every presidency shuf-

fling the agenda a little so as to bring its particular national interests to the top, but Britain is not seen as doing this more than others. British ministers and officials are seen — particularly, but not only, by themselves — as quite vigorously advancing the community interest in such areas as the internal market, the Common Agricultural Policy and the ever-agonising budget. Nor is it only British officials who observe that, since the Fontainebleau European Council of June 1984 agreed a mechanism for reducing the British budget contribution, there has ceased to be a 'British problem' in Brussels.

Indeed, both French and Italian insiders spontaneously offered me a favourite British line: the one about rhetoric and reality. Of course the British are non-starters beside the French or Germans in Euro-rhetoric, so the argument goes. But in *reality* the British are nowadays often more community-minded (*'communautaire'*, a Brussels key-word), or at least more pragmatically effective in advancing community business, than many others. And both the Frenchman and the Italian suggested that actually, at the moment, it is Germany which is dragging its feet while pleading national interest: on the budget, the CAP and monetary policy.

How and why has this transformation come about under the least continental of prime ministers? Well, partly because she is just that. As a Conservative prime minister can make national concessions (on Rhodesia, say, or Northern Ireland) which a Labour prime minister might not (at least in the past) have dared to make, so a fiercely nationalist prime minister may take the country further into Europe than a more obviously 'European' one. Just because Mrs Thatcher was so definitely, immovably bloody-minded — for five long years — in demanding 'her money back', just because, to a considerable extent, she finally got it at Fontainebleau, so now there must be a feeling that if *she* thinks we have a good deal in Europe, then we really do. Fontainebleau was in a sense the end of a 12-year British accession to the Community; it was, as one senior British official puts it, 'the end of the beginning'.

A second answer, and perhaps a more compelling one, is simply: time. As usual in politics, time has not so much solved earlier problems as brought new ones to supplant them: for example, problems called Greece, Spain and Portugal. Tiffie has accustomed a new generation of British officials to Brussels ways. Most departments of the Civil Service now have senior officials experienced in Community chess, and some of them even enjoy it: a new game, slightly larger than the domestic game, but not so large that you feel outclassed. British officials and diplomats here obviously feel they are, so to speak, in the right league. There is none of that poor-cousin chippiness so characteristic of Foreign Office attitudes to the United States: the result of an only half-admitted disparity of power. The relationship with Washington may be 'special'; that with European capitals is a great deal more normal. It is also much more intense.

From the Prime Minister downwards, ministers and officials spend far more time in European meetings than they do in transatlantic ones. Time that, as Groucho Marx observed, wounds all heels, has even had some effect on Mrs Thatcher. The sheer frequency of European meetings, the fact of her success at Fontainebleau, the fact that she is now the senior partner, with no Giscard or Schmidt to put her down, and, not least, the irresistible logic of shared interests: all this has surely changed her attitude more than a little.

And there is the fact that if the Community has changed her, she has also changed the Community. 'For the worse' says a convinced federalist. Now other member states are talking almost as stridently about their national interests, and 'their money'. She has taught them a bad lesson. 'She has made Europe less European.' But this is a characteristically narrow usage of the term 'European'. What is certainly true is that — partly under her impact, partly because of the mere fact of enlargement — the Community is now a more comfortable place for Britain because governments do talk so frankly about their national differences, and because the inter-governmental way of resolving these differences is, in practice, more important than any proto-federalist one. (The Single European Act may commence with a solemn rhetorical resolve to move forward to 'European Union'; it ends with equally solemn paragraphs of national special pleading by the Greek, Portuguese, Danish and Irish governments.)

What is more, the Community's own agenda has become in several ways quite 'Thatcherite'. There is, for example, her old friend Lord Cockfield's almost evangelical drive, as a commissioner, to achieve a completely free internal market by 1992 (the Treaty of Rome said this should be done by 1973 at the latest). There is the parallel emphasis on liberalising the European labour market. There is the priority

for industrial research and high technology. Again, this is far from being merely the impact of Mrs Thatcher. Other major European governments share much of her conservative economic philosophy. They face many of the same domestic problems, and they all feel in their guts the same gnawing fear of being left behind by America and Japan. Whatever the precise mixture of motives, the result is the same: this government and its Community partners are more closely in tune than ever before.

Of course one glance at the Community's budget shows that financially all these congenial initiatives are but foothills of sense around one huge mountain of nonsense: the Common Agricultural Policy, which still devours two thirds of the total budget. Yet there is at least, by contrast with ten or even five years ago, agreement *in principle* that the thing must be reformed: the result, no doubt, less of British nagging than of the sheer pressure of facts: soaring costs, the accession of Spain and Portugal, and an international agricultural glut, in America as much as in Europe (see my article 'Hicks in hock' in the *Spectator*, 25 January 1985). True, the agreement in principle translates miserably into practice. But even here the anglo-continental dissonance is less than before. The North-South divide within the Community is already more important.

Does all this mean that Britain is now accepted as one of the driving forces of the Community, alongside Germany and France? In the day-to-day business of Brussels, yes. But not on the wider political stage. In June last year, shortly before the Community summit in Milan, the British Government put forward a whole range of proposals for the development of the Community, designed to show that, with the budget squabble finally resolved, Britain was now out front with the best of them. The most important of these proposals concerned the content and form of foreign policy co-ordination between member states — known as European Political Cooperation, or 'poco'. On the eve of the summit, the French and German governments suddenly produced, as their very own, a draft treaty on European Political Cooperation which bore a remarkable resemblance to the British proposals. It was a classic diplomatic hijacking.

There are two lessons in this incident, one minor and one major. The minor lesson is that the British have still to learn some of the finer points of intra-community diplomacy, which is always a diplomacy of coalitions. The right way to proceed is always to agree the thing in advance with at least one other state, so that you can then praise, not your own national genius, but the manifest European virtues of, say, 'this remarkable Luxemburgan-British initiative'.

The major lesson is that the French and the Germans will not lightly abandon the

30-year-old habit of regarding themselves as the natural joint leaders of 'Europe'. Resentment at Britain's 12-year-long accession haggle may gradually subside. Anglo-German and even Anglo-French bilateral relations may quietly improve. Brussels insiders may even say that London is, in practice, more 'community-minded' than Paris or Bonn on this or that issue. But in Europe's public political life France and Germany will continue to maintain the unique centrality of their post-war bond. Countless articles in the German and French press, endless speeches by French and German politicians, speak of the Franco-German axis as (to mix their metaphors) the motor of European Union. None would ever think to speak thus of Anglo-French or Anglo-German relations, nor yet of a 'triangle'. French or German public opinion would still find incredible the suggestion that Britain might actually be a driving force of the European Community. These are the present facts of European political life.

If British governments want to change this European political reality over, say, the next decade, there are two areas in which they might work. One is the field of rhetoric and symbolic politics. Recently, for example, the Government has been trying to emphasise the strength of Anglo-German ties by giving a higher profile to the British Army of the Rhine. As a result, we have front-page photographs of Mrs Thatcher and Chancellor Kohl doing target practice in Challenger tanks.

This is fine for British public opinion ('Bull's-eye, Maggie!'), but I'm afraid it could not be more wrong for German public opinion. Few Germans share the British public's schoolboyish delight in military pranks. For them that is all, well, rather too close to home. What they would

like to hear from foreign political leaders, and above all from former wartime enemies, is the solemn language of peace, forgiveness and reconciliation. That, for them, is a large part of what it means to be 'European'. Mitterrand and Kohl holding hands in the cemetery at Verdun may seem to us a little fey — but it's much closer to the mark.

This is not to say that British leaders must for ever be adapting themselves to continental language and expectations. Nothing could be more stale, and less convincing, than the 1950s language of continental federalism coming from a British mouth. Yet we have the extraordinary advantage that English is actually the lingua franca of Europe (though French remains precariously predominant in Brussels). Churchill managed to forge a rhetoric of freedom that was both British and European. Why can Mrs Thatcher not?

The second vital area is that of security. As the *Spectator* pointed out in a leading article (11 October), over the next decade external forces will almost certainly compel the West Europeans (including Britain) to do more for their own defence. At the same time, internal forces are already compelling all European countries to look for closer cooperation, at least in the narrow field of defence procurement. (The European Community as such, handcuffed by neutral Ireland, is unlikely to be the main institutional instrument; but the formal question is of secondary importance.) In any discussion of European defence and security cooperation, Britain's role is vital: the French have nuclear forces but are not in the military structure of Nato; the Germans have a large conventional army in Nato, but neither have nor want their own nuclear forces; Britain spends more on defence than either Germany or France, is the second power in Nato, has a large surface fleet, has its own nuclear forces, and, by no means least, has an unbroken record of defending itself.

When I asked a veteran German observer what he would like Britain to do now, he immediately replied, 'Why don't you take the lead in the security field?' This is in our vital national interest, both for reasons of cost, and, more importantly, for all the reasons that preserving the balance of power on the continent of Europe has long been a vital British interest. At the same time, the more important the security dimension becomes in European affairs, the more important Britain becomes in Europe. The national and the European interest coincide.

In his memoirs, Dean Acheson describes Britain's failure to join in negotiating the Schuman Plan as 'her great mistake of the post-war period'. And it was of course Acheson who observed, with equal acuteness, that Britain had 'lost an Empire and not yet found a role'. The great mistake has, at last, been repaired. But has the role been found? Almost.

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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon John Biffen MP
Lord Privy Seal
Privy Council Offices
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GTN 215) 5147
(Switchboard) 01-215 7877

CC
CDP
7/11

7 November 1986

Dear John

EUROPEAN COMMUNITY FRAMEWORK PROGRAMME OF COMMUNITY ACTIVITIES IN THE FIELD OF RESEARCH AND TECHNOLOGICAL DEVELOPMENT (1987-1991)

At their last meeting on 29 October the Commons Select Committee on European legislation considered a proposal from the Commission of the European Communities for a draft Council Regulation concerning a Framework Programme for European Community research and development (EC R & D) activities (document no 8764/86). The Committee concluded that the document was politically important and for debate and further recommended that a Standing Committee debate would be suitable. I am therefore writing to ask you for an early consideration of this document within L Committee so that arrangements for the debate may proceed as quickly as possible.

Earlier this year OD(E) agreed that one of the objectives for the United Kingdom Presidency of the Community should be a successful outcome to the negotiations on the EC R & D Framework Programme. I have already chaired one meeting of the Research Council which concentrated solely on the Commission's proposals and encouraging progress was made. Over the next few weeks I am planning a series of bilateral meetings with my Ministerial colleagues to try to establish common ground on the central issues of total cost and the distribution of finance between different research areas. OD(E) and E(A) will be considering the United Kingdom's final negotiating position later this month.

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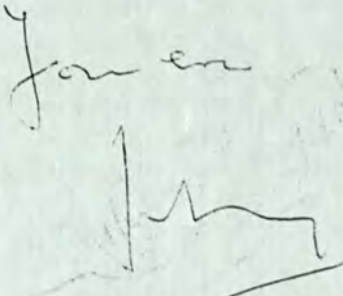


Subject to their views and the outcome of my bilateral meetings, my aim will be to work for agreement in principle on the Framework at the next Council on 9 December. We will not be able to adopt the decision formally on that day but, subject to the European Parliament's view, it might just be possible to do so before the end of the year. I would like if possible therefore to complete the scrutiny procedures before the next Research Council and would like to suggest 3 December as a date for the Standing Committee.

The Commission's proposal provides for a wide-ranging research programme costed at some 7.7 billion ecus (£5.5 billion). The main emphasis of the proposal is on programmes aimed at promoting Europe's industrial competitiveness, a significant change from the present programme which is heavily oriented towards energy research. The proposals are of particular significance in that for the first time Community research and development programmes will have a legal basis under the Treaty as provided under the new technology section of the Single European Act.

I expect that the form of the Government Motion will be the conventional take note motion. Again subject to the outcome of OD(E) and E(A) discussion I expect that the Government line will be to welcome the proposed re-orientation towards industrial competitiveness, to recognise the commitments given at previous European Councils to the desirability of an increase in the proportion of Community resources to be spent on research and development but to argue that the Commission's proposed expenditure is excessive both in terms of the kind of research programmes proposed and the ability of the Commission to manage efficiently an increase of the order of magnitude they have requested.

I should be grateful for L Committee's agreement that I should proceed on these lines.

John

GEOFFREY PATTIE

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

7 November 1986

Miss Catherine Bradley
Department of Trade & Industry
1-19 Victoria Street
LONDON
SW1H 0ET

PK

Dear Catherine,

ERDF: REGIONAL DEVELOPMENT PROGRAMME

in question?

You wrote to David Norgrove on 22 October enclosing a background note on the procedure used in the preparation of the UK Regional Development Programme 1986/1990. This was misleading in its description of Treasury involvement in compiling the programme, and I should like to set the record straight.

The note says that DTI wrote to Departments (including the Treasury) who had an involvement, with a copy of the overview from the previous report, and asked them to update it. We did not receive any such letter - though we were asked separately to provide material on Freeports, which we did.

The note also says that "at the Commission's request the DTI then prepared a summary and cleared it with other Departments". The Treasury was not one of those Departments.

I should be grateful if you could ensure that in any future exercises of this sort the Treasury is consulted fully. I am copying this letter to David Norgrove (10 Downing Street) and to the Private Secretaries to the Secretaries of State for Environment, Transport, Health and Social Security, Wales, Scotland, and Employment, and the Chancellor of the Duchy of Lancaster.

Yours.
Alec

A C S ALLAN
Private Secretary



2790/41

It is never good to lose a case. However loss of this particular one would be outweighed a bit by the fact that we would be receiving extra advance payments from the Commission that would have to go through the Committee next week.

FROM: M E DONNELLY
DATE: 5 NOVEMBER 1986

1. Mr Crabbie
2. Minister of State

cc: Mr Lavelle
Mr Edwards
Mr Mortimer
Miss Simpson
Miss Bogan

ARTICLE 10(2) CASE: ADVOCATE GENERAL'S OPINION

We have just heard from Luxembourg the Advocate General's opinion in the Article 10(2) case against the UK for late payment of advance of traditional own resources in May 1983.

2. As expected, the Advocate General takes the view that a Commission invitation to make these advances is compulsory if the necessary conditions have been fulfilled. We do not yet have the transcript of the opinion but have asked for this to be sent on urgently from Luxembourg. The final judgement is unlikely to be received for some time, possibly not until the New Year.

3. There has not so far been any press interest in this opinion. We have however put together a defensive line to take for use in Brussels and elsewhere, pointing out that:

- i) the Court case is essentially a technical one concerning the clarification of the wording in the regulation;
- ii) while any doubt exists as to whether or not these advances are compulsory it must be right for the UK to seek Parliamentary approval on each occasion that an advance is requested;
- iii) the UK will of course comply with whatever the Court's final judgement lays down.
- iv) this is not a question of extra money being paid to the Community.

Martin Donnelly
M E DONNELLY

cc Mr Powell - No 10
For information

23/11



CCRC
13/11/86

Ref. A086/3171

PRIME MINISTER

Cabinet: Community Affairs

The Secretary of State for Trade and Industry is likely to report on the meeting of the Internal Market Council on 3 November which was chaired by the Minister for Trade, Mr Clark. Considerable pressure from Mr Clark on the Council produced agreement on two further measures and progress in five other areas. But in order to open the way for agreement on a dozen or more measures by the Internal Market Council in December - when there may be two meetings of the Council - Mr Clark announced a Presidency programme of bilateral contacts which will be targeted on the member states who pose the biggest obstacles to progress. We expect to submit shortly a proposal for you to write to other Heads of Government urging them to open the way to agreement on this substantial package of internal market measures. We also have in mind a further initiative - but not for use before the European Council - under which the United Kingdom Presidency would get credit by announcing that the Council had reached agreement on a further range of measures where a qualified majority exists and where a qualified majority would be sufficient for adoption under the Single European Act.

2. The Minister of Agriculture, Fisheries and Food may report on the Fisheries Council on 5 November. The Council is discussing the Commission's proposals for a new 10-year fisheries structures programme to replace measures which expire at the end of this year; a Presidency compromise on closing a fishery when a member state's quota is nearly exhausted; and relations with third countries.



3. The Minister of Agriculture, Fisheries and Food may also refer to problems over exports of sheep and sheepmeat to France from the United Kingdom. Following our letters to the French Minister of Agriculture and to the Agriculture Commissioner, the French Government has given assurances that excessive inspections on imports of United Kingdom lamb into France have been stopped. On the ground, however, this has been only partly true. It is not yet clear whether the residual problems are due to deliberate obstructionism or to slow working of the administration. Mr Jopling has written to his colleagues proposing that if the French continue to deliberately raise obstacles at import we should be ready to increase the intensity of our own inspections on imports from France of Golden Delicious apples (not illegal but, of course, a significant obstruction to trade). Colleagues are likely to agree on the understanding that we would launch our action only if we were sure that the French are definitely not doing what they have promised. The heat should in any event be going out of the lamb dispute now as market prices strengthen in the period up to Christmas.

4. There will be a meeting of Foreign Ministers in London on 10 November which will come back to the question of action in response to Syrian-backed terrorism; a Transport Council on 10-11 November; and a Development Council on 11 November. The European Parliament will be in session on 10-14 November.

RA

ROBERT ARMSTRONG

5 November 1986



CCP
✓

CABINET OFFICE

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31 October 1986

John Leigh,

EX-NOVO REVIEW : REFORM OF THE STRUCTURAL FUNDS

Thank you very much for your letter of 29 October.

will request if required

In drafting the minutes of the meeting on 24 October we drew the line between points a. to d. on page 3 and points e. to g. on page 4 on the following grounds. It seemed to me that a. to d. are points which we could readily put over at this stage as being part of the general UK position; and point c. in fact takes up the thought which is inherent in point e. But I did not include e. in points that could be put over to the Commission because of its mention of the problem of non-additionality and the need for further examination. I did not include point f. because I was not sure that we had gone far enough in our discussion of the balance of objectives between the ESF and ERDF. But I would not be at all averse to UKREP or other qualified officials making it clear to the Commission that for us ESF projects are at least as important as projects under the ERDF. While at the meeting I took the point which you made about the way in which ESF projects fit more neatly with our overall UK objectives than ERDF projects we nonetheless need to take all possible steps to maximise our ERDF quota share and I think that at this stage it would be a false step to be backing one fund against the other.

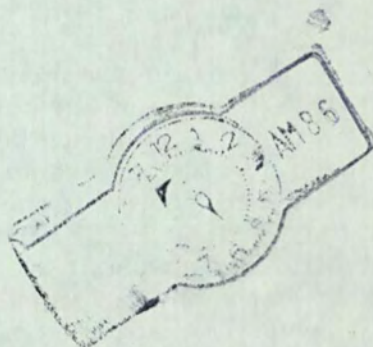
These are obviously issues which we shall need to debate in our further discussions.

I am sending a copy of this letter to those to whom you copied yours.

*Yours
John*

J H HOLROYD

Europel: Budget.





CONFIDENTIAL

THE UK REGIONAL DEVELOPMENT PROGRAMME

Introduction

1. This note describes the preparation of the UK Regional Development Programme submitted to the European Commission on 25 July 1986 and the way in which it was made public; identifies the weaknesses in that procedure; and makes recommendations.

The European Development Fund

2. The European Development Fund is one of the Community's three structural Funds (the others being the Agricultural and Social Funds). It provides money in support of regional industrial or infrastructure projects in member states, within quota ranges for Fund support established for each member state. In order to attract at least the minimum (bottom of the range) support from the Fund, it is necessary to submit enough qualifying projects. In order to qualify for assistance from the Fund, projects have to be consistent with a five-year Regional Development Programme approved by the European Regional Development Policy Committee (of member states) and by the European Commission.

3. Applications in respect of industrial projects are submitted by DTI and relate to the Department's regional industrial assistance schemes. Applications for infrastructure projects are put together by the local authority or other public body concerned, in conjunction with the Department of the Environment. They are then submitted to the Commission by DTI. Assistance by the Fund usually covers 50 per cent of the grant paid in respect of an industrial project. The money is retained by the Exchequer. Grants for infrastructure represent 30-50 per cent of the eligible capital expenditure. This money is passed to the local authority or public body concerned which, however, remain subject to their existing capital ceilings or EFLs. It is in the UK's interest to maximise these receipts, even though they represent, on reasonable assumptions, a gain of only 33 per cent of the money received from the Fund (because of the operation of the corrective mechanism relating to the UK's net contribution to the Community budget as a whole).



CONFIDENTIAL

2

4. It is therefore in the UK's interest to submit a Regional Development Programme which serves as a convincing cover for subsequent applications in respect of projects. In order to maximise the aid they can attract, member states need to stress their regional problems; all do so. If the UK did not submit a Regional Development Programme it would get no support from the Fund. If it did not submit a convincing programme which fully satisfied the Commissioner it would get less support than if it did. The UK has been relatively successful in attracting support. Quota commitments from the Fund to the UK in 1985 were 585 MECU (£345m) and payments 458 MECU (£257m).

5. The form of the programme and its contents are largely determined by requirements in the main regulation governing the Fund (1787/84). These have the effect that quantified forecasts have to be given of job deficits in each region for the years to which the programme relates.

6. Earlier UK Regional Development Programmes related to the periods 1978-1980 and 1982-1986. That for 1982-1986 was originally drafted in respect of 1981-1985. In its original version it was criticised by the Commission for not containing sufficient detail about the problems of the regions and for not having any job deficiency forecasts. In assembling the Programme for 1986-1990 efforts were made to forestall such criticisms.

Preparation of the Programme

7. The Programme for 1986/1990 was requested by the Commission by the end of the 1985/86 financial year. In October 1985 the Grade 7 officer responsible for the Programme's preparation in Industrial Development Division of the Department of Trade and Industry commissioned contributions from within DTI and from the Departments of Employment, Environment and Energy, and from the Ministry of Agriculture Fisheries and Food, the Treasury, the Management and Personnel Office and the Scottish, Welsh and Northern Ireland Offices. He sent them a copy of the overview of the previous Programme (1982-1986), asking them to update this and describe any new measures adopted since the previous Regional Development Programme in support of regional and industrial policies.

8. The Departments concerned consulted outside bodies as necessary. DOE and the Welsh and Scottish Offices invited local and other public authorities to describe particular problems in regard to the infrastructure for which they were responsible, and to outline remedial measures currently



CONFIDENTIAL

3

being undertaken or planned in order to overcome these difficulties, with an indication of the likely cost. These Departments, and the Northern Ireland Office, forwarded contributions to the DTI, which collated the regional profiles they provided and in the case of the overview added its own contribution. At the Commission's request the DTI prepared a summary of the Programme, clearing it and the overview with other Departments. The Programme as a whole was sent to the Commission on 25 July 1986.

9. Like DTI, the Department of the Environment and the three territorial Departments were aware that the Programme, like that for 1982-1986, would eventually pass into the public domain by being placed in the Libraries of both Houses of Parliament. The Welsh and Northern Ireland Offices cleared their contributions at Ministerial level. The other Departments cleared contributions only at official level.

10. Within DTI, the Minister of State responsible was made aware of the Programme but was not invited to read its 1502 pages, or even the summary of 174 pages. His attention was however drawn specifically to the possibility of embarrassment from the publication of the "quantified forecasts of job deficits in each region" requested by the Commission and appearing in the overview. As a result, he wrote on 6 March 1986 to the Secretary of State for Employment, asking him to authorise his officials to supply forecasts covering the period 1986-1990, and drawing his attention to the fact that this information would come into the public domain, as a complete copy of the Regional Development Programme would be placed in the House of Commons Library, copies would be sent to local authority associations, and copies would be made available on request, once the Programme had secured a favourable opinion from the Regional Policy Committee of the Commission, to MEPs and to universities and similar bodies. Copies of this letter were sent to the Prime Minister, all members of E(A), the Secretaries of State for Foreign and Commonwealth Affairs, the Environment, Scotland, Wales and Northern Ireland, and to Sir Robert Armstrong. The Secretary of State for Employment replied on 7 May 1986, saying that he had asked his officials to provide the necessary information, prepared on the same basis as in 1982 and with that basis made clear in an annex.

11. The cost of compiling the Programme is put at about £60,000 - a very rough estimate covering all Departments and possibly somewhat conservative. The 1986-1990 Programme is very similar in scale and content to that of 1982-1986: 1502 pages including a summary of 174 pages, compared with 1200 pages last time, when no summary was produced.



CONFIDENTIAL

4

Publication of the Programme

12. On 5 September the Grade 5 officer in charge of the Branch responsible made a submission, which had been seen in draft by the Department of the Environment and the territorial Departments, proposing that pressure from the Commission for further information about priorities should be resisted; that local and public authorities which had contributed to the preparation of the Programme should be given a copy, on request, of the section to which they had contributed; that copies of the final version of the Programme (ie as ultimately approved by the Commission) should be placed in the Libraries of both Houses of Parliament; and that copies of the version submitted to the Commission should be placed in the Libraries earlier if Parliamentary pressure developed. The Minister of State concerned (Mr Morrison) left the Department before being able to consider this submission. His successor (Mr Shaw) approved the submission and asked, on 23 September, that copies of the draft Programme and summary should be placed in the Libraries of both Houses as soon as possible, and that a copy should be sent to Mr Gordon Brown MP in view of the interest he had shown in the subject. The submission did not draw the Minister's attention to the political sensitivity of some of the material in the Programme, describing it as lengthy, repetitive and bureaucratic.

13. The Programme was deposited in the Libraries of both Houses on 7 October and a copy was sent on 1 October to Mr Gordon Brown MP. No notification of this timing was given to the other Departments concerned.

Weaknesses of this Procedure

14. Five main weaknesses contributed to the embarrassment caused by this procedure:

- i. It was assumed, wrongly, that a procedure which had been followed satisfactorily in preparing the 1982-1986 Programme could safely be followed again;
- ii. It may not have been sufficiently appreciated that the greater involvement of local authorities presented political risks which called for more careful editing of the regional profiles;

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CONFIDENTIAL

5

- iii. The division of responsibility between DTI and the Departments contributing sections of the Programme left no one clearly responsible for vetting the report as a whole for political sensitivity. DTI relied on DOE clearance of the material which that Department supplied; it was not therefore read in full in DTI, above the level of HEO;
- iv. The bulk of the material was not submitted for Ministerial approval;
- v. No notification was given to Departments of the timetable for publication, which it was assumed (wrongly) would attract as little attention as in 1982.

How should the Programme be handled in future?

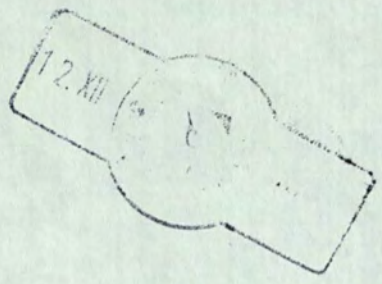
15. It is recommended that when the next Regional Development Programme is prepared, the following steps should be taken:

- i. In commissioning contributions to the Programme, DTI should emphasise the fact that this material will pass into the public domain;
- ii. DTI should ask contributing Departments to clear their contributions at Ministerial level and to confirm, in submitting them, that they had done so;
- iii. Responsibility for the content of contributions should rest, and be seen to rest, with the Departments contributing them. DTI should however examine all contributions critically and take up queries or criticisms with the contributing Department;
- iv. The publication of the Programme, its timing and presentation should be the subject of full consultation between Departments and decisions on these points should be cleared with all Departments at Ministerial level.

Department of Trade and Industry
30 October 1986

006ABF

EUROPEL : Budget pt 33,





GDP
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THE PRIME MINISTER

White Paper Developments in the EC:

January to June 1986

1. Members of the Defence and Overseas Policy Committee, Sub Committee on European Questions have already seen a draft of the latest White Paper on Developments in the European Community.
- / 2. I enclose for your information a pre-publication version of the White Paper. It will be published tomorrow, 31 October.
3. I am copying this minute to other Cabinet colleagues.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

30 October 1986



Ref. A086/3081

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council of 27 October. An otherwise highly productive Council was overshadowed by the feeble response of some other member states, in the political co-operation framework, to the United Kingdom's request for a strong common position towards Syria following the evidence in the Hindawi case of the Syrian Government's involvement in terrorist acts. The Council did, however, agree on:

- a. The opening of a GATT Article XXIII test case action against Japanese discrimination on imported alcoholic drinks (including whisky), with a commitment to quick procedures in the GATT and a 30 day deadline for consideration of Community action if, as we expect, the GATT finds against Japan. The Commission is also examining other product sectors.
- b. Final approval of the agreement on citrus and pasta with the United States, thus removing another potential cause of trade conflict.
- c. The approach to trade negotiations with Comecon and individual East European countries.
- d. The extension of aid and trade measures to Palestinians of the West Bank and Gaza (the absence of this was an anomaly under the earlier arrangements with Israel, Jordan and Egypt).

e. Two important regional fund projects on advanced telecommunications (STAR) and indigenous energy (VALOREN).

f. The implementation of the measures against South Africa on gold coins and investment, on lines entirely consistent with out existing decision on gold coins and our non-legislative approach (for which the decision of the member states explicitly provides) to the investment ban.

The United Kingdom also made a formal statement on its future approach to international commodity agreements.

2. On Syria there was a long and difficult session among Ministers only at which the Foreign and Commonwealth Secretary proposed a number of specific measures which should be agreed there and then. The majority of member states were prepared to act but, as there was not unanimity, the Netherlands suggested that as a measure of Community solidarity member states should withdraw their Ambassadors for consultation on the appropriate action to be agreed by all member states on 10 November. In the end it was decided by 11 member states - Greece dissenting - that they expressed support for the United Kingdom's action; agreed not to accept Syrian diplomats expelled from the United Kingdom (this is an existing obligation); and decided to consult before the Ministerial meeting on 10 November on arms sales, high level visits, activities of Syrian Embassies and security arrangements affecting Syrian Arab Airlines operations. Progress was severely hindered by the absence of six foreign ministers, including those of France, Germany and Italy, whose deputies were unable to take as much responsibility as we wished. The Foreign and Commonwealth Secretary made clear that the result fell far short of what we wanted - and this is strongly reflected in the British press - and that we would want a better response on 10 November.

3. It is possible that the Secretary of State for Trade and Industry may mention the Consumer Affairs Council on 29 October. It is likely that the Council will adopt a resolution committing the Community to give the consumer interest a higher profile in other areas of Community policy. It may also make progress on strengthening a useful system of swift notification between member states of potentially dangerous consumer products; and on a draft directive on consumer credit which is based on the United Kingdom's Consumer Credit Act.

4. There will be an Internal Market Council on 3 November and a Fisheries Council on 5 November.

REA

ROBERT ARMSTRONG

29 October 1986

TO BE CHECKED
AGAINST DELIVERY

STATEMENT ON MEETING OF FOREIGN AFFAIRS COUNCIL, 27 OCTOBER, TO BE MADE BY THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS, SIR GEOFFREY HOWE IN THE HOUSE OF COMMONS ON TUESDAY 28 OCTOBER 1986

With permission, Mr Speaker, I should like to make a statement on meeting of the Foreign Affairs Council on 27 October.

I chaired a meeting of the Foreign Affairs Council in Luxembourg on 27 October. The Minister for Trade represented the United Kingdom.

The Council approved the Commission's intention to launch immediate action in the GATT with a view to securing rapid removal of Japanese discriminatory barriers to imports of alcoholic drinks. The Council also decided to keep under close review the conditions under which Japanese products are exported to the EC.

The Council welcomed the agreement with the United States settling the outstanding trade dispute over citrus fruit and pasta.

The Council also discussed briefly the negotiations with the United States about the trade effects of enlargement, the proposals for the 1987 Generalised Scheme of Preferences and recent Canadian trade measures.

Agreement was reached on new Community programmes in the fields of energy and telecommunications. These include allocations of £29 million to Northern Ireland.

The Council welcomed the recent agreement on a revised Community mandate for the negotiations with Mediterranean countries on the maintenance of their trade access to the Community following the accession of Spain and Portugal.

The Council considered its reaction to the expressed wish of COMECON to enter into official relations with the Community as well as possible bilateral agreements with Romania, Czechoslovakia and Hungary. It confirmed the importance of mutually beneficial commercial and economic links with Eastern European countries.

The Council reached agreement on the implementation of a Community wide ban on imports of gold coins from South Africa. The Member states also adopted a Decision suspending new investment in South Africa by firms and individuals in the Community. My Rt Hon Friend the Secretary of State for Trade and Industry will be announcing shortly details of how this measure will be implemented.

The Council approved proposals to grant the Palestinian populations of the West Bank and Gaza preferential access to the Community market, and agreed to establish a fresh aid programme for those territories. These proposals will bring practical help to those living in the Occupied Territories. They were the result of a British initiative. They underline our continuing commitment to the search for peace in the region.

I gave my Community colleagues a full briefing on the Hindawi case and presented them with the conclusive evidence of Syrian official involvement. They were both impressed and disturbed.

The Greek representative could not associate himself with any measures or statement against Syria or the Syrian Government. With that sole exception all Ministers expressed their collective sense of outrage that the agencies of a state had been involved in such an incident. And they expressed full understanding and support for the action which we had taken.

They undertook that no partner would accept as a diplomat any of the Syrians who had been expelled from London in connection with this case.

We instructed the Political Committee to meet on 6 November to continue this discussion. By that date Ambassadors in Damascus will have presented the Syrian Government with the evidence of what has taken place, and will have reported back. We have agreed to consider at the next Ministerial Meeting in London, on 10 November, the possibility of action in relation to :

- arms sales to Syria;
- high level visits to and from Syria;
- the activities of Syrian Embassies in the Member states;
- security arrangements affecting the operations of Syrian Arab Airlines;

Yesterday's proceedings went some way - but by no means as far as the House would have wished - to send the Syrian Government a clear message that their behaviour has been intolerable.

Finally, Syria is one of the countries for which the Community's Mediterranean Financial Protocols expire next Saturday. Renewal requires unanimity. There can be no question of the UK agreeing to further financial assistance for Syria in present circumstances.

out any case at all for this schedule, which is totally loaded against the existing tenant.

Lord Skelmersdale: My Lords, with the leave of the House, that was not the case we were considering. When we reach the point that the noble Lord, Lord Dean, proposes in Amendment No. 4—unless he wants to deal with the point now, which I am prepared to do—we can consider the workings of Schedule 1. This amendment is directed to those cases where the noble Baroness, Lady David, wishes to insert into the statute a public local inquiry.

Lord Dean of Beswick: My Lords, with the leave of the House, I am most grateful to the noble Lord. The overwhelming part of the Minister's case, when he was trying to convince your Lordships that there was no necessity for a public inquiry, consisted of trying to hide behind or use the provisions of Schedule 1. That is why I intervened.

Lord Skelmersdale: My Lords, I assume that that was an intervention and that I need not ask the leave of the House to speak again. With regard to the point made by the noble Lord, Lord Stallard, the consultation provisions in Clause 6 relate to sales of tenanted properties to any private sector purchaser. In such a case tenants will have the preserved right to buy, security of tenure and such other rights as are protected by agreement with the developer. The question of on-sale by the developer of tenanted properties is irrelevant. Tenants will retain their rights, including security of tenure.

I have reconsidered this matter. I know that noble Lords opposite do not like my conclusions because they are the same as the ones I came to before. That does not mean that I have not given the matter a great deal of thought.

Baroness David: My Lords, I am grateful to the Minister for reconsidering the matter. I think he does me an injustice. I know what is in the schedule. We have been living solidly with this Bill for three weeks now, and I have read the schedule a good many times. I still find myself dissatisfied with it.

If a majority of tenants object, the scheme will not continue. We are thinking of a substantial minority—one third—of the tenants involved who do not like the scheme and who perhaps have not had the chance to make their feelings properly known and to have them taken into account. We are concerned with people's rights, especially rights which have to do with homes. We do not see why private owners should have the right to go to an inquiry if their homes are to be compulsorily purchased and they risk losing them, whereas public sector tenants will not have that right unless we have this public inquiry clause written into the Bill.

I am not satisfied with the answer. I wish to press the amendment.

3.53 p.m.

On Question, Whether the said amendment (No. 2) shall be agreed to?

Their Lordships divided: Contents, 105; Not-Contents, 122.

DIVISION NO. 1

CONTENTS

Airedale, L.	Listowel, E.
Amherst, E.	Llewelyn-Davies of Hastoe, B.
Ardwick, L.	Lloyd of Kilgerran, L.
Avebury, L.	Lockwood, B.
Aylestone, L.	Lovell-Davis, L.
Banks, L.	Mackie of Benshie, L.
Bernstein, L.	McNair, L.
Beswick, L.	Mais, L.
Birk, B.	Mar, C.
Blyton, L.	Millford, L.
Bonham-Carter, L.	Mishcon, L.
Boston of Faversham, L.	Molloy, L.
Bottomley, L.	Morton of Shuna, L.
Brockway, L.	Murray of Epping Forest, L.
Bruce of Donington, L.	Northfield, L.
Burton of Coventry, B.	Oram, L.
Campbell of Eskan, L.	Paget of Northampton, L.
Carmichael of Kelvingrove, L.	Pitt of Hampstead, L.
Chitnis, L.	Ponsonby of Shulbrede, L.
Cledwyn of Penrhos, L.	[Teller.]
Collison, L.	Prys-Davies, L.
David, B.	Rathcreedan, L.
Davies, L.	Reilly, L.
Davies of Penrhys, L.	Rochester, L.
Dean of Beswick, L.	Rugby, L.
Denington, B.	Sainsbury, L.
Devonshire, D.	Sear, B.
Diamond, L.	Sefton of Garston, L.
Donaldson of Kingsbridge, L.	Serota, B.
Elwyn-Jones, L.	Shackleton, L.
Ennals, L.	Shepherd, L.
Ewart-Biggs, B.	Silkin of Dulwich, L.
Ezra, L.	Simon, V.
Falkender, B.	Stallard, L.
Fisher of Rednal, B.	Stedman, B.
Fitt, L.	Stewart of Fulham, L.
Foot, L.	Stoddart of Swindon, L.
Gallacher, L.	[Teller.]
Galpern, L.	Strabolgi, L.
Glenamara, L.	Strauss, L.
Graham of Edmonton, L.	Taylor of Blackburn, L.
Gregson, L.	Taylor of Mansfield, L.
Grimond, L.	Tordoff, L.
Harris of Greenwich, L.	Turner of Camden, B.
Houghton of Sowerby, L.	Underhill, L.
Hughes, L.	Vernon, L.
Hutchinson of Lullington, L.	Wallace of Coslany, L.
Irving of Dartford, L.	Wells-Pestell, L.
Jacques, L.	Whaddon, L.
Jeger, B.	White, B.
Jenkins of Putney, L.	Williams of Elvel, L.
Kilbracken, L.	Wilson of Rievaulx, L.
Kilmarnock, L.	Winstanley, L.
Leatherland, L.	

NOT-CONTENTS

Alexander of Tunis, E.	Campbell of Croy, L.
Allerton, L.	Carnegy of Lour, B.
Alport, L.	Carnock, L.
Amphill, L.	Cayzer, L.
Auckland, L.	Chelmer, L.
Bancroft, L.	Coleraine, L.
Bauer, L.	Constantine of Stanmore, L.
Beaverbrook, L.	Cottesloe, L.
Beloff, L.	Croft, L.
Belstead, L.	Cullen of Ashbourne, L.
Bessborough, E.	Dacre of Glanton, L.
Blake, L.	Davidson, V. [Teller.]
Blanch, L.	Denham, L. [Teller.]
Blyth, L.	Denning, L.
Boyd-Carpenter, L.	Duncan-Sandys, L.
Broxbourne, L.	Effingham, E.
Bruce-Gardyne, L.	Ellenborough, L.
Butterworth, L.	Elliot of Harwood, B.
Byron, L.	Elton, L.
Caithness, E.	Faithfull, B.
Campbell of Alloway, L.	Fanshawe of Richmond, L.

Fraser of Kilmorack, L.
Gainford, L.
Gibson-Watt, L.
Glanusk, L.
Gorell, L.
Gray, L.
Gray of Contin, L.
Gridley, L.
Hailsham of Saint
Marylebone, L.
Halsbury, E.
Hayter, L.
Henderson of Brompton, L.
Hesketh, L.
Hives, L.
Home of the Hirsell, L.
Hooper, B.
Hunter of Newington, L.
Hylton-Foster, B.
Ilchester, E.
Inglewood, L.
Ironsides, L.
Kaberry of Adel, L.
Kinloss, Ly.
Kinnaid, L.
Knollys, V.
Lane-Fox, B.
Lauderdale, E.
Layton, L.
Lloyd-George of Dwyfor, E.
Long, V.
Lonsdale, E.
Lucas of Chilworth, L.
Lyell, L.
McAlpine of West Green, L.
McFadzean, L.
MacLeod of Borve, B.
Malmesbury, E.
Mancroft, L.
Margadale, L.

Merrivale, L.
Mersey, V.
Milverton, L.
Molson, L.
Monk Bretton, L.
Monson, L.
Morris, L.
Mowbray and Stourton, L.
Munster, E.
O'Brien of Lothbury, L.
Off-Ewing, L.
Pender, L.
Peyton of Yeovil, L.
Porritt, L.
Portland, D.
Quinton, L.
Rankeillour, L.
Reay, L.
Renton, L.
Rodney, L.
St. Davids, V.
Sandford, L.
Sandys, L.
Seebohm, L.
Sharples, B.
Skelmersdale, L.
Strathcona and Mount Royal,
L.
Strathspey, L.
Sudeley, L.
Terrington, L.
Teviot, L.
Trefgarne, L.
Trumpington, B.
Vaux of Harrowden, L.
Vickers, B.
Vivian, L.
Whitelaw, V.
Wise, L.
Wynford, L.
Young, B.

Resolved in the negative, and amendment disagreed to accordingly.

Foreign Affairs Council

4.1 p.m.

The Minister of State, Foreign and Commonwealth Office (Baroness Young): My Lords, with the leave of the House, I shall now repeat a Statement on the Foreign Affairs Council on 27th October being made in another place by my right honourable and learned friend the Secretary of State for Foreign and Commonwealth Affairs, Sir Geoffrey Howe. The Statement is as follows:

"With permission, Mr Speaker, I should like to make a Statement on the meeting of the Foreign Affairs Council which I chaired on 27th October. The Minister for Trade represented the United Kingdom.

"The council approved the Commission's intention to launch immediate action in the GATT with a view to securing rapid removal of Japanese discriminatory barriers to imports of alcoholic drinks. The council also decided to keep under close review the conditions under which Japanese products are exported to the EC. The council welcomed the agreement with the United States settling the outstanding trade dispute over citrus fruit and pasta.

"The council also discussed briefly the negotiations with the United States about the trade effects of enlargement, the proposals for the 1987 generalised scheme of preferences and recent Canadian trade measures. Agreement was reached on new community programmes in the fields of energy and telecommunications. These include allocations of £29 million to Northern Ireland.

"The council welcomed the recent agreement on a revised Community mandate for the negotiations with Mediterranean countries on the maintenance of their trade access to the Community following the accession of Spain and Portugal. The council considered its reaction to the expressed wish of Comecon to enter into official relations with the Community as well as possible bilateral agreements with Romania, Czechoslovakia and Hungary. It confirmed the importance of mutually beneficial commercial and economic links with Eastern European countries.

"The council reached agreement on the implementation of a Community-wide ban on imports of gold coins from South Africa. The member states also adopted a decision suspending new investment in South Africa by firms and individuals in the Community. My right honourable friend the Secretary of State for Trade and Industry will be announcing shortly details of how this measure will be implemented.

"The council approved proposals to grant the Palestinian populations of the West Bank and Gaza preferential access to the Community market and agreed to establish a fresh aid programme for those territories. These proposals will bring practical help to those living in the occupied territories. They were the result of a British initiative. They underline our continuing commitment to the search for peace in the region.

"I gave my Community colleagues a full briefing on the Hindawi case and presented them with the conclusive evidence of Syrian official involvement. They were both impressed and disturbed. The Greek representative could not associate himself with any measures or statement against Syria or the Syrian Government. With that sole exception, all Ministers expressed their collective sense of outrage that the agencies of a state had been involved in such an incident, and they expressed full understanding and support for the action which we had taken. They undertook that no partner would accept as a diplomat any of the Syrians who had been expelled from London in connection with this case.

"We instructed the Political Committee to meet on 6th November to continue this discussion. By that date, ambassadors in Damascus will have presented the Syrian Government with the evidence of what has taken place and will have reported back. We have agreed to consider at the next ministerial meeting in London on 10th November the possibility of action in relation to arms sales to Syria, high level visits to and from Syria, the activities of Syrian embassies in the member states, and security arrangements affecting the operations of Syrian Arab Airlines.

Yesterday's proceedings went some way—but by no means as far as the House would have wished—to send the Syrian Government a clear message that their behaviour has been intolerable.

“Finally, Syria is one of the countries for which the Community's Mediterranean financial protocols expire next Saturday. Renewal requires unanimity. There can be no question of the United Kingdom agreeing to further financial assistance for Syria in present circumstances.”

My Lords, that concludes the Statement.

Lord Cledwyn of Penrhos: My Lords, we are grateful to the noble Baroness for repeating the Statement which deals with a number of important matters. Our immediate attention is naturally concentrated upon Syrian official involvement in the Hindawi case. The word “official” is used in the Statement. Can the noble Baroness say what is the conclusive evidence against the Syrian Government that is mentioned in the Statement? Are we to assume that the word “official” refers not only to the Syrian embassy in London but also to the Syrian Government? We support the Government in their total condemnation of the act. We support the Government in their action and their attitude generally. It would help, however, if the facts were reiterated and made plain by the noble Baroness.

Furthermore, do our EC partners accept the evidence referred to in the Statement as conclusive? Was the evidence discussed in detail at the meeting? Did the Foreign Ministers of the 11 agree that the evidence was in fact incontrovertible? We note the reaction of many of our EC partners. We are disappointed that they are unable to accept the Government's proposals in full. We are glad nonetheless that there are to be further deliberations on 10th November. We hope that more progress will then be made in the direction of positive and effective action. Can the noble Baroness say whether there is reason to hope that this will be the case after the meeting on 10th November?

Can the noble Baroness further confirm that trade considerations are the main obstacles to full agreement and a united stand against terrorism? Can she say, firstly, what is the total arms trade between EC countries and Syria and, secondly, what is the current level of EC aid to Syria? How will the expiry of the financial protocols affect aid generally from EC countries to Syria? It would help the House if the noble Baroness could say what steps the United States Administration are proposing to take in the matter. We have noted from newspaper reports the current views of the United States Administration. It would help if we knew what steps they might have in mind as well.

Can the noble Baroness say, finally, on this point how many international terrorist organisations have their headquarters in Damascus or elsewhere in Syria, and whether it is true that Syria is in practice a bigger menace in the field of terrorism than is Libya? We note with approval from the Statement read by the noble Baroness the closer relationship which may become possible with Comecon. However, having said that, what official representations do the Government propose to make to the Soviet Union, an ally of Syria,

about that country's harbouring of terrorists and the effect upon the international community?

We note with the interest the other matters mentioned in the Statement. I regret that, owing to the importance of that one matter I have just discussed, it is not possible to go into details on these other issues but perhaps we shall be able to deal with them in our Foreign Affairs debate which will take place in due course following the Gracious Speech. However, I should like to refer to the Japanese Government's barriers to imports which are mentioned in the Statement. From my own experience these are quite indefensible. Apart from the close review which is mentioned in the Statement, what positive action are we and our partners in the EC going to take against the Japanese in order to remove this inequitable situation that exists?

Lord Harris of Greenwich: My Lords, in thanking the noble Baroness for repeating the Statement, may I ask whether she is aware that we welcome the decision of the Government to take action in respect of Syria in relation to the Community's Mediterranean financial protocols. Perhaps I may raise two specific questions. Is the noble Baroness aware that we very much hope that the next ministerial meeting with our Community partners in London next month will be rather more satisfactory than the last? Is she aware in respect of our relationship with our colleagues in Europe that there is some need to avoid self-righteousness in this matter? Is the noble Baroness aware that we hesitated for a very long time before we took action against the terrorists who were working from the Libyan People's Bureau in St. James's Square? Is she aware that the only reason we ultimately did so was because of the lamentable murder of Woman Police Constable Fletcher? Is the noble Baroness aware that a number of us raised the need for more vigorous action in respect of the Libyans on a number of occasions and got precisely nowhere until that murder occurred?

Is the noble Baroness aware that it is necessary to try to carry our European colleagues with us? Some of them have problems. For instance, the French have hostages who have been taken in Beirut and presumably they have to have periodic contact with the Syrian authorities in respect of the lives of those hostages. Is she aware, notwithstanding that, that we very much hope we shall get a more satisfactory meeting with our European colleagues next month?

May I turn to one specific question which a number of us raised after the murder of Woman Police Constable Fletcher because exactly the same issue has been raised in relation to the behaviour of the Syrians? That is the use of diplomatic bags. Is the noble Baroness aware that a number of us asked for far more vigorous steps to be taken on this issue on the last occasion? Is she aware that once again we have clear evidence that diplomatic bags have been used to bring explosives and firearms into this country? What action will now be taken? We cannot afford to waste more time and risk more lives in the future, both in this country and elsewhere, simply because of some hesitation on our part about bringing in more stringent requirements regarding these matters.

Lastly, may I ask the noble Baroness about the position of Syrian Arab Airlines, a well-known front

[LORD HARRIS OF GREENWICH.]

organisation for terrorists? Is she aware that, as I understand it, the Syrian Government have themselves decided not to have any further flights to London? May I ask the noble Baroness this question. If the Syrian Government change their position on that matter shall we allow such flights to take place or not?

4.15 p.m.

Baroness Young: My Lords, first, I should like to thank both the noble Lord, Lord Cledwyn, and the noble Lord, Lord Harris of Greenwich, for their reception of this Statement, and for their support for the action which the Government have taken with regard to Syria. I have been asked a number of quite specific questions by both noble Lords. I shall see whether I can give them answers to all the matters that they have raised.

The noble Lord, Lord Cledwyn, asked this very important question about what evidence we gave to our Community partners to indicate Syrian involvement. I can confirm to the noble Lord that we gave conclusive evidence of Syrian involvement with Hindawi, and that the Syrian claim that they thought he was no more than a *bona fide* journalist was, frankly, incredible. Why give him a passport in a false name? But perhaps I may draw the attention of the House to the Statement that was made on 24th October by my right honourable and learned friend in another place in which he listed the evidence that we gave which was produced in the trial: that hotel accommodation was reserved for the Syrian Arab Airline crew; that Hindawi spent the night after the bombing attempt in the Syrian Embassy accommodation where his hair clippings and hair dye were found.

These certain facts are undisputed: that Hindawi travelled on an official Syrian passport in a false name; his visa applications on two occasions were backed by official notes from the Syrian Foreign Ministry; and he met the Syrian ambassador, Dr. Haydar, in his embassy, after the discovery of the bomb. In addition, we have independent evidence that the Syrian ambassador was personally involved several months before the commission of the offence in securing for Hindawi the sponsorship of the Syrian intelligence authorities; and we have equally compelling evidence that during his detention Hindawi sought to contact secretly Syrian intelligence officials in Damascus with a request for their assistance in securing his release. I think that this is quite clear evidence on that point and I am glad to confirm it.

The noble Lord, Lord Cledwyn, went on to ask whether our Community partners accept as evidence that this is conclusive. Perhaps I may say that on that matter all our partners—except for Greece—shared our outrage at the Syrian involvement and expressed their understanding and support for our action. With regard to the Greeks, our view is that we fail to understand their inability to accept this compelling evidence of Syrian involvement with Hindawi. It is even more surprising in view of the recent terrorist incidents in Athens, including of course the unhappy murder of Mr. Whitty, the British Council employee.

This surely demonstrates that appeasement of terrorism does not pay.

The noble Lord went on to ask what we expect to come out of the next meeting of the Community Foreign Ministers, which will take place on 10th November. We very much hope that, when our partners have had time to reflect on the evidence and the implications of the case, we shall reach agreement on the proposals we have made. I know that my right honourable and learned friend is looking for agreement on that date. At the same time, of course, we have indicated our firm intention to back up our statements, as witnessed by the withdrawal of our financial support for Syria from the Community.

The noble Lord also asked me a number of questions on Community aid to Syria and in particular on arms. Perhaps I may answer the question on arms first. No figures are available for the Community's arms exports. Our own defence sales exports were approximately £13 million since 1984, and our partners have agreed to review their arms sales on 10th November. On the question of our general assistance to Syria, as the Statement made clear, the present Financial Protocol expires at the end of this month. It is worth £43 million and £22 million in budgetary aid. That of course will not be renewed. The Commission was expected to bring forward a proposal for both loans, and budgetary aid to Syria expected to amount to about £100 million over five years, and that requires agreement. We have of course indicated our position on that.

Perhaps I may conclude by saying that the United States has agreed to withdraw its ambassador from Syria, which sends the right signal to the Syrian Government. So far as concerns the Soviet Union, we have made strong representations in both London and Moscow, particularly because the Soviet media in its support for Syria is totally inconsistent with the professed Soviet opposition to terrorism.

There was one last point that the noble Lord, Lord Cledwyn, raised concerning Japanese trade barriers. The noble Lord asked what, if anything, we had been prepared to do about the situation. I think, as the Statement made clear, we feel we have no alternative but to take the Japanese action to the GATT, which is fully in accordance with the European Community's international trading obligations.

I think that there were two specific points raised by the noble Lord, Lord Harris, which I have not covered in my answer to the noble Lord, Lord Cledwyn. Perhaps I may just say as a general point that I do not think we feel in any sense self-righteous about this. It is a terribly serious situation. The government have acted responsibly and swiftly to deal with this very difficult situation. I think we have been a leader of other countries in Europe in an effort to get international co-operation to deal with the situation.

On the specific points which the noble Lord, Lord Cledwyn, raised, the first of which was whether we are taking sufficiently vigorous action, I think the evidence that we have taken action is quite clear, and we have made this plain to our Community partners. It is also worth remembering that we also have hostages in Lebanon. Therefore, it is a very difficult policy for us to pursue.

Concerning the question of diplomatic bags, which was the second point the noble Lord raised, this is something which we are looking at actively. It is a subject of concern. However, there is no evidence that diplomatic bags were used in the Hindawi case.

Lord Boyd-Carpenter: My Lords, does my noble friend's reference to the review of arms sales from the Community to Syria being reviewed on 10th November cover the suggestion fairly widely stated in the press that the French certainly were contemplating major arms sales to Syria? Was it made clear to the French that if there was anything in that it would be a most serious matter? Is it covered by her statement that all this is to be considered, I hope firmly, on 10th November?

Baroness Young: My Lords, I am able to give my noble friend that assurance. This was one of the matters discussed in a very lengthy meeting. It is clearly one of the issues to which my right honourable and learned friend will be returning at the meeting on 10th November.

Lord Orr-Ewing: My Lords, perhaps my noble friend will continue to press the matter of the diplomatic bags. It is a very long time now since this was discovered. I think I remember reading, perhaps not in this specific case, that the Syrian airlines had been widely used for the import of arms and explosives. Surely there is nothing against X-raying a diplomatic bag. It is the papers which are valuable and secret. If there are arms in those bags they will be very quickly shown up. Surely this is a matter which could be pressed with the EC as well so that we can universally take action against those countries which are harbouring and training terrorists. There are people who say that the actions which the EC and ourselves have already agreed, and the further actions which we hope may be agreed on 10th November, are anti-Arab. Can my noble friend say what possible evidence there is in any way to support that?

Baroness Young: My Lords, I can certainly give an assurance to my noble friend that as I indicated earlier, we are looking actively at the whole question of diplomatic bags. I have noted the important point that he made.

Concerning the second point that he raises, I am glad to confirm that our action is in no sense anti-Arab. We believe our Arab friends well understand our reasons for breaking relations with Syria. As the Statement makes clear, the Community has just adopted on a British initiative a programme of aid and preferential access to the Community for the West Bank and for Gaza.

Lord Beswick: My Lords, the noble Baroness emphasises the fact that our other partners, apart from Greece, sympathised and agreed with the action which we had taken. Perhaps she can say whether anything was said as to why they were unable to follow the action that we had taken? Also, was there any consultation at all between our Government and the other partners before the action was taken by the United Kingdom?

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Baroness Young: My Lords, I think it is very important to recognise in what has been said that we believe that we have made useful progress. Except for Greece, all the partners share our sense of outrage at the Syrian involvement. As I indicated, they expressed their understanding for the action we have taken. It was clear that all the partners were prepared to take further action. However, in order to get all 11 countries to agree on the same action, there will need to be further discussion.

Our partners yesterday agreed the following: not to accept as diplomats those expelled from the United Kingdom in connection with the Hindawi case; that Community ambassadors should present evidence to the Syrian Government and report in time for discussion by the political committee on 6th November and by Foreign Ministers on 10th November; and that they would then consider further action on arms sales, as I indicated to my noble friend Lord Boyd-Carpenter, high level visits, activities of Syrian embassies and security in regard to the Syrian airline operation. There are a number of very important matters still to be discussed and we hope that agreement will be reached at this further meeting.

Lord Beswick: My Lords, the noble Baroness did not answer the question that I put to her about consultation between this country and our partners before any announcement was made as to our action.

Baroness Young: My Lords, we are in close contact with our Community partners. We made our announcements as to what we would do following upon the result of the court case last Friday. It has been clear over the weekend the action that we have taken. I think it is important to understand that progress was made yesterday—not as much progress as we might have wished, but nevertheless progress was made. My right honourable and learned friend wishes to come back at the next meeting on these other matters, which I recognise—as does the noble Lord, Lord Beswick, and other noble Lords—are issues that are extremely important and on which it will be important to reach agreement for common action.

Lord Beloff: My Lords, perhaps the Minister can assure the House that it was made clear by the Foreign and Commonwealth Secretary that common action against terrorism is regarded by many people in this country as a litmus test of the validity of the Community's commitment to act together. In that connection is it true, as is reported in the press today, that the Greek Foreign Minister went so far as to say that he did not believe the evidence presented by the British Foreign Secretary or the conclusion of a British court of justice? As this is not the first time by any means that Greece has taken up a stand hostile to the interests of this country and her allies, ought not the question of the status of Greece in the Community be looked at very seriously?

Baroness Young: My Lords, there have been a number of earlier European Community statements on terrorism. We have not been asking anything of our partners which has not already been agreed in principle in these statements. I should like to draw the attention of the House to them.

[BARONESS YOUNG.]

In Dublin in 1984 it was agreed that if one partner suffers a serious terrorist attack involving the abuse of diplomatic immunity, partners will be ready to consider common action in response. On 27th January 1986 the Community agreed that states that favour or protect terrorists cannot expect normal relations with the Twelve. Again, at the same time, there was a decision not to export arms or other military equipment to countries which are clearly implicated in supporting terrorism.

They intensified their common action to improve their own defences against terrorism and discourage those who support it in the following areas: security at airports, ports, railway stations; frontier controls; visa policies; and the abuse of diplomatic immunity. All those policies have been agreed by all the Twelve countries of the Community. We hope therefore that the Greek Government will agree to act in conjunction with the others at the next meeting on 10th November, because they have of course already in principle accepted the need for international action against terrorism.

4.30 p.m.

Lord Elwyn-Jones: My Lords, on the question of timing, it was essential (was it not?) that the judicial process at the Old Bailey, conducted in accordance with the highest principles of British justice, should have been completed and a decision arrived at before the Government could take action?

Baroness Young: My Lords, it is quite proper that the noble and learned Lord should make that point to the House, because of course we had to wait until the conclusion of the case before we could take action; and that was why the Statement was made when it was.

Lord Harris of Greenwich: My Lords, is the noble Baroness aware that inadvertently there was one point with which she did not deal; namely, the position of Syrian Arab Airlines? Is she aware that, as I understand the situation, the Syrians themselves have decided to suspend flights to London? The question which I asked was this. Assuming that that decision is changed, are we prepared to allow what is, in fact, an airline used for terrorist purposes throughout Western Europe to start flights again to London?

Secondly, is the noble Baroness aware that many of us find the Government's hesitation on the question of diplomatic bags almost incomprehensible? Is the noble Baroness aware that there was the clearest evidence in relation to Libya that those bags were used for that purpose? Is the noble Baroness aware that "the need for further consideration", and all the other phrases which have been used to explain total inaction on this question for a period of many months, is, I repeat, incomprehensible to many of us?

Baroness Young: My Lords, as regards the noble Lord's last point, obviously I take note of what he has said and I shall draw it to the attention of my right honourable and learned friend. I apologise to the noble Lord for not answering his question about the Syrian Arab Airlines. The Syrians have themselves ended Syrian airline flights to London. The noble Lord asked

me what we would do if they decided to reinstate those flights. I think that that would clearly be a matter which we would have to consider very carefully, as indeed, we are considering urgently the action that we should be taking about flights to Syria.

Lord Stewart of Fulham: My Lords, I am not clear about the effect of the answer which the noble Baroness gave to her noble friend Lord Boyd Carpenter. Is it the fact that at present the French Government are contemplating a considerable sale of arms to Syria, that the British Government have made it clear that we should deplore that, but that we do not yet know what the French decision will be?

Baroness Young: My Lords, the fact of the matter is that no decision has been taken by the Twelve on arms sales. I assured my noble friend, as I assure the noble Lord, Lord Stewart, that this is clearly a matter to which we attach the greatest importance. It is a matter on which we wish to obtain Community co-operation to stop arms sales to Syria in these circumstances, and that is clearly something which will be high on the agenda at the meeting on 10th November.

Lord Stewart of Fulham: My Lords, I asked the noble Baroness this question. Has it been the intention of the French Government to make a sale of arms to Syria, and how does that matter stand now?

Baroness Young: My Lords, my understanding of the position is that there are arms sales in prospect, but the important point is the decision, which we hope will be made by all our Community partners at the next meeting, to ban arms sales.

Housing and Planning Bill

4.35 p.m.

Proceedings after Third Reading resumed.

Clause 7 [*Certificate of fair rent with a view to disposal by public sector body*]:

Baroness David moved Amendment No. 3:

Page 14, line 26, after first ("a") insert ("tenanted").

The noble Baroness said: My Lords, the amendment seeks to clarify the position with regard to a confusion which has arisen on the Government's new clause concerning,

"Certificate of fair rent with a view to disposal by public sector body".

That was Amendment No. 27 at Committee stage, and the discussion is reported in cols. 204 to 207 of *Hansard* on 7th October.

The Minister was good enough to write to me to help to clarify my mind and the position about the new clause. In his letter he stated that this amendment was intended to cover disposal of local authority tenanted accommodation. He said:

"The first point I would like to make clear is that it is in no way related to our proposals elsewhere in the Bill to extend the assured tenancy scheme. The assured tenancy proposals are confined to the improvement, conversion repair and subsequent letting of empty property by approved landlords".

Foreign Affairs Council

3.37 pm

The Secretary of State for Foreign and Commonwealth Affairs (Sir Geoffery Howe): With permission, Mr. Speaker, I should like to make a statement on the meeting of the Foreign Affairs Council which I chaired in Luxembourg on 27 October. The Minister for Trade represented the United Kingdom.

The Council approved the Commission's intention to launch immediate action in the GATT with a view to securing rapid removal of Japanese discriminatory barriers to imports of alcoholic drinks. The Council also decided to keep under close review the conditions under which Japanese products are exported to the European Community.

The Council welcomed the agreement with the United States settling the outstanding trade dispute over citrus fruit and pasta.

The Council also discussed briefly the negotiations with the United States about the trade effects of enlargement, the proposals for the 1987 generalised scheme of preferences and recent Canadian trade measures.

Agreement was also reached on new Community programmes in energy and telecommunications. These include allocations of £29 million to Northern Ireland.

The Council welcomed the recent agreement on a revised Community mandate for the negotiations with Mediterranean countries on the maintenance of their trade access to the Community following the accession of Spain and Portugal.

The Council considered its reaction to the expressed wish of COMECON to enter into official relations with the Community as well as possible bilateral agreements with Romania, Czechoslovakia and Hungary. It confirmed the importance of mutually beneficial commercial and economic links with eastern European countries.

The Council reached agreement on the implementation of a Community-wide ban on imports of gold coins from South Africa. The member states also adopted a decision suspending new investment in South Africa by firms and individuals in the Community. My right hon. Friend the Secretary of State for Trade and Industry will be announcing shortly details of how this measure will be implemented.

The Council approved proposals to grant the Palestinian populations of the West Bank and Gaza preferential access to the Community market, and agreed to establish a fresh aid programme for those territories. These proposals will bring practical help to those living in the occupied territories. They were the result of a British initiative. They underline our continuing commitment to the search for peace in the region.

I gave my Community colleagues a full briefing on the Hindawi case and presented them with the conclusive evidence of Syrian official involvement. They were both impressed and disturbed. The Greek representative could not associate himself with any measures or statement against Syria or the Syrian Government. With that sole exception, all Ministers expressed their collective sense of outrage that the agencies of a state had been involved in such an incident. And they expressed full understanding and support for the action which we had taken. They

undertook that no partner would accept as a diplomat any of the Syrians who had been expelled from London in connection with this case.

We instructed the Political Committee to meet on 6 November to continue this discussion. By that date ambassadors in Damascus will have presented the Syrian Government with the evidence of what has taken place, and will have reported back. We have agreed to consider at the next ministerial meeting in London, on 10 November, the possibility of action in relation to arms sales to Syria; high-level visits to and from Syria; the activities of Syrian embassies in the member states; security arrangements affecting the operations of Syrian Arab airlines. Yesterday's proceedings went some way—but by no means as far as the House would have wished—to send the Syrian Government a clear message that their behaviour has been intolerable.

Finally, Syria is one of the countries for which the Community's Mediterranean financial protocols expire next Saturday. Renewal requires unanimity. There can be no question of the United Kingdom agreeing to further financial assistance for Syria in present circumstances.

Mr. Denis Healey (Leeds, East): First, I thank the Foreign Secretary for his statement. I welcome the agreement which was reached yesterday that the Palestinian inhabitants of the west bank and Gaza should now have preferential access to the Community markets and should enjoy a new aid programme. Can the right hon. and learned Gentleman tell us what other initiatives were suggested yesterday to promote peace between Israel and the Arabs? He rightly reminded the House on Friday that the absence of that is the fundamental cause of many of the terrorist acts which we have tragically witnessed in recent months.

Beyond that, we must accept that the outcome of yesterday's meeting was deplorable. Although Community Ministers had all agreed at earlier meetings under the Home Secretary, for example, that they would adopt concerted action against terrorism, half the Foreign Ministers concerned did not bother to turn up yesterday, and none of the other Foreign Ministers supported the right hon. and learned Gentleman's proposals.

Have any of the Community Governments now accepted the responsibility of protecting British interests in Syria? He was not able to tell us on Friday whether any other Government had accepted this responsibility and I hope that he will be able to do so this afternoon. The Opposition hope very much that the meeting on 10 November will be more successful in achieving common action in the areas which the right hon. and learned Gentleman has listed.

The House will be aware that the Opposition fully supported the Foreign Secretary's statement on Friday, and we support today his decision to impose financial and economic sanctions on Syria by vetoing any proposals for financial aid that may come before the Community. This is a precedent which I hope the right hon. and learned Gentleman will be prepared to follow in respect of other countries. Financial sanctions will undoubtedly cause unemployment and economic difficulty to the people of Syria—and in the circumstances, in my view, rightly so.

I pass to what the Foreign Secretary had to tell us about the discussions on South Africa. He must have found himself in some difficulty yesterday in arguing with his colleagues that they should not allow commercial or

[Mr. Denis Healey]

political national interests to impede concerted action against terrorism when Her Majesty's Government have done precisely that when the Community has considered concerted action against the South African Government, who have been guilty of terrorism on a large scale, especially in Namibia, and of armed attack on friendly states.

I should like to ask the right hon. and learned Gentleman some questions about the discussions on South Africa yesterday. First, why has the Community agreed to exclude Namibia from the scope of its sanctions, thereby opening a gaping hole in the ring fence which it is supposed to erect around South Africa? The American Congress, now overriding the President's veto, has included Namibia in the American sanctions. Why has the Community excluded iron ore and ferrous metals from the scope of sanctions? Has the Community now accepted responsibility for ensuring that its members carry out the decisions that have already been taken in the last few months on sanctions against South Africa?

The Foreign Secretary must recognise that action against terrorism must be indivisible if we take it seriously, and his case against the pusillanimous behaviour of some of our Community partners over Syria will be enormously strengthened if he does not show the same pusillanimity in dealing with sanctions against South Africa.

Sir Geoffrey Howe: I am afraid that the right hon. Gentleman has, characteristically, spoilt his presentation of quite a reasonable set of points. The discussion on South Africa that took place yesterday was concerned simply with the enforcement of the measures agreed at the meeting on 16 September. We were able to reach agreement on the method of doing that by adopting definitions common to the Community and generally used within comparable provisions of the European Coal and Steel Community. The House will have a further opportunity of asking a large number of questions about South Africa during ordinary Foreign Office questions tomorrow.

Mr. Healey: I will.

Sir Geoffrey Howe: I have no doubt that the right hon. Gentleman will, and I hope that he makes a better shot of it than he has today.

As to the substance of the matter, there is no question of a whole range of commercial and economic sanctions against Syria in the decision announced yesterday. What I announced, which was plainly accepted by the House, is that we will not assent to the granting of further financial aid to Syria. That seems to be entirely right and is supported on all sides of the House.

As for British interests, no decisions have yet been arrived at about whether, and if so in what fashion, interest sections will be established either in Damascus or in London.

With regard to the support of other Foreign Ministers, it should be recognised that all of them, with the exception of Greece, are prepared to take further action. Some of that further action will be for consideration at the meeting to be held on 10 November. One of the central problems yesterday was to secure unanimity from all the 11 on the same action being taken. I agree with the right hon.

Gentleman, as does the entire House, that we want to see a more concerted and effective set of decisions coming from the Community at the next meeting.

I am grateful to the right hon. Gentleman for his welcome of the provisions made in relation to the Palestinians on the West Bank and Gaza. That in itself is a useful initiative. We shall be returning to the subject of wider middle eastern questions when we next meet in political co-operation.

Several Hon. Members rose—

Mr. Speaker: Order. I am bound to take into account the fact that another statement is to follow that is of considerable importance, followed by a ten-minute Bill and an important Church Measure on which there is a great deal of interest. I shall allow questions on this matter to continue until four o'clock, but I bear in mind that there will be foreign affairs questions tomorrow.

Mr. Nicholas Soames (Crawley): Does my right hon. and learned Friend accept that many in this country believe that our so-called partners in the Community yesterday behaved in a tardy, timid and, above all, fatuous manner? Does he also agree that the behaviour of the French is particularly craven? If they cannot rally round in the cause of the fight against terrorism, what hope is there for any coherent Community policy on anything?

Sir Geoffrey Howe: I share absolutely my hon. Friend's sense of disappointment at the failure to reach unanimous agreement yesterday, but it should be recognised that on very many of the measures before colleagues the majority of them were prepared to take action of the kind we advocated. The problem was to secure unanimity from all of them in relation to all the measures we were seeking. It is for that reason that we shall be coming back to the matter on 10 November. It was regrettable that the French were unable to agree to a majority of the measures that we wanted, but I noted with interest that the President of France, in a television interview today, has said that: if proof of conduct of a terrorist kind was there,

"Europe's response ought to be total firmness."

He continued:

"there should be no compromise with terrorism and, above all, no compromise with states involved with terrorism." I look forward to the fulfilment of that statement at our next meeting.

Mr. Andrew Faulds (Warley, East): How can it be thought appropriate, however outrageous Syrian behaviour may be, to suspend EEC aid to Damascus when no such action has been taken to abrogate the EEC agreements with Israel, which has been guilty of much grosser offences of state terrorism against Lebanon, Syria, Iraq, Tunisia, and, for many years, against the Palestinian people both in Palestine and in the Palestinian diaspora?

Sir Geoffrey Howe: The hon. Gentleman has presented his characteristically specific view on the matter with characteristic vigour. The question of renewing any financial protocol in favour of Syria will not be supported by the United Kingdom. I am sure that that is right.

Mr. Richard Alexander (Newark): Did my right hon. and learned Friend discuss with his colleagues the abuse by some embassies of diplomatic baggage, whereby weapons and instruments of death can be spread about? If so, what progress did he make in reaching some

agreement that all embassy baggage should be scrutinised in the same way as any other baggage coming to this country?

Sir Geoffrey Howe: My hon. Friend raises a matter that has been discussed in the House many times. It was not discussed by European Community Ministers yesterday. The matter was fully considered by the Foreign Affairs Select Committee of this House, which recognised the difficulty of attempting to impose a universal ban of the kind that my hon. Friend describes. We have made plain our willingness, in the event of manifest danger to human life, to provide for screening of diplomatic baggage. To go beyond that would involve real and substantial difficulties for the handling of ordinary diplomatic baggage for embassies, including our own.

Mr. A. J. Beith (Berwick-upon-Tweed): Did the Foreign Secretary fail to persuade some European Governments of the facts of Syrian officials' complicity in terrorism, or does he believe that they continue in a long pattern of turning a blind eye to Syrian activities in this field while choosing softer options, such as Libya, to be the target of their attack? Does the Foreign Secretary believe that he has now persuaded the Prime Minister that sanctions are not immoral and were appropriate in this case? Does he believe that better preparation could have led to a clearer signal?

Sir Geoffrey Howe: I persist in repudiating the parallel that the hon. Gentleman tries to make, along with the right hon. Member for Leeds, East (Mr. Healey), between the way to treat state-directed terrorism and wider arguments about sanctions. Regarding the conviction of European countries, they were impressed by the quality and weight of the evidence advanced about Syrian involvement in the matter. There was no doubt about that. The difficulties arose about their willingness to agree—all 11 of them—on the same set of additional measures. In those circumstances, we are conducting the discussion further on 10 November.

Sir Anthony Kershaw (Stroud): Does my right hon. and learned Friend agree that while the reaction of the French Government is disappointing, they nevertheless have hostages at risk, and that must colour their attitude? Will he assure the House that everything possible is being done so that we do not have hostages at risk? If they are unfortunately taken, what retaliatory action do we plan?

Sir Geoffrey Howe: My hon. Friend is right to draw attention to the difficulties created for everyone in such circumstances by the existence of hostages. Some hostages of our nationality are detained in the region. There is no way in which a state can guarantee the safety of its citizens from the risk of being taken in that way. I am sure that the firmest foundation of our policy on hostages remains our clear commitment to the view that we make no deals in respect of such matters.

Mr. Greville Janner (Leicester, West): Does the right hon. and learned Gentleman mean that he did not tell his colleagues of the disgraceful misuse of a diplomatic bag by the Syrians for the importation of terrorist weapons? Did he not discuss with the Italians their proposals for electronic surveillance of the bag? What does he intend to do about the arsenal of terrorist weaponry which is in the Syrian embassy here? Will he simply let it go either abroad or to other terrorist bodies in this country?

Sir Geoffrey Howe: The hon. and learned Gentleman knows that those matters are the subject of current consideration not only by our Government but also by the Italian Government. As far as I know, the Italian Government have not said in what way they intend precisely to put into effect their recent statement on the matter. There are real difficulties, studied and accepted by the Foreign Affairs Committee, about imposing a general ban or a general requirement for surveillance on bags of that kind.

Mr. Ivan Lawrence (Burton): Is not the sickeningly inadequate response by our EEC allies to the Syrian terror not only a betrayal of our commitment but an incentive to further terrorism? Can my right hon. and learned Friend tell the house whether the French are continuing to sell arms to the Syrians?

Sir Geoffrey Howe: My hon. and learned Friend must understand—I say this with the greatest respect to him—that it will not be helpful to promote the collective response that is necessary in such circumstances if one commences by making a judgment about betrayal and sickeningly inadequate responses.

Mr. Lawrence: But that is what it is.

Sir Geoffrey Howe: No. Let me amplify that further. For example, in relation to my hon. and learned Friend's specific question about arms sales, one of the matters under discussion yesterday, on which, already yesterday, the majority of the Foreign Ministers present were prepared to agree, was a ban on further arms sales. One Government representative who specifically endorsed that was France's representative, so it is wrong for my hon. and learned Friend to take that particular case as an example. I repeat: the French Government's representative was willing to join the majority in endorsing a ban on future arms sales to Syria.

Mr. Ron Brown (Edinburgh, Leith): Did the Foreign Secretary discuss with his EEC colleagues the disclosure by Bernard Kalb of the fact that the American Administration had been deliberately lying about Libya, and had been involved in all sorts of dirty tricks to try to destabilise Gaddafi's regime? Will the right hon. and learned Gentleman now make a statement admitting that the reasons for bombing Libya were wrong, and that the Government have been misled by President Reagan, therefore? Will he give an explanation and, more importantly, make reparations to the Libyan people for that mistake?

Sir Geoffrey Howe: The case on which the House reacted on Friday about Syrian Government involvement was a comprehensive and convincing case, which convinced my colleagues yesterday, with the exception of the Greek representative, as it convinced the House on Friday. There was no question of it being founded on evidence from the United States or anywhere else. The hon. Gentleman's questions about the bombing of Libya should compel him to consider the legitimacy of the bombing in Afghanistan.

Sir William Clark (Croydon, South): Although I accept what my right hon. and learned Friend says about future arms contracts, will he give a categorical assurance that the present contract that the French apparently have with the Syrians will be cancelled?

Sir Geoffrey Howe: I cannot answer questions in detail about existing arms contracts with the French Government or any other Government. I am making it clear to the House that the French representative made it clear yesterday that France was ready to agree on the spot to the suspension of all arms sales to Syria — [HON. MEMBERS: "When?"] — from member states in present circumstances.

Mr. James Lamond (Oldham, Central and Royton): When the French President said on television,

"If the evidence against Syria is fair,"

was he not saying that many of the Ministers hoped that the evidence against Syria would be a little more reliable than the unequivocal evidence against Libya that was brought forward in the House and paraded before Privy Councillors only, which enabled the Prime Minister to carry out her policies, and which has now been revealed to have been fabricated entirely in the White House?

Sir Geoffrey Howe: The hon. Gentleman is straying far from the statement and questions on it. There is no foundation whatsoever for the implications of what he is saying.

Mr. Derek Conway (Shrewsbury and Atcham): Although many of us may not have expected much more support from our so-called European allies, my right hon. and learned friend will no doubt be encouraged by what has been said on both sides of the House about the extra citrus trade privileges for the west bank, but is he aware that the present quota is kept exclusively for Israeli goods and is not spread to the occupied territories? Therefore, will he assure the House that that will be the case with the new allocation?

Sir Geoffrey Howe: The point raised by my hon. Friend is precisely the point that led us to propose new arrangements, which will involve an extension of existing arrangements for access to the Community market for producers on the west bank and the Gaza strip.

Mr. Tony Banks (Newham, North-West): The Foreign Secretary has led the House to believe that he has irrefutable evidence linking the Syrian Government with acts of terrorism. Was he able to place that evidence before

his EEC ministerial colleagues? If he did, why were they not convinced, or has he more evidence that he will produce at the meeting in November?

Sir Geoffrey Howe: The hon. Member for Newham, North-West (Mr. Banks) has missed the point of my answers to earlier questions. I have already said twice that, with the exception of the Greek representative, all my European colleagues were impressed and convinced by the evidence that I laid before them, just as this House was convinced on Friday. There is no question of their not being convinced.

Mr. David Atkinson (Bournemouth, East): Does my right hon. and learned Friend recall that the talks between COMECON and the Community were broken off in 1980 because of the invasion of Afghanistan? Can he tell the House what has changed in Afghanistan to enable those talks to be resumed?

Sir Geoffrey Howe: Matters have changed since then in a number of respects, although not, unfortunately, in Afghanistan. It seems to us to be sensible to clear the way for bilateral trade agreements between the Community and the member states of the Council for Mutual Economic Assistance and in that context to look at the proposals for a relationship with the CMEA.

Mr. Healey: The Foreign Secretary made one statement that must have disturbed every hon. Member. Does he really mean that the Government do not know whether any other Government will represent Britain's interests in Damascus after the rupture of diplomatic relations? That would be a uniquely dangerous situation in which to leave 250 British citizens. In Libya, our interests are represented by Italy and our interests in the Argentine are also represented. Is the Foreign Secretary saying that he does not know whether any other Government will represent our interests in Syria?

Sir Geoffrey Howe: The right hon. Gentleman has made a good point, although not in the way he put it. He must listen to me with care. There is no problem about getting another Government to represent British interests in Syria, but the necessary consent from Syria is not yet forthcoming. The right hon. Gentleman is right to be anxious about that.

GRS 1050

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FRAME ECONOMIC

FROM UKREP BRUSSELS

FOREIGN AFFAIRS COUNCIL: LUXEMBOURG, 27 OCTOBER 1986 FINANCING
OF THE COMMUNITY: INCREASE IN OWN RESOURCES
SUMMARY.

1. DELORS EXPLAINED THAT THE COMMISSION WOULD PRODUCE BY THE END
OF THE YEAR A REPORT COVERING FINANCIAL OPTIONS FOR 1988-92,
REORGANISATION OF THE STRUCTURAL FUNDS AND CAP REFORM.
PANGALOS, SUPPORTED BY SPAIN AND PORTUGAL AND TO SOME EXTENT
NETHERLANDS, ARGUED FOR DISCUSSION OF THIS SUBJECT BY THE
EUROPEAN COUNCIL IN DECEMBER OR EARLY NEXT YEAR.

DETAIL.

2. OVER LUNCH, DELORS, INVITED BY YOU TO LEAD OFF, RECALLED THE
FONTAINEBLEAU COMMITMENT FOR THE COMMISSION TO REPORT TO THE
COUNCIL A YEAR BEFORE THE 1.4 PERCENT VAT CEILING WAS REACHED.
THIS WOULD HAVE TO BE DONE BY THE END OF THE YEAR IF OWN RESOURCES
WERE TO BE RAISED TO 1.6 PERCENT FROM 1 JANUARY 1988. FONTAINEBLEAU
ALSO CALLED FOR A REVIEW OF BUDGET DISCIPLINE AND THE ADJUSTMENT
MECHANISM. THE COMMISSION WOULD PRODUCE THIS REPORT ON TIME
AGAINST THE BACKGROUND OF THREE PROBLEMS:

I) THE BUDGETARY SITUATION WAS VERY DIFFICULT, ESPECIALLY DUE TO
THE FALL OF THE DOLLAR AND AGRO-MONETARY CHANGES.

II) THE COMMISSION WAS TASKED TO IMPLEMENT THE COHESION ARTICLES
OF THE SEA, WHICH WERE CLOSELY LINKED TO THE QUESTION OF OWN
RESOURCES. THE 1987 BUDGET SHOULD BE REGARDED AS TRANSITIONAL
TO OTHER ARRANGEMENTS, OTHERWISE IT WOULD BE INCONSISTENT WITH
THE SEA. THE COUNCIL SHOULD TRY TO AVOID CONFLICT WITH THE EP.
IT WOULD BE BETTER FOR THE EP TO LET THE 1987 BUDGET THROUGH
AND TO KEEP ITS POWDER DRY FOR THE MAIN NEGOTIATION.

III) THE CAP, WHICH WAS BEING FED BY STEADILY HEAVIER EXPENDITURE
IN SPAIN AND PORTUGAL, TOOK UP TWO THIRDS OF THE BUDGET AND
RESTRICTED SPENDING ON RESEARCH, COHESION, ETC. AS A RESULT,
OF CAP STOCK LOSSES, THE COMMUNITY COULD BE REGARDED AS HAVING
RUN A DEFICIT FOR SEVERAL YEARS.

3. DELORS SAID THAT THE END OF THIS YEAR WAS IN FACT RATHER
EARLY FOR THE COMMISSION TO MAKE PROPOSALS. BUT THE COMMISSION
WOULD PRODUCE A SINGLE PAPER COVERING THREE TOPICS:

(1)

- 2 -

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(I) FINANCIAL OPTIONS FOR 1988 - 1992:

(II) PROPOSALS FOR THE DRASTIC REFORM OF THE STRUCTURAL FUNDS. FEOGA PROGRAMMES WERE NECESSARY TO HELP COMPENSATE FOR CAP REFORM AND LOWER FARM PRICES. THE REGIONAL FUND NEEDED TO BE RECAST. THE SOCIAL FUND SHOULD BE BASED ON 2 OR 3 MAJOR HEADINGS, AS IN THE BRITISH EMPLOYMENT STRATEGY.

(III) PROPOSALS TO CARRY CAP REFORM FORWARD FURTHER AND FASTER OVER THE MEDIUM TERM, WHILE MAINTAINING THE BASIC PRINCIPLES.

4. PANGALOS (GREECE) SAID THAT THE COMMUNITY WAS ALREADY AT THE 1.4 PERCENT CEILING IN 1986. THE FALL IN THE DOLLAR HAD COST DOLLARS 3-5 BILLION. THE COMMUNITY WAS MANAGING TO GET BY ON ARTIFICES. BUT THIS COULD NOT CONTINUE BEYOND JANUARY 1988. PROPOSALS WERE NEEDED FOR THE LONG TERM, BUT PROVISION FOR 1988 WAS ESSENTIAL. THE COMMISSION'S REPORT SHOULD BE READY IN TIME FOR AN INITIAL DISCUSSION AT THE LONDON EUROPEAN COUNCIL. OTHER REPORTS (FROM THE EP AND CEPS) WERE ALREADY ON THE TABLE.

5. VAN DEN BROEK (NETHERLANDS) SHARED PANGALOS' CONCERN, BUT ENDORSED THE COMMISSION'S VIEW THAT THE 3 ISSUES WERE INTER-RELATED. THE NEGOTIATION OF A SOLUTION WOULD PROBABLY REQUIRE A YEAR, AND THERE WOULD THEN BE A NEED FOR RATIFICATION. HE WONDERED IF THE PROCESS COULD NOT BE ACCELERATED. HE WAS BAFFLED BY THE FACT THAT THE 1986 BUDGET SHORTFALL CHANGED ALL THE TIME. THIS MEANT THAT THE 1987 BUDGET WAS BEING ESTABLISHED ON AN ARTIFICIAL AND UNREALISTIC BASIS.

6. YOU NOTED THAT THE EUROPEAN COUNCIL WAS NOW ONLY 5 WEEKS AWAY AND ALREADY HAD AN AGENDA OF SUBSTANTIAL ISSUES. DISCUSSION OF BUDGETARY QUESTIONS SHOULD TAKE PLACE ONLY ON THE BASIS OF THE COMMISSIONS OVERALL VIEW, WHICH CLEARLY NEEDED TIME TO PREPARE. ONCE THE COMMISSION'S REPORT WAS AVAILABLE, IT WOULD OF COURSE FIGURE HIGH ON THE COUNCIL'S AGENDA THEREAFTER.

11 7. DELORS DREW ATTENTION TO THE FACT THAT THE COMMUNITY HAD MADE USE OF INTER-GOVERNMENTAL AGREEMENTS AFTER FONTAINBLEAU. THEY WOULD BE NECESSARY AGAIN IN THE NEXT 2 YEARS. TINDEMANS (BELGIUM) WAS VERY WORRIED ABOUT THE FAILURE OF CAP REFORM. THE COMMISSION'S FIGURES ON THE COST OF SURPLUSES WERE TERRIFYING. THERE WAS NO HOPE OF ACHIEVING BETTER BUDGET POLICIES WITHOUT SERIOUS CAP REFORM. SOLBES (SPAIN) AGREED THAT AGRICULTURE WAS THE KEY. HE QUESTIONED WHETHER IT WAS WISE TO DEFER DISCUSSION BEYOND THE EUROPEAN COUNCIL, EVEN IN ADVANCE OF THE COMMISSION PAPERS. MARTINS (PORTUGAL) STRESSED THAT HE COULD NOT AGREE TO DISCUSS FUTURE FINANCING WITHOUT KNOWING WHAT WAS PROPOSED FOR CAP REFORM AND THE STRUCTURAL POLICIES. BUT THE COMMUNITY MUST AVOID THE PRESSURES IN 1987 AND SHOULD START DISCUSSION SOON. THE LONDON EUROPEAN COUNCIL COULD BE THE RIGHT TIME TO BEGIN.

- 3 -

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8. PANGALOS SUGGESTED THAT THE COMMISSION SHOULD INTRODUCE THE SUBJECT BRIEFLY AT THE EUROPEAN COUNCIL IN ADVANCE OF THE REPORT. THE EXCEPTIONAL NATURE OF THE PROBLEM WOULD JUSTIFY HOLDING TWO EUROPEAN COUNCILS IN THE FIRST HALF OF 1987. THE MORE SO IF THE SUBJECT WAS DEFERRED IN DECEMBER FOR ELECTORAL REASONS. YOU REPEATED THAT THERE WAS NO POINT IN IMPROVISING AND DISCUSSING A REPORT WHICH WAS NOT YET AVAILABLE. YOU QUERIED WHETHER IT WAS WISE TO REINTRODUCE TWO EUROPEAN COUNCILS IN THE FIRST HALF OF 1987 HAVING JUST DECIDED TO HOLD ONLY ONE IN EACH PRESIDENCY. VAN DEN BROEK NOTED THAT THE BELGIANS COULD, IF THEY WISHED, HAVE THEIR EUROPEAN COUNCIL IN MARCH RATHER THAN JUNE. TINDEMANS COMMENTED THAT HE WAS NOT KEEN ON DECIDING NOW IN FAVOUR OF 2 EUROPEAN COUNCILS, DURING THE BELGIAN PRESIDENCY BUT THAT A SECOND COULD ALWAYS BE HELD IF NECESSARY.

MILES

YYYY

ADVANCE

PS/MRS CHALKER FCO

RENWICK FCO

WALL FCO

FORD FCO

HOLROYD CAB

JAY CAB

HADLEY MAFF

LAVELLE TSY

CRABBIE TSY

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MR BLACKWELL

European Regional Development Fund

I attach your note together with my comments, both of which the Prime Minister has seen over the weekend.

I understand from the Prime Minister that she would prefer not to ask the Trade and Industry Secretary to develop proposals at present but wants to wait and see what emerges from the discussion of various aspects of the ERDF in E(A) which she understands is likely to be held fairly soon.

C D POWELL

27 October 1986

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6c: PC

PRIME MINISTER

24 October 1986

EUROPEAN REGIONAL DEVELOPMENT FUND

The publicity over the ERDF submission has, amongst other things, highlighted the absurdity of this particular scheme for transferring control of UK public expenditure to the European Commission. It could be timely to rethink our approach.

The original rationale for UK support of the ERDF was to provide a mechanism by which the UK could obtain a greater share of EEC expenditure to offset our net contributions to CAP. Under current budgetary arrangements, however, we have now become a net contributor to the ERDF as well! The maximum share of ERDF expenditure we are allowed is 19.3% and officials believe we are unlikely to achieve more than 17%. Against this, our share of the EEC budget is about 18%.

We are hence paying for the privilege of handing over £350 million to Brussels, only to have them lay down rules on how we can then spend that part which they give us back. And, since one of the rules is that expenditure should be additional to planned UK public sector expenditure, we have to construct elaborate mirrors to convince the Commission that this condition is being met while, at the same time, ensuring that it does not actually add to public spending. (Our success in doing this might lead us to question how well the

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- 2 -

Government can police a similar additionality condition imposed on DTI investment grants to industry!)

As long as the scheme exists, there is clear pressure on officials to search around to find suitable investments for submission from industry, local councils and central government departments - a task made difficult by the lack of incentives if non-additionality is strictly applied. As well as the inefficiencies of the whole administrative charade, there is a significant danger that at the end of the day some UK public expenditure gets diverted into marginal projects that happen to meet ERDF rules instead of other more deserving domestic priorities. Indeed, since the Commission is increasingly developing proposals for ERDF investment in its own pet projects - such as the development of a community-wide telecommunications network - it will be increasingly difficult for the UK Government to retain control of expenditure.

We would clearly be better off without ERDF, but the scheme - although started at our behest - has now acquired its own life and bureaucracy. Furthermore, in the context of the forthcoming 'Ex Novo' negotiations on the future shape of the EEC budget, some departments are arguing perversely that we should increase the size of the ERDF and ESF budgets as a way of decreasing the importance of agriculture. The most likely outcome of that approach would be a higher total budget!

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- 3 -

Possible Approach

We should use our Presidency of the EEC to set the tone for future discussions on EEC funding. But we need to clarify the Government's own approach first. With current budget pressures, the time may be ripe to develop an alliance aimed at either phasing out the current ERDF régime or imposing stricter eligibility requirements that effectively limit take-up throughout the community. You may therefore wish to ask Paul Channon to develop proposals along these lines.

Norman Blackwell

NORMAN BLACKWELL

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PRIME MINISTER

ms

EUROPEAN REGIONAL DEVELOPMENT FUND

The Policy Unit have written you the attached note.

When you have read it, I would ask you also to consider the following comments.

There are three reasons why we are becoming net contributors to the ERDF:

- (i) enlargement of the Community has meant that the cake has to be cut into smaller pieces;
- (ii) under the Fontainebleau mechanism, any receipts have the effect of diminishing our abatement. This diminishes the incentive to seek receipts;
- (iii) the incentive is further diminished by our position on additionality. Departments have to find off-setting savings from their programmes to match receipts which, as privatisation proceeds, increasingly go to the private sector. There are, of course, good public expenditure reasons for this.

The conclusion to be drawn from this is that we have a stronger interest than ever in keeping down total Community expenditure. But there is nothing to be gained from attacking the Regional Fund as such because:

- (i) we shall not succeed in getting rid of it. With the Single European Act, the ERDF is now in the Treaty. You went to some trouble to ensure that "areas of industrial decline" should be able to benefit from it, to ensure that we continued to derive some benefit, and it didn't all go to Portugal, Greece, etc;

(ii) other member states will conclude that we are attacking the structural Funds because we no longer have an interest in receipts, only in abatements. This will focus their attention on attacking the Fontainebleau mechanism in the review of the Community's finances next year. We can't avoid that, but we don't want to encourage it.

These issues are due to come to E(A) soon. I recommend that you hold back on launching the exercise proposed by Mr. Blackwell at least until after that.

EDP

Charles Powell

24 October 1986

DG2BLS

file



10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

The Prime Minister told you this morning of her dismay about the material submitted to the European Commission in support of our applications to the European Regional Development Fund. She did not understand why such an extensive document had been produced, particularly when apparently much less information had been supplied to the Commission in earlier years. This looked to her like a failure of management.

The Prime Minister wants a thorough investigation to be made of all the circumstances surrounding the preparation of this material, and David Norgrove has already written to DTI (with a copy to your Office) commissioning a note. You undertook to ensure that there was a proper investigation of what had taken place involving, if need be, someone from outside the DTI. The Prime Minister wishes particularly that we should draw any general lessons for Civil Service management which can be learnt from this episode.

N. L. Wicks

24 October 1986

PRIME MINISTER

ERDF APPLICATION: REBUTTING THE DAMAGING CLAIMS

For your Questions briefing we prepared a region by region rebuttal on the basis of the figures contained in the rather indigestible material provided by DTI on Wednesday night. Following Cabinet, DTI are now themselves working ^{up} ~~out~~ this kind of bull points material for wider dissemination.

There is a question about how this should best be approached. One idea would be to inspire a number of PQs to give the Government a chance to put the positive points about the regions on the record. This might, however, run the risk of prolonging the arguments. Another alternative would be to get punchy defensive briefing into the hands of backbenchers, and allow them to work it into their own speeches in constituencies and elsewhere.

You might like to seek the views of colleagues at your Monday meeting on how the real picture of what is going on in the regions could be most effectively got across.

Mark Addison

MARK ADDISON

24 October 1986

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bc: KC

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PRIME MINISTER

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These issues are due to come to E(A) soon. I recommend that you hold back on launching the exercise proposed by Mr. Blackwell at least until after that.

Charles Powell

24 October 1986

DG2BLS

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10 DOWNING STREET
LONDON SW1A 2AA

24 October 1986

From the Private Secretary

Dear Tim,

EUROPEAN REGIONAL DEVELOPMENT FUND

B/S
I understand that your Secretary of State has commissioned a note on the background to the report which has been submitted to support UK applications for ERDF grants.

The Prime Minister would be glad to see this note. She hopes it will cover among other things:

- how the report was put together, and by whom;
- what checking was carried out and approvals given before it was sent to the Commission;
- whether a report of this size and nature is likely to have any effect on the amount of money the UK receives from the ERDF;
- an estimate of the cost of preparing the report;
- how it compares with previous reports in size and content.

I am sending a copy of this letter to Robert Culshaw (Foreign and Commonwealth Office), Jill Rutter (Chief Secretary's Office), Joan MacNaughton (Lord President's office), Andrew Lansley (Office of the Chancellor of the Duchy of Lancaster), John Turner (Department of Employment), Robin Young (Department of the Environment) and Trevor Woolley (Cabinet Office).

Yours,

David

(DAVID NORGROVE)

Timothy Walker, Esq.,
Department of Trade and Industry.

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SLW

CBG



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(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

23 October 1986

Rt Hon Lord Young PC
Secretary of State for Employment
Caxton House
Tothill Street
London
SW1H 9NF

Dear David

NBM

Thank you for your letter of 20 October. Naturally I accept your point about the need to present our policies in the best possible way, and think that collectively we missed some tricks with the ERDF Report.

This was discussed in Cabinet today. I agree that the whole exercise was organised in a most unfortunate way - and that Ministers were insufficiently consulted. In my own Department I am taking steps to tackle this, and I support your own views about announcement on these topics with insufficient prior consultation.

I am copying this letter to the Prime Minister, the Lord President of the Council, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, and the Secretary of State for the Environment.

*Yours,
Paul*

PAUL CHANNON

JG2ACC

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BOARD OF TRADE
BICENTENARY

Letter for
BUDGET
P133



CB9



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

Catherine Bradley
Private Secretary to
The Rt Hon Paul Channon MP
Department of Trade and Industry
Victoria Street
LONDON
SW1

My ref:
Your ref:

23 October 1986

pk

Dear Catherine,

will request if required.

Further to my letter to you of yesterday I enclose the following further points of briefing on the ERDF Report criticism. They are based on establishing the fact that the Government has made enormous increased commitments of resources to dealing with the historic problems of industrial decline and its consequences, most of which it has inherited from its predecessors.

We have asked Regional Offices to try to establish the extent to which material in the Regional Development Programme Report was culled directly from local authority submissions. I am afraid that it has not been possible to trace precise references from the mass of material submitted. The final report text was as you know compiled by officials . What the Prime Minister said in the House on Tuesday (col 940) was accurate.

I am copying this letter to David Norgrove.

Yours sincerely
B H Leonard.

B H LEONARD
Private Secretary

UNCLASSIFIED
SAVING TELEGRAM

BY BAG

FROM BONN

FRAME ECONOMIC

TO FCO TELNO 14 SAVING OF 22 OCTOBER 1986. Info all EC Posts,
UKDel OECD, UKMis Geneva, all Consulates-General
in the Federal Republic, Washington, Tokyo, Vienna

(FRAME ECONOMIC)

THE FIVE INSTITUTES AUTUMN REPORT

SUMMARY

1. The Autumn Report of the five leading economic institutes was published on 20 October. The Report forecasts an increase in real GNP of 3% in 1986 and a further 3% in 1987, although there is some doubt whether that level of growth can be maintained throughout the second half of the year. Inflation, cost of living index, for 1986, is predicted to be -0.5% rising to 1.5% in 1987. The number of employed is forecast to grow by around 250,000 in 1987 after 300,000 in 1986, while the number of registered unemployed should fall by 100,000 in 1987 to give a total of 2.12 million at the end of the year against 2.23 million this year.
2. The five institutes point out that the continued high external value of the DM will give a further sharp rise to the volume of imports in 1987, and will adversely affect exports. Despite this the institutes expect only a modest fall next year in the trade surplus to DM60 billion, after DM70 billion in 1986.
3. The Report is generally supportive of the Government's economic policy. It highlights the improvement in real personal income, brought about by the oil price effect on consumer prices and by the first stage of tax reform at the beginning of this year. It calls for the second phase to be brought into force a year earlier than the planned January 1988 and for the speedy introduction of the comprehensive tax reform which the Government has promised for the 1990s. The Report says that only with that tax reform is there any certainty that private consumption can continue to have a major influence on the forecast growth in the economy.

Key Figures

	Absolute values			% change on previous year		
	1985	1986	1987	1985	1986	1987
GNP (real) (DM billion)	1580.8	1625	1670	2.5	3.0	3.0
Employed persons (1000)	22,188	22,450	22,730	0.8	1.0	1.0
Unemployed (1000)	2,304	2,230	2,120	-	-	-
Unemployment rate (%)	9.4	9.0	8.5	-	-	-
Consumer prices	-	-	-	2.1	-0.5	1.5
Current account (DM bn)	38.9	70	60	-	-	-
Financial deficit (DMbn)	-19.8	-20	-16	-	-	-

DETAIL

4. The five leading economic institutes in the FRG (Munich (in the chair) Berlin, Hamburg, Kiel and Essen) published their latest half yearly Report on 20 October. The Report is based on the following assumptions:

- a) demand and production in industrialised countries in 1987 will continue to rise although the rate of increase will decline. World trade expansion will remain moderate, averaging 4% in 1987;
- b) the US Dollar will fluctuate at around DM2, but the main European currencies will remain stable in relation to the DM;
- c) oil prices will remain at around US\$15 per barrel and there will be no change in the nominal price of other raw materials;

/d)



Ref. A086/2993

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary is likely to mention the meeting of Community Ministers and those of the ASEAN group of countries on 20-21 October which he attended after accompanying The Queen on the State Visit to China. The economic topics covered ways in which primary producers might cope with falling revenues from commodity exports - without any ASEAN pressure for commodity agreements - and ways to increase European investment in the region. The main political issues were Cambodia - where ASEAN want pressure to be sustained for the Vietnamese to withdraw - and reactions to the meeting between President Reagan and Mr Gorbachev at Reykjavik. There was a brief but useful discussion on terrorism and drugs.

2. The Home Secretary will report on the informal meeting of Community Interior Ministers which he chaired on 20 October. They reviewed the action taken to follow up the decisions taken at their informal meeting on 25 September on terrorism. They also agreed to a seven-point plan of international co-operation to step up the fight against drug abuse. This puts particular stress on enhanced co-operation between law enforcement agencies in the Community and, on a British initiative, on mutual enforcement of confiscation orders on drug traffickers' assets. The discussions were set in the context of the widespread desire to increase the freedom of bona fide travellers to move within the Community, while none the less protecting ordinary citizens and strengthening the Community's safeguards, particularly at its external frontiers, against terrorists, drug traffickers and others involved in serious crime and against illegal immigration. To carry the work forward the Ministers set up a working group of



member states' representatives on the problems of immigration, asylum-seekers, extradition and visa policy. The Home Secretary's Presidency statement of the conclusions of the meeting on terrorism, drugs and immigration is attached. This meeting has been well publicised. We believe that some of the themes can be picked up and carried forward in discussions at the European Council in December.

3. The Secretary of State for Trade and Industry is likely to mention the meeting of the Industry Council on 20 October at which the Minister for Industry, Mr Shaw, took the chair. The most important outcome of the meeting was swift and unanimous assent to a resolution on small and medium enterprises put forward by the Presidency and to a communication presented by Commissioner Matutes (who is generally helpful towards our views) setting out a continuing active policy by the Commission towards deregulation. These are positive developments, especially as they coincide with the long-awaited publication of a draft directive which will, if agreed, adjust the level of relief from VAT for small traders to be consistent with our national rules and more generous than present Community provisions. These moves help to pave the way for the European Council discussion in December. The Council also discussed some liberalisation of the current régime of quotas applied to steel production within the Community. Most member states, especially Germany and Luxembourg, are a good deal more cautious than the Commission over the speed at which such liberalising moves should take place. With the present arrangements due to expire at the end of this year there was also a first discussion on a possible new régime for aids for shipbuilding. We shall be aiming for agreement on both steel and shipbuilding at the November Industry Council.

4. The Secretary of State for Trade and Industry may also mention the Research Council on 21 October under the chairmanship of the Minister for Information Technology, Mr Pattie. Our aim



as Presidency was to advance discussions of the major item in the research and development field - the Community's framework programme for 1987-91 - to the point where the outstanding issues can be established for negotiation and, we hope, agreement at the final Research Council in our Presidency on 9 December. The two main issues are

a. the need to balance within the programme the intention, expressed especially by the Germans, French and ourselves, to move the emphasis on research and development towards the programmes which will clearly advance our industrial competitiveness with the more specific interests of some smaller member states; and

b. the total size of the programme: the Commission have proposed a total sum over the five years of 7.735 billion ecu.

France, Germany and ourselves have identified a core of priority areas and would be prepared to see a total programme of no more than about 5 billion ecu. Unanimity is required for agreement on the framework programme.

5. The European Parliament is in session from 20 to 24 October. There will be a Foreign Affairs Council on 27-28 October and a Consumer Affairs Council on 28 October.

RA

ROBERT ARMSTRONG

22 October 1986

PRESIDENCY STATEMENT BY THE HOME SECRETARY, THE
Rt HON. DOUGLAS HURD CBE MP FOLLOWING THE MEETING
OF EUROPEAN COMMUNITY MINISTERS
(London, 20 October 1986)

Community Ministers responsible for immigration, counter-terrorism and drugs and a Vice-President of the Commission met today to study new measures designed to maintain and strengthen safeguards against terrorists, drug traffickers and others involved in serious crime and against illegal immigration, in the light of the progress being made towards freer movement within the Community.

IMMIGRATION

We all want the minimum of inconvenience to travellers within the Community. Convenient travel, reduced delays at frontiers, is good for people and for business. But we also have a duty to protect the citizens of the Community. So we have all agreed to work towards a system of easier frontier formalities for Community citizens that is not open to abuse. We set up a working group to consider urgently :

- i) stronger checks at external Community frontiers ;
- ii) the contribution which internal checks can make ;

- iii) the role of co-ordination of visa policies of member states in improving controls ;
- iv) the role and effectiveness of frontier controls at internal frontiers in the fight against terrorism, drugs, crime and illegal immigration ;
- v) exchange of information about the operation of spot check systems ;
- vi) close co-operation to avoid the abuse of passports ;
- vii) measures to achieve a common policy to eliminate the abuse of the right of asylum ;
- viii) examination of ways in which the convenience of Community travellers can be improved without adding to the terrorist threat or the risks of illegal immigration, drug trafficking and other crime.

TERRORISM

The meeting noted the progress made on implementing the decisions taken on 25 September.

- Procurement of the equipment for the secure communications link between police forces is being urgently pursued.
- Work continues on intensifying liaison between counter terrorist experts.
- Arrangements have been set in place for the mutual exchange of information about people excluded from the territory of one member state so that others can have advance warning of possible risk.

DRUGS

We agreed that the Community and its member states have a major role to play in stepping up the fight against drug abuse. We have agreed a seven point plan to cover :

- measures to reduce demand for drugs especially among young people;
- measures to improve the treatment of addicts and rehabilitation services;
- ensuring that bilateral and Community aid supports as appropriate a recipient country's efforts to combat drug abuse;
- steps to ensure that legislation takes account of the need to maintain effective control over illicit drug trafficking, particularly at the Community's external frontiers;
- mutual enforcement of confiscation orders relating to drug traffickers' assets;
- enhanced co-operation between law enforcement agencies involving exchange of drug liaison officers between member states, the posting of drug liaison officers to other countries and the establishment of a world-wide directory of those involved in the fight against drug abuse: this would be achieved by inviting Trevi to examine the scope for creating a co-ordinated network of drug liaison officers to monitor developments in producer countries;
- preparation of joint assessment by Community Ambassadors in drug producing countries in order to ensure a steady flow of recommendations for action by The Twelve.

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JAAAEU
CEBG



10 DOWNING STREET
LONDON SW1A 2AA

22 October 1986

From the Private Secretary

UK REGIONAL DEVELOPMENT PROGRAMME 1986-90

The Prime Minister is, with your Secretary of State and Lord Young, very concerned, indeed angry, that this report could have been put out in the way it was, and with the contents it had. She accepts that it had to make the case for the UK to receive money from the ERDF. But it should not have been so totally unbalanced and injudicious. It was also very regrettable that the Prime Minister and colleagues were not warned that the report was about to become more widely available and that it might attract attention.

The Prime Minister agrees that Lord Young should always be consulted before the publication of anything which bears on unemployment and employment.

I am copying this letter to Joan MacNaughton (Lord President's Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office) and to John Turner (Department of Employment).

(DAVID NORGROVE)

Tim Walker, Esq.,
Department of Trade and Industry.

GA

CONFIDENTIAL

etc



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5186
GTN 215
(Switchboard) 01-215 7877

From the Minister of State for Industry

GILES SHAW MP

*CDP
2/1x*

The Rt Hon John Biffen MP
Lord Privy Seal
Lord Privy Seals Office
68 Whitehall
London
SW1A 2AT

22 October 1986

Dear Tom

Will request if required

EC DOCUMENT - AIRBORNE NOISE EMITTED BY HOUSEHOLD APPLIANCES

Thank you for your letter of 14 October. I confirm that a debate in Standing Committee on this document before the end of November is acceptable to my Department. I understand that Tuesday 25 November has been put forward as the likely date but obviously this is subject to confirmation in the Business Statement. I am sending copies of this letter to members of L Committee and to Sir Robert Armstrong.

Giles Shaw

GILES SHAW

FRIBFX

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CCPC (2)

Prime Minister

CDP

22/x.

MW

Qz.05389

Mr Powell (10 Downing Street)

European Community: VAT on small and medium sized businesses

The Prime Minister will recall that the United Kingdom sets the VAT threshold for small businesses at turnover of £20500; that the Commission attacked us and set in train the first steps of a challenge in the European Court of Justice on the grounds that this threshold was not consistent with a Community Directive (the 6th) and should be reduced; and that we immediately counter-attacked by hammering the inconsistency with policy on small businesses and deregulation and by demanding an amending directive. We were advised on a number of occasions that this would not be possible (eg because of loss or revenue by other member states) and a relatively simple issue required an inordinate amount of hammering. The Commission has now, however, tabled a formal proposal to set the threshold at a higher level which is consistent with our national rules. The proposal is for a threshold of 35000 ecu turnover (which would be indexed) below which traders may be exempted and for a simplified scheme for traders with turnover below 150000 ecu. We consider that we have a good chance of getting the corrected exemption threshold adopted in our Presidency. This would be useful in itself and would also be helpful in relation to the emphasis on small and medium businesses at the London European Council.

I am sending copies to Colin Budd (FCO), Alex Allan (Treasury), John Turner (Department of Employment) and Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

21 October 1986

CEB9

MC/A65



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213..... 6460
Switchboard 01-213 3000 GTN Code 213
Facsimile 01-213 5465 Telex 915564

The Rt Hon Paul Channon QC MP
Secretary of State
Department of Trade and Industry
1 Victoria Street
LONDON SW1

Prime Minister!
Agree to write in
support of Lord Young?

20 October 1986 JRS
21/10

Dear Paul,

Yes - very emphatically not

I am writing to you about the release of the Report, UK Regional Development Programme 1986-90.

I have no complaint about the so-called "job deficiency forecasts" which the Press highlighted. My Department provided these, and we were fully involved. But the way in which the document has been given such wide and damaging press coverage is a matter of great concern to me. We have recognised that our presentation of facts and policies is often deficient, and this, I suggest, is a prime example.

I would make two points. First, though the report was in the public domain, it must surely have been clear that an Opposition spokesman would make substantial press capital out of it. Yet I had no knowledge that the document had been sent to Gordon Brown, and we had to mount a rapid defensive campaign at a time when we were becoming able to put over a more optimistic picture of the employment scene.

Secondly, some of the press reports quote highly coloured descriptions of conditions in the regions which do not square with our current public stance on infrastructure and other capital spending. My Department was not consulted on what was said in these commentaries.

There are lessons to be learned from this. I would like to see the release of any document which bears on employment or unemployment being the subject of adequate prior consultation with my Private Office. More generally, we must look again at

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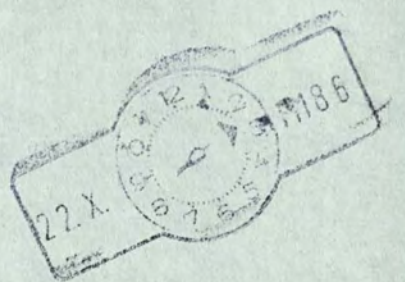


our presentational approach to avoid the impression given in this case that Ministers and Departments are in disarray and are concealing the real facts from the public.

I am copying this letter to the Prime Minister, the Lord President of the Council, and the Chancellor of the Duchy of Lancaster.

Yours,
David

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12

CCPC



Foreign and Commonwealth Office

London SW1A 2AH

20 October 1986

From The Minister of State

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON SW1

CD
22/x

REMOVING BARRIERS TO BUSINESS IN EUROPE

In Geoffrey Howe's absence ^{PL32} abroad, I am writing in response to your letter of 31 July to Paul Channon seeking targets for action following the Belmont study.

I agree that useful progress has been made: the Commission have set in place the system for examining the impact on business of all our legislation; they have set up their task force (under British direction) to monitor progress and we have a real prospect of securing agreement to new, practical measures to help small business. The pace has not been as quick as we would have wished, but we have been able to overcome considerable reluctance among member states and in some parts of the Commission.

The Belmont study of the burdens of existing legislation is a good opportunity to quicken the pace of deregulation. The more the pressure for amendment of legislation is seen to come from industry itself, the less opportunity there will be for other member states to claim that we are gunning for what they regard as desirable legislation in the social field. I therefore strongly agree with Paul Channon that we should encourage the CBI and UNICE to make clear their objections to some of this legislation. I also agree with Paul Channon in putting at the top of our list for deregulation the fourth Company Law Directive and sixth VAT Directive. Lifting the VAT threshold and simplifying VAT requirements will make a real difference to small firms

/and



and I hope we can push this as far as possible towards agreement during our Presidency.

I am copying this letter to the Prime Minister, Paul Channon, Nigel Lawson, Douglas Hurd, John Biffen, Michael Jopling, John Moore, Nicholas Ridley, Norman Fowler, Peter Walker and to Sir Robert Armstrong.

Yours ever

Lynda

Mrs Lynda Chalker

EUR. Pol. Budget: A633



Ref. A086/2900

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer will report on the meeting of the Economic and Finance Council on 13 October which he chaired and at which the United Kingdom was represented by the Minister of State, Treasury, Mr Brooke. Good progress was made in preparing the way for the draft directive on some further liberalisation of capital movements, which we aim to have adopted at the November meeting of the Council. At our instigation the Council also discussed the problems posed by escalating expenditure on the common agricultural policy. Presentations were made by the President of the Commission and the Agricultural and Finance Commissioners. They warned of the risk of an overspend on agriculture of up to 2becu (£1.4 billion) in 1987 and of the urgent need to get production and stock building under control. In spite of reservations on the part of the Germans, Danes and Dutch, the Presidency was able to represent a majority view in concluding that Community support prices should more closely reflect market conditions; the intervention system should operate according to its intended role as a safety-net; and in the operation of price support policies commercial risks should not be borne entirely through public finance. This outcome was conveyed to the Agriculture Council which was meeting at the same time. It was very satisfactory that the French gave us full support. We shall seek to build on these conclusions in pressing for their application in the current discussions on milk and beef. The contrast, however, between the approach supported in the Economic and Finance Council and the simultaneous failure of the Agriculture Council to agree on anything at all on milk or beef is very marked.

2. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council held on 13-14 October. The longest discussion was on the calculation of monetary compensatory amounts for poultry, meat and eggs, which was only partly solved by rolling the present arrangements forward to April 1987. For the longer term, however, the important items are the reform of the operation of the beef and milk regimes. The Commission has proposed major modifications to the milk regime which would reduce intervention on skimmed milk powder and butter and remedy a weakness in the quota arrangements. We had hoped that there could at least have been agreement on suspension of skimmed milk powder intervention during the winter. But this was not achieved. Given the seriousness of the situation discussions will have to continue. On beef Mr Jopling gave notice that he intended to push for decisions at the Agriculture Council in November. He also pressed for progress in the remaining Councils of the United Kingdom Presidency on the outstanding agricultural and food items in the internal market rolling programme. No proposal was made by the Commission on green currency changes for either the United Kingdom or France (who have asked for a 3.3 per cent devaluation of the green franc for beef and sheepmeat only) and no special measures were agreed to help French sheep producers, in spite of a French request.

3. The Minister of Agriculture, Fisheries and Food may also refer to incidents in France in which French producers have attacked imports of sheep and sheepmeat including some British lamb (some at least of which had already been sold to French owners). We have protested to the French authorities, demanded police intervention as required and speedy compensation. This is a perfectly legitimate trade of modest proportions (United Kingdom total exports of sheepmeat to other member states about 45-50,000 tonnes a year). The Community regime provides for equivalent support either by intervention (as chosen by France) or by a deficiency payment (a variable premium, as chosen by the United Kingdom). But the variable premium is clawed back on



export to other Community countries. In our view the United Kingdom certainly does not have an unfair competitive advantage but is simply benefitting from its greater efficiency in this sector.

4. The Secretary of State for Trade and Industry will report on the Internal Market Council on 7 October at which the Minister for Trade, Mr Clark, took the chair. Taking advantage of a light agenda, during which only one further measure from the internal market rolling programme was agreed (concerning the noise of domestic appliances), Mr Clark sought to rally the commitment of member states to ensure that the substantial number of outstanding measures in the rolling programme will be agreed in the remaining Councils of our Presidency and during the six months of the Belgian Presidency. To drive this message home the Council was followed by a first and useful meeting of a group of senior officials responsible in each member state for co-ordinating action on the internal market. This informal Council group has been set up at the initiative of the United Kingdom and will continue to meet on approximately a monthly basis to chase progress.

5. The Secretary of State for Transport may mention the informal meeting of Transport Ministers in London on 3 October, at which he was the host. The meeting usefully prepared a number of liberalising measures on air transport for the next formal Transport Council on 10-11 November, with a good chance that important steps will then be taken on tariffs, capacity and market access.

6. There will be an Industry Council on 20 October. On 20 October there will also be an informal meeting of Interior Ministers in London, which Mr Hurd has called to look at problems of drugs, immigration and the strengthening of the external frontier of the Community. There will be a Research Council on 21 October.

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7. You will be seeing President Mitterrand over lunch after the Cabinet meeting.

RA

ROBERT ARMSTRONG

15 October 1986

RESTRICTED

cc/rc



Foreign and Commonwealth Office

London SW1A 2AH

2914

Key

Would you get Fro
Kiers please.

7 October 1986

done 10/10
KK.

MEM 9/10

Charles
confirm? Yes
CDD 9/10.

MBT 9/10

M Addison Esq
10 Downing Street
LONDON
SW1

Dear Mr Addison

**WHITE PAPER: DEVELOPMENTS IN THE EUROPEAN COMMUNITY:
JANUARY - JUNE 1986**

We propose to publish as a White Paper, during October, the above report.

I should be grateful if you, and those to whom I am copying this letter, would confirm that there is no objection to publication. I enclose a copy of the draft paper.

Yours Sincerely
J G Rice

J G Rice
Parliamentary Clerk

cc: D R Morris Esq
Office of the Lord Privy Seal and
Leader of the House
70 Whitehall
LONDON SW1

(with encls)

C Roberts Esq
Chief Whips Office
12 Downing Street
LONDON SW1

RESTRICTED

DEVELOPMENTS IN THE EUROPEAN COMMUNITY
JANUARY-JUNE 1986

CONTENTS

		Page
I	Introduction	
II	Economic, Budgetary and Monetary Matters	
III	Agriculture, Fisheries and Food	
IV	Regional Policy, the Internal Market and Industrial Affairs	
V	Research and Development	
VI	Environment and Transport	
VII	Social Affairs	
VIII	Energy	
IX	External Relations, Trade and Aid	
X	European Political Co-operation	
XI	Chernobyl.....	
XII	European Parliament	
XIII	European Court of Justice	
XIV	Economic and Social Committee	
XV	Parliamentary Scrutiny of EC Legislation	
Annex A	Meetings of the European Council and Council of Ministers	
Annex B	Major proposals adopted	
Annex C	Major Ministerial speeches on Community topics	
Annex D	Major treaties and agreements by the Community	
Annex E	List of European Court of Justice cases in which the United Kingdom has been involved	
Annex F	United Kingdom trade with European Community	
Note:	Save where stated otherwise, European currency units (ecu) have been converted at the 2 June 1986 market rate of 1.59 ecu=£1.	

SECTION I: INTRODUCTION

1.1 This White Paper covers the period of the Netherlands Presidency of the Council of Ministers from 1 January to 30 June 1986. In this period there were several developments of importance to the future of the Community and to other nations with which it has links. There was also one major unexpected event - the Chernöbyl disaster - which presented the Community with new challenges.

1.2 On 1 January Spain and Portugal became members of the European Communities and the Ten became Twelve.

1.3 Several years of debate about institutional reform within the Community came to an end when the Single European Act was signed in Luxembourg by nine member states on 17 February and by the other three at The Hague on 28 February. The Single European Act represents the first significant overhaul of the Treaty of Rome since it was drafted nearly 30 years ago. It contains measures to complete the internal market by 1992, including an extension of majority voting in the Council for this purpose; steps to bring the Treaty of Rome up to date through new articles on technology, the environment, cohesion, monetary matters and social questions; new procedures to enable the European Parliament to play a more constructive role; and separate treaty provisions on co-operation in foreign policy, based on a draft originally put forward by the United Kingdom.

1.4 It is the Government's view that the Single European Act will enhance the Community's ability to respond to the challenges of the 1980s and 1990s, and will strengthen the ability of the twelve members states, acting together, to make their voice heard in international affairs. It advances the United Kingdom's interests by making it easier to break down the remaining barriers to trade and the provision of services (a long-standing United Kingdom objective); by helping the Community to

compete in the new technologies; and by making co-operation in foreign policy more effective. As the Prime Minister told the House of Commons on 5 December 1985, it will enable the United Kingdom "to realise more fully the benefits of our membership of the European Community".

1.5 The European Communities (Amendment) Bill, which gives effect to those provisions of the Single European Act which relate to the European Communities, received a second reading in the House of Commons by a majority of 319 to 160 on 23 April.

1.6 Fundamental issues were raised when in December 1985 the European Parliament adopted a disputed 1986 budget. In view of the importance of these issues the Council, supported by individual members states, commenced legal proceedings against the European Parliament before the European Court of Justice. The United Kingdom applied successfully to the Court for interim measures to defer application of the disputed additions made by the European Parliament, pending the Court's final judgment. That judgment, which found in favour of the Council, was received on 3 July (see paragraph 2.3).

1.7 In May, the Commission put forward proposals for a supplementary budget for 1986 increasing the provision for the structural funds, from which the United Kingdom is a major beneficiary, for the United Kingdom abatement and for agricultural expenditure largely arising from the decline in the value of the US dollar.

1.8 The Economic and Finance Council (ECOFIN) agreed on 28 April to the reference framework, i.e. for the overall ceiling for the 1987 budget, in accordance with the Council conclusions on budget discipline established in December 1984. On 13 June, the Commission put forward their preliminary draft budget for 1987.

1.9 The Own Resources Decision of 7 May 1985 came into force on 1 January 1986. This implemented the United Kingdom abatement system agreed at Fontainebleau in 1985. It also increased the ceiling on

members states' VAT own resources payments from 1 per cent to 1.4 per cent. From January 1986 the United Kingdom's monthly VAT payments were 117 million ecus (£72 million)* lower than they would have been without the Fontainebleau abatement. As a result of the abatement system, the United Kingdom continues to contribute to the budget at considerably less than the old ceiling of 1 per cent.

1.10 To reach early agreement on agricultural prices was a major objective of the Dutch Presidency. This was done in April. The outcome showed that member states are increasingly aware of the need, long stressed by the United Kingdom, to contain the costs of the Common Agricultural Policy (CAP). The Commission estimated that the agreed package would produce savings in the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) of 118 million ecus (£73 million) over 1986 and 1987, compared with their original proposal.

1.11 The revised Common Fisheries Policy (CFP) agreed in January 1983, has continued to function smoothly.

1.12 The Internal Market Council is acting as the focal point for work towards the fulfilment of the Community's commitment to complete the internal market by 1992, based on the rolling programme of action, to cover three consecutive Presidencies, first developed by the Luxembourg, Netherlands and United Kingdom Presidencies at the end of 1985. The Council reviewed the 1986 rolling programme: and a new action programme for the period 1 July 1986 - 30 June 1987, prepared jointly by the Netherlands, the United Kingdom and Belgium, was submitted to the Council on 23 June.

* Converted at 1986 budget rate of £1=1.62 ecu.

1.13 The Commission also continued its work on deregulation following the initiative launched by the United Kingdom at the European Council in March 1985. The Commission have taken steps to ensure that the regulatory impact of all new proposals for Community action is thoroughly assessed.

1.14 At its meeting on 8 April and 10 June the Research Council held preliminary discussions on the Commission's informal proposals for a new Framework Programme for Community Research and Development for the period 1987 to 1991 prior to the Commission's presentation of its formal proposals in July. The Council agreed that the major emphasis should be on those programmes aimed at promoting Europe's industrial competitiveness. The Council also agreed that a thorough review of the activities of the Community's Joint Research Centre should be carried out by an independent panel of industrialists.

1.15 Outside the Community framework but strongly associated with it is the EUREKA initiative - a development in which 19 European countries and the Commission seek to encourage collaboration in market-related projects among high-technology European companies, in order to enable Europe to compete more effectively with the United States and Japan. On 30 June the United Kingdom's Chairmanship of EUREKA culminated in a Ministerial Conference in London. The Conference announced that a further 62 collaborative projects were under way between European firms, settled the way in which projects and project proposals would be considered within the EUREKA framework and agreed on establishing a small Secretariat in Brussels to provide an information network on projects.

1.16 The Environment Council during its two meetings reached agreement on directives concerning the discharge to water of DDT, pentachlorophenol and carbon tetrachloride, and the use of sewage sludge in agriculture. The main points arising from a proposal for a directive on animal experimentation were agreed.

1.17 Progress on transport was generally disappointing, with no agreement on the package of shipping measures under discussion in the Council and little movement on aviation. However, in a judgment

delivered in May in a case on French air tariffs the European Court of Justice did confirm that the competition rules of the Treaty applied to aviation. In the inland transport sector, furthermore, the Council adopted conclusions on the main lines of the transitional arrangements leading to the full liberalisation of international road haulage by 1992. The main feature of these arrangements will be 40 per cent annual increases in the Community quota of road haulage permits from 1987 onwards, leading to the abolition of quota limits by 1992.

1.18 In the social and employment field the United Kingdom, Italy and the Republic of Ireland took an important initiative in the fight against unemployment, when they tabled a joint paper at the Labour and Social Affairs Council on 5 June on "Employment growth into the 1990's - a strategy for the labour market". The Council welcomed the paper, which sets out proposals for enhancing the level of employment in the Community and agreed that it should continue its work on the proposals during the United Kingdom Presidency. Amongst other developments the Commission issued its decision on 1986 allocations from the European Social Fund; the United Kingdom received 16.4 per cent (£280 million) of the total sum.

1.19 The Energy Council on 3 June reached agreement on a new regime governing the payment of state aids to the coal industry. It again failed, however, to agree to continued support for the social costs of restructuring the coal industry. The Council on 20 March concluded that lower oil prices would have beneficial effects on the economic outlook for the Community and that there was no immediate need to adopt new specific Community energy policy measures.

1.20 The Community responded quickly to the unprecedented situation that arose from the disaster on 26 April at the Chernobyl nuclear power station in the Ukraine. Very shortly after the disaster, a temporary ban was imposed on the import of certain agricultural products from countries within 1000 kilometres from Chernobyl. The ban was replaced from 31 May

by a regulation requiring member states to check that imports of agricultural products from outside the Community do not contain more than a stated level of radiation. This regulation runs until 30 September. The Energy Council discussed the longer term implications of the disaster, and the lessons to be learnt from it.

1.21 On external trade, the Community, as the world's biggest trading bloc, reaffirmed its commitment to the new GATT Round and to its speedy and successful launching, and agreed a satisfactory negotiating mandate for the renewal of the Multi-Fibre Agreement. The Community's relations with the United States were marked by a number of trade disagreements. At the Foreign Affairs Council on 12 March, the Community set out a line of action with Japan designed to sustain pressure on Japan to open its markets.

1.22 Implementation of the Community's £67 million rehabilitation plan for the eight African countries worst affected by famine in 1985 went ahead rapidly with over 80 per cent of the total sum allocated to specific projects and programmes by June. Areas where assistance is being provided include agricultural tools, supply of seed and fertilizer, provision of livestock, rehabilitation of water supplies, grain storage, and assistance in establishing early warning systems.

1.23 In Political Co-operation, the signature of the Single European Act in February provided a sound basis for the long-term development of EPC in a Community of Twelve. The main subjects under discussion during the Netherlands Presidency were South Africa and international terrorism: on the former, the June European Council issued a statement of the Twelve's policy and asked Sir Geoffrey Howe to undertake a mission to South Africa during the British Presidency. On the latter, the Twelve took joint action against Libya for its support of terrorism and agreed to a range of policies designed to counter international terrorism. They

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also decided to establish a permanent working body within the EPC framework to give increased impetus to the Twelve's work in this field. The Twelve continued to play an active diplomatic role in support of peaceful solutions to the problems of Central America and the Middle East. The coordinated closely in the Conference on Security and Co-operation in Europe (CSCE) process. The Twelve issued declarations on the Iran/Iraq war, the Philippines and Sri Lanka.

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SECTION II: ECONOMIC, BUDGETARY AND MONETARY MATTERS

1986 Budget

2.1 On 18 December 1985 the President of the European Parliament adopted a Community budget for 1986 which included appropriations for non-obligatory expenditure in excess of the maximum rate of increase fixed by the Commission as well as other disputed elements. The Council of Ministers decided on 20 December to challenge the European Parliament's adoption of the 1986 budget before the European Court of Justice. The United Kingdom, France, Germany, Netherlands and Luxembourg also decided to bring separate actions against the European Parliament.

2.2 Pending substantive judgment by the Court in the budget dispute the United Kingdom Government also applied for interim measures suspending implementation by the Commission of the disputed elements in the budget. This application was granted by the Court on 17 March. Under the terms of its order, the Court ruled that, pending receipt of the Court's judgment in the case brought by the Council, the Commission should implement the 1986 budget substantially on the basis of the draft budget. The Court also ordered the Commission to refund to the United Kingdom the £18 million it had already contributed, on a without prejudice basis, towards the disputed part of the budget.

2.3 The Advocate General's opinion in the Council's case was given on 2 June. The Court's judgment was received on 3 July. The Court ruled that the European Parliament had exceeded its powers in adopting a 1986 budget which incorporated appropriations for non-obligatory expenditure in excess of the maximum rate of increase fixed by the Commission and ordered, in effect, that the 1986 budgetary procedure should be completed in accordance with the Treaty.

1986 Supplementary Budget

2.4 On 20 May the Commission presented a preliminary draft supplementary and amending budget (PDSAB) for 1986. This contained additional expenditure provision, compared with the budget adopted by the European Parliament, of some 1,800 million ecu (about £1,110 million)*. 915 million ecu (£564 million)* were proposed as additions to agricultural guarantee expenditure, 750 million ecu (£463 million)* for the structural funds, in particular the social fund, and consequential adjustments to the Spanish and Portuguese transitional VAT refunds of some 145 million ecu (£89 million)*. The proposals also included provision for an additional 500 million ecu (£310 million)* (707 million ecu (£436 million)* expenditure equivalent) for the United Kingdom abatement in 1986. This increase was in accordance with the conclusions of the Economic and Finance Council (ECOFIN) in October 1985 which stated that the Commission should bring forward a correction to the United Kingdom's 1986 abatement taking account of all the available information on the United Kingdom's net position.

1987 Budgetary Procedure

2.5 On 28 April, the ECOFIN Council agreed the reference framework for the 1987 budget, in accordance with the budget discipline conclusions of December 1984.

2.6 On 12 May, the Commission presented a document containing key figures for the 1987 budget. On 13 June, the Commission presented its formal proposals for the 1987 preliminary draft budget (PDB).

* Converted at 1986 budget rate of £1 = 1.62 ecus

Implementation of the Fontainebleau abatement system

2.7 The 1986 budget contained provision for the United Kingdom's abatement in respect of 1985 of 1400 million ecus (£860 million)*. The Own Resources Decision of 7 May 1985, which provides the legal base for the abatement, came into force on 1 January 1986. The United Kingdom was thus able to reduce its monthly VAT contributions by 117 million ecus (£72 million)* from January. The abatement provision was not affected by the European Court's Interim Judgment requiring the Commission to execute the Council's second reading budget rather than that adopted by the Parliament.

2.8 The 1986 draft supplementary budget contained a proposal to increase the abatement provision by 500 million ecus (£310 million)* as a result of up-to-date information about the United Kingdom's VAT share and receipts.

2.9 The 1987 preliminary draft budget contained an initial provision for the United Kingdom's abatement in respect of 1986 of 1633 million ecus (£1025 million).

2.10 The maximum rate for member states' VAT own resources contributions was increased from 1 per cent to 1.4 per cent from 1 January 1986.

The Court of Auditors

2.11 The Court of Auditors report on the Communities 1984 financial year, which was published in the Official Journal on 16 December 1985, was debated in the House of Commons on 5 March. The Court's report was subsequently considered at the ECOFIN Council on 10 March. For the first time M.Mart - the President of the Court of Auditors - was invited to present the Court's report to the Council. The Council recommended, in

* Converted at 1986 budget rate of £1 = 1.62 ecus

accordance with Article 206(b) of the Treaty, that the European Parliament should grant a discharge to the Commission in respect of its implementation of the 1984 Community Budget. The European Parliament - which has the ultimate responsibility for granting a discharge - adopted the discharge decision on 18 April.

Economic and Finance Council Business

2.12 The Council continued its discussions on approximation of indirect tax in the context of the internal market. Following its decision in December 1985 to set up an ad hoc group of senior officials, the group's report was considered by the Council in June. The Council asked the Commission to present, by April 1987, its more detailed proposals on rate structures and on the accompanying systems which in the Commission's view are necessary for the completion of the internal market. This was without prejudice to the Council's eventual position on this matter.

2.13 The Council continued its regular reviews of the economic situation. In the second quarterly review in March, the Council, taking account of the uncertainties created by the fall in oil prices, decided not to change the guidelines in the 1985-86 Annual Economic Report.

2.14 At its March meeting, the Council considered the Court of Auditors' report on the 1984 Community budget, and adopted the recommendation to the European Parliament that a discharge be given to the Commission in respect of the budget's implementation.

2.15 In accordance with the budgetary discipline procedure, the Council in April set the reference framework for the 1987 Community budget. The major element in this is the guideline for limiting expenditure relating to agricultural markets, which was set at 23 billion ecus (about £14 billion). The Council noted that the budgetary procedure would have to take account of the European Court's judgment on the disputed 1986 budget, the "cost of the past" as it affects the structural funds, and

enlargement. The Council discussed the general budgetary situation in the current year, and the pressures on agricultural spending. It was generally recognised that these, and other, pressures would have to be contained within the 1.4 per cent VAT ceiling.

2.16 In June, the Council considered two Commission papers on the liberalisation of capital movements: a draft directive designed to extend the range of transactions in the 1960 directive subject to unconditional liberalisation, and a communication setting out a programme for full liberalisation by 1992. The Council gave broad endorsement to both these proposals, and the work is being carried forward by the Monetary Committee, the Committee of Central Bank Governors and in a Council working group.

2.17 The Council's discussions also covered the problems of international debt; the Community's economic and financial relations with Japan; and tax measures to encourage cooperation between undertakings in different member states.

2.18 The Council adopted two Community mandates for Organisation for Economic Cooperation and Development (OECD) consensus discussions, both by qualified majority: in respect of the system of commercial interest reference rates and in respect of tied aid financing.

European Monetary System

2.19 European currency unit central rates within the European Monetary System were adjusted on 6 April. Compared with the previous central rates, the German deutschemark and the Dutch guilder were revalued by 3 per cent, the Danish krone and the Belgian and Luxembourg francs were revalued by 1 per cent, and the French franc was devalued by 3 per cent. Other central rates in the exchange rate mechanism were unchanged. The main result of these adjustments was an effective devaluation of the French franc against the deutschemark and the guilder of 5.8 per cent.

European Investment Bank (EIB): Loans

2.20 EIB Own Resources loans to the United Kingdom totalling £170 million were approved over the period. £126 million of this sum went to public sector bodies for infrastructure and communications projects. The remaining £44 million went to private industry in the aircraft, metal working, sewage treatment and tourism sectors.

European Investment Bank (EIB): Capital Increase

2.21 The 14.4 billion ecu (£9 billion) increase in the capital of the EIB agreed by the Board of Governors at its meeting on 11 June 1985 took effect on 1 January.

SECTION III: AGRICULTURE AND FISHERIES AND FOOD

Accession of Spain and Portugal to the European Community

3.1 On 1 March, Portugal and Spain made the first moves towards application of the Common Agricultural Policy (CAP) mechanisms and towards alignment of tariffs with Community levels.

3.2 For Spain, all agricultural products (except fruit and vegetables) are subject to a normal (or "classical") form of transition, and for these products the first move towards price alignment is taking place on the first day of the marketing year after 1 March 1986 for each product. This is also the situation for a certain number of Portuguese products subject to classical transition.

3.3 It was agreed during the enlargement negotiation that certain aspects of the transitional arrangement for certain products would be phased. Thus a form of staged (or "phased") transition applies to a range of products for Portugal and to fruit and vegetables for Spain. Under this form of transition, the new member state prepares during the first phase for application of the CAP; and normal transitional measures are deferred until a second phase, when they take place on the normal classical basis. The length of the first phase will be 5 years for Portugal (though it may in certain circumstances be shortened to three years); this should allow time for Portuguese agriculture to adjust itself to face competition from elsewhere in the Community in those sectors to which this form of transition applies. The four year first phase for Spanish fruit and vegetables will give time for Spain to introduce Community quality grading and price reporting for this sector.

3.4 During the period when trade is being liberalised (ie during the second phase for products subject to phased transition and throughout the transition period for other products), a supplementary trade mechanism

will operate to ensure a smooth opening up of markets for products where trade was identified during the accession negotiations as being particularly sensitive.

The Common Agricultural Policy Price Fixing for 1986

3.5 A settlement of common prices in 1986-87, based on the Commission's proposals, was reached at the Agriculture Council on 25 April for all commodities. The package is estimated to constitute a reduction in CAP support prices (expressed in real terms) of about 2.25 per cent across the Community. The Commission estimated that the agreed package would produce savings in the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) of 118 million ecus (£73 million) over 1986 and 1987, compared with their original proposal, which was itself made in accordance with the Council's conclusions on budgetary discipline. At the time of the agreement Agriculture and Finance Councils noted the Commission's forecast that extra expenditure would be incurred in 1986, but that this resulted almost entirely from the effects of the fall in the value of the US dollar. The Commission later proposed a supplementary budget of 915 million ecus for the EAGGF's Guarantee Section to cover this expenditure. The Commission have also stated that expenditure in 1986 and 1987 must be financed within the 1.4 per cent VAT ceiling. The Council also agreed at the time of the price fixing to a reduction in the rates of reimbursement from the EAGGF to member states to cover the cost of intervention operations, saving the Community budget 300 million ecu a year from 1986. The green currency changes agreed include a devaluation of the green pound in the livestock sector by 3 per cent and in the arable sector by 1.5 per cent.

3.6 All price changes for cereals are expressed as comparisons with the interim support prices for 1985/86 set by the Commission in 1985 after the Council had failed to agree prices. In the United Kingdom the Commission support prices were increased in sterling by 1.35 per cent as a result of the green currency changes. Target prices in ecu terms for

cereals were increased by 0.5 per cent, other than for rye which was reduced by 0.3 per cent and durum wheat which remained unchanged. The reference price for bread-making wheat was replaced with a single intervention price for bread-wheat meeting specific quality criteria. This price in ecu terms was frozen at the level of last year's common intervention price. For bread-wheat of high quality a 2 per cent premium would be payable. Wheat failing to meet the intervention quality standard would be subject to a discount of up to 7 per cent of the intervention price. The intervention price for barley and sorghum was reduced by 5 per cent, maize remained unchanged and durum wheat was reduced by 4 per cent. The maximum moisture content permitted for intervention purposes for all cereals was now to be between 14 and 15 per cent. The target price for husked rice, the intervention price for paddy rice and monthly increments remained unchanged. The beginning of the cereals market year changed from August to July, and the maize and sorghum threshold price for March would also be applied in July to September. Intervention buying for cereals would be available for only part of the marketing year, from 1 September to end of April.

3.7 A co-responsibility levy of 5.38 ecu per tonne would be collected from 1 July at the time of first processing, sale into intervention or export to non-Community countries on Community-grown cereals. Community-financed aid would be available for small cereal producers. For 1986/87 the sum for the latter has been set at 120 million ecus. The levy is to operate for five years with a review after two.

3.8 The target price for milk, the intervention prices for butter and skimmed milk powder prices and the co-responsibility levy were unchanged. The green currency changes, however, resulted in a 2.74 per cent increase in support prices in the United Kingdom. Wholesale and direct sales milk quotas were to be reduced by 2 per cent in 1987/88 (to 101,654 million tonnes) and a further 1 per cent in 1988/89 (to 100,617 million tonnes). The scheme would be voluntary, but if member states failed to reach their

national cutback figure a compulsory cut across the board would be applied and no compensation paid. As far as possible this reduction would be achieved through a Community Outgoers' Scheme; the EAGGF would provide up to 4 ecu/100kg (18.3 pence per litre) over 7 years in compensation. The Community quota reserve remained unchanged at 393,000 tonnes. Transfer of unused quota between or within regions will continue for a further year. Supplementary levy may now be collected six-monthly by member states. It was agreed to allow the purchase of part quotas under national outgoers' schemes, which may continue while the Community scheme is underway.

3.9 Intervention buying-in prices for beef completed the three year transitional process to harmonised prices across the Community based on the carcass classification grid, leading to additional increases of about 1 to 2 per cent in the United Kingdom. The beef variable premium scheme, the calf premium and suckler cow premium continued unchanged pending decisions on the Commission's proposals for reform of the beef regime which should be taken by 31 December 1986. The green currency changes resulted in a 2.74 per cent increase in United Kingdom support prices.

3.10 For sheepmeat the basic price was left unchanged for the 1987 marketing year, which starts in January 1987. The seasonal scale of guide prices was also unchanged. However, the green currency changes resulted in a 2.74 per cent increase in support prices in the United Kingdom.

3.11 For pigs and pigmeat the green currency changes resulted in an increase of 2.74 per cent in the basic price in the United Kingdom. From 1 August it would relate to a higher and more representative standard quality. In June, a further green currency devaluation for pigmeat was agreed, giving a combined institutional price increase of 5.72 per cent. The emergency measures available to support the market following any outbreak of animal disease were made more flexible.

3.12 The green currency changes resulted in an increase in minimum sugar beet prices and raw and white sugar prices in the United Kingdom by 1.35 per cent.

3.13 The green currency changes also resulted in a 1.35 per cent increase in the support prices for rape seed and sunflower seed in the United Kingdom. A system of maximum guaranteed quantities was introduced to make the guarantee threshold for these products more effective. The intervention price in ecu terms for olive oil was reduced by 5 per cent. Support prices for peas, beans and lupins were increased by up to 2.35 per cent in the United Kingdom.

3.14 In other sectors, buying-in prices for some fruit and vegetables were unchanged but there were reductions of 7.5 per cent for peaches and tomatoes, 4 per cent for apricots and 2.5 per cent for citrus; cauliflower and aubergine prices were increased by 1 per cent. Tobacco premia were reduced by up to 6 per cent.

Agrimonetary Arrangements

3.15 The Agriculture Council agreed to devalue the representative rates used to convert agricultural support prices to national currencies for all member states except Germany and the Netherlands. The Council also agreed to suspend temporarily, for products in the pigmeat and eggs and poultry sectors, part of the negative monetary compensatory amounts (MCAs), introduced following the currency realignment on 6 April 1986.

3.16 The Agriculture Council on 24-25 June agreed revised MCA arrangements in the pigmeat sector; for eggs and poultry products the suspension was extended by three months.

Structural Measures

3.17 The Agriculture Council on 21-22 April agreed a Commission proposal providing, in respect of Portugal, for a number of adjustments to and derogations from Council Regulation 797/85 of 12 March 1985 on improving the efficiency of agricultural structures. This enables Portugal to take advantage of certain beneficial arrangements under the structures regulation.

3.18 The Agriculture Council on 26-27 May agreed in principle to proposals for Spanish measures under Regulations 797/85, 355/77 and 1360/78, providing certain additional benefits and concessions comparable to measures provided for other disadvantaged areas of the Community.

3.19 The same Council agreed in principle to the following changes in the list of Less Favoured Areas (LFAs): an increase in Germany's LFAs to 6 million hectares, and establishment of LFAs in Spain and Portugal covering 17 million and 2.4 million hectares respectively.

Draft Commission Socio - Structural Proposals

3.20 At the Agriculture Council on 21-22 April the Commission proposed further structural measures intended to achieve a better orientation of agricultural production (the United Kingdom's primary aim in this area) and to alleviate the consequences of price restraint. They include measures to encourage older farmers to leave agriculture; measures to assist young farmers to extensify production or improve its quality; adjustments to the framework for determining Hill Livestock Compensatory Allowances; measures to encourage environmentally sensitive farming and a number of other supporting measures.

Sale of Intervention Butter

3.21 A Commission regulation was published on 15 March 1986 making arrangements for the sale by tender of intervention butter at least 18 months old to the USSR, India and Pakistan.

Sheepmeat and Beef

3.22 On 3 January the Commission adopted a regulation imposing a clawback charge on exports from Great Britain to other member states of those categories of sheep and sheepmeat not eligible to receive variable premium. The charges imposed were, for light lambs, 10 per cent of the rate applicable to certified lambs, and 50 per cent for rams and other non-certifiable sheep. On 4 March the United Kingdom lodged with the European Court of Justice a legal challenge to the validity both of this regulation and of the earlier one which similarly imposed a 50 per cent clawback charge on ewes and ewemeat from 9 December 1985.

3.23 The Commission adopted a regulation on 15 May, applicable from 2 June, revising arrangements for determining the average market prices for fresh or chilled lamb and other sheep carcasses in member states.

3.24 On 16 June the Commission adopted a regulation increasing from 23 June the maximum payable weight for sheep certified for variable slaughter premium from 24.5kg to 26.5kg.

3.25 The Agriculture Council on 20-21 January agreed to open four Community import quotas for 1986, covering 50,000 tonnes of frozen beef and veal; 25,000 tonnes of beef for manufacturing; 175,000 head of young male cattle for fattening and 6,000 tonnes of high quality cuts of beef.

3.26 The Agriculture Council on 26-27 May agreed to open two Community import quotas in 1986, covering 5,000 head of alpine cattle and 38,000 head of mountain cattle.

Animal Health and Meat Hygiene

3.27 The Commission is empowered by Article 6(1) of Directive 77/504/EEC to determine, among other things, performance monitoring methods and methods for assessing cattle's genetic value. Although the methods

already being applied in member states were broadly similar, it was desirable to bring them into line. The alignment was adopted in a Commission decision setting out detailed methods for performance testing of bulls; milk recording and assessment of the breeding value of females; and progeny testing.

3.28 The Agriculture Council on 24-25 March agreed minimum welfare standards for laying hens kept in battery cages. The United Kingdom voted against the measure on the grounds that, since the measure involved a degree of harmonisation, the legal base should have included Article 100 as well as Article 43 of the Treaty. For the same reason the United Kingdom lodged an application on 29 May with the European Court of Justice seeking annulment of this directive on legal grounds (Case 131/86). For similar reasons the United Kingdom's application seeking annulment of the directive prohibiting the use in livestock farming of certain substances having a hormonal action was lodged with the European Court on 10 March (Case 68/86).

Food Additives

3.29 The Agriculture Council on 24-25 March adopted an amending directive on emulsifiers, stabilisers, thickeners and gelling agents for use in foodstuffs, extending the deadline on the use of some temporarily permitted substances and requiring the re-evaluation of one permitted substance (Tragacanth gum E413).

Food Labelling

3.30 On 6 May the Council adopted two amending regulations laying down general rules for the description and presentation of wines and grape musts, sparkling wines and aerated sparkling wines. These regulations require that wines falling within these categories should be labelled to show their actual alcoholic strength by volume. At the same time the Council adopted a further regulation requiring alcoholic strength by volume to be indicated on the label of special wines.

3.31 On 26 May the Agriculture Council adopted an amending directive on the labelling of foodstuffs. This requires beverages containing more than 1.2 per cent by volume of alcohol to be labelled with the actual alcoholic strength by volume.

Sugar

3.32 The Agriculture Council on 24-25 March adopted proposals establishing general rules for a system of production refunds for sugar and isoglucose used in the manufacture of certain chemical products. These arrangements, which took effect from 1 July 1986, provide for production refunds to be fixed quarterly based broadly on the difference between Community and world prices of sugar. However, in order to avoid disruption of the starch industry the production refund will be adjusted so that in 1986/87 and 1987/88 the net supply price of sugar does not undercut the net supply price of glucose, while in 1988/89 and 1989/90 the supply price of sugar might be allowed to develop gradually towards the world prices. These arrangements will be reviewed in 1989/90.

Starch

3.33 The Agriculture Council on 24-25 March agreed regulations implementing new arrangements for the starch sector from 1 July 1986. The purpose of the changes is to concentrate support on those products most at risk from competition from third countries where raw material is available at world prices. The refund is designed broadly to bridge the gap between Community and world prices for starch. It will be paid at a single rate on the starch used (not the raw material) and paid to the manufacturer using starch for eligible products, mainly in the industrial and chemical sectors.

Processed fruit and vegetables

3.34 The Agriculture Council on 24-25 February agreed to consolidate the basic regulation for the sector into a single text, with a technical annex relegated to a Commission regulation. The Council on 12 June extended the system of import licences to cherry juice and frozen peas.

3.35 The Commission on 29 April acted under its safeguard powers to extend the minimum import price arrangements for imports of frozen and other processed sour (morello) cherries for a further year until 9 May 1987. On 15 January the Commission had used the same powers to set a temporary minimum import price for provisionally preserved raspberries, and on 26 June, in view of the continuing need to protect the Community market, extended the arrangement until 15 October.

Seeds

3.36 On 27 February the Commission adopted Directive 86/109 restricting the marketing of certain categories of seed of fodder plants and oil and fibre plants and Decision 86/110 concerning the re-labelling of seed.

3.37 The Agriculture Council on 24-25 March adopted, as part of the measures for Spanish and Portuguese accession, Regulation 1355/86 to include hybrid sorghum for sowing in the common organisation of the market in seeds and establishing a system of reference prices.

3.38 The Council on 21-22 April adopted Directive 86/155 amending various directives on seeds and prescribing, at Spain's request, standards for several additional species of seed.

3.39 The Agriculture Council on 24-25 June agreed to extend general rules fixing reference prices and determining free-at-frontier offer prices for hybrid sorghum.

Pesticides

3.40 The Council on 26-27 May agreed two directives setting maximum residue limits on pesticides in cereals and products of animal origin (meat and milk).

3.41 The Agriculture Council on 26-27 May adopted two directives amending Directive 79/117. The first removes the time limit on the period of application of the Standing Committee on Plant Health procedure. The second adds ethylene oxide to the list of substances prohibited subject to temporary derogations for certain uses.

European Agricultural Guidance and Guarantee Fund (EAGGF)

3.42 Under the Guarantee Section of the EAGGF, United Kingdom receipts during the period were £727 million, with the main areas of benefit being payments for export refunds on cereals, milk products and beef, oilseed production aids, skimmed milk feed aids, beef and sheepmeat premiums. United Kingdom receipts from the Guidance Section of the EAGGF amounted to £11 million during the period.

External Relations

3.43 The Council on 9 June adopted Council Regulation 1902/86 amending Regulation 758/86, setting the 1986 quota for imports of manioc from non-GATT supplying countries at 300,000 tonnes, the same level as the 1985 quota.

3.44 The Council on 28 April adopted Council Decision 86/222 providing for the renewal of the export restraint agreement with Thailand concerning trade in manioc. Thailand will receive a quota of 21 million tonnes over four years (1987/90) subject to an annual maximum of 5.5 million tonnes.

Fisheries

Internal Regime

3.45 The 1986 Total Allowable Catches (TACs) and quotas, agreed provisionally at the Council held on 16/17 December 1985, were extended until 31 December 1986. Regulations were also passed concerning Spanish and Portuguese fishing. These covered arrangements for the two countries to fish in each other's waters and for imports into Portugal and the incorporation of the two new member states into existing third country trade agreements. Marketing regulations also established Community tariffs, guide prices and import levels for certain fish and fish products. Regulation 137/79 was amended to allow for the institution of a special method for applying intra-Community treatment to the catches of member states' vessels.

External Regime

3.46 Arrangements with Norway for 1986, again agreed on a provisional basis at the December Council, were extended until 31 December 1986. Third country agreements were finalised with Guinea Bissau and Madagascar.

SECTION IV: REGIONAL POLICY, THE INTERNAL MARKET
AND INDUSTRIAL AFFAIRS

Regional Policy

4.1 The European Regional Development Fund (ERDF) commitment budget for 1986 is £1,879 million. Of this £1,823 million is for allocation to member states in accordance with the quota ranges in the main regulation (1787/84) and £56 million is in respect of the specific Community (non-quota) measures. Less than one third of the 1986 provision for the main section (£593 million) had been allocated, in respect of infrastructure and industrial projects, between member states at the end of June and of that the United Kingdom received £21 million. Additional allocations will be made over the next six months. The United Kingdom has also continued to receive aid under the non-quota section of the Fund in respect of certain areas suffering from the decline in the steel, shipbuilding and textile industries and in respect of certain border areas of Northern Ireland.

4.2 The Commission on 13 March published a decision under Regulation 216/84 which made provision for the United Kingdom to receive from the ERDF additional non-quota aid of the kind already available in respect of certain areas suffering from the decline in the steel industry. In principle this further aid is to be made available in respect of the counties of Clwyd and Gwent in Wales, Cleveland, Humberside (together with that part of the old Travel-to-Work Area (TTWA) of Scunthorpe situated in the county of Lincolnshire, and South Yorkshire (including all the old TTWA of Sheffield) in England and the Scottish Region of Strathclyde. The Government intend to concentrate the aid available in respect of Humberside on the Scunthorpe TTWA, and that in respect of Strathclyde on the districts of Strathkelvin, Motherwell, Monklands and Hamilton. The United Kingdom should receive about £7.5 million over a period of five years as a result of this decision.

4.3 The Commission on 24 January submitted to the Council proposals for two regulations instituting Community Programmes within the meaning of Article 7 of the ERDF main Regulation 1787/84 which came into force on 1 January 1985. These were the first such proposals to be made. They both concern the development of certain less favoured regions of the Community: the first by improving access to advanced telecommunications services (STAR programme), and the second by exploiting indigenous energy potential (VALOREN programme). Northern Ireland is an eligible area under both proposals. Discussions have started on the proposals, but they have not yet been considered by the Council.

4.4 In January the balance (£4 million) of the first tranche of aid under Regulation 1739/83, which provides assistance for urban renewal in the Belfast area, was received (an initial payment of £15 million was received in January 1984). An £18 million advance on the third tranche, was received in March.

Internal Market

4.5 In its four meetings on 4 February, 18 March, 6 May and 23 June the Internal Market Council discussed measures included in the rolling Presidency action programme for 1986 aimed at removing physical and technical barriers to trade within the Community. A new action programme to cover the period 1 July 1986 to 1 July 1987, prepared by the Netherlands, United Kingdom and Belgium, was presented to the Council on 23 June.

4.6 On 4 February the Council adopted the proposal for the co-ordinated development of computerised administrative procedures (CD Project) which aims to create a framework for co-ordinating national customs computer developments and reducing clearance times at internal frontiers. On 18 March the Council adopted a proposal on the ranges of nominal quantities and nominal capacities permitted for certain prepackaged products and noted the Commission's first proposal under the new approach to technical harmonisation of standards on pressure vessels. Following progress at

the Council on 6 May proposals have been adopted on protective structures for certain construction plant and the abolition of postal charges for customs presentation. The Council on 23 June considered new Commission proposals on opening up public procurement within the Community. The Council agreed in principle a directive on common technical specifications for the MAC/packet family of transmission standards for direct broadcasting by satellite. This meets the United Kingdom's concern that there should be no restriction on Member States' ability to exploit future technical developments evolving from the MAC/packet family of standards and which are operationally compatible with it. The Council made good progress towards agreement on a directive on specific training in general medical practice. It took note of a report by the Netherlands Presidency indicating that 31 specific measures aimed at removing barriers to trade within the Community had been adopted during the previous 12 months.

Deregulation

4.7 There were three significant developments. First, in January a firm of legal consultants, the Belmont European Community Law Office, was appointed to undertake on behalf of the Commission a study of the burdens imposed by existing Community legislation. Secondly, the Commission agreed in February 1986 to adopt a system which will enable member states to assess the costs to business of compliance with Community regulations. Each proposal for a new regulation will be accompanied by a note or "fiche", containing estimates of its effect on business costs. Thirdly, in June a task force on deregulation and small firms was set up within the Commission. The Government will be giving keen support to these and other initiatives during the United Kingdom Presidency in 1986.

Information Technology Standards

4.8 The Senior Officials Group for Information Technology Standards met on 4 February and 29 April. The Commission programme to harmonise information technology standards for Open Systems Interconnection by defining functional standards has made considerable progress. Three

standards have currently been completed and approved, making use of the streamlined consultation and voting procedures with member states national standards bodies, for publication as European pre-Standards (ENVs). Eight member states have signed a collaborative agreement and contracts with the Commission to enable work to proceed on providing European conformance testing services. United Kingdom test centres are in the lead for two of the areas specified. The work began in March with a four month initial definition phase.

Steel

4.9 On accession to the Community on 1 January 1986, Spanish exports to the Ten were limited to 827,500 tonnes. Exports from the Ten to Spain were unrestricted. Following a substantial surge in exports from the Ten to Spain, particularly in flat products, Spain complained to the Commission. The Commission published a decision on 5 March authorising safeguard measures, and the Ten's exports in the most affected categories were restricted to 1984 levels. At an Industry Council on 3 March, Ministers from the member states agreed that the Spanish quota for deliveries (of steel products) should be limited to 850,000 tonnes. These restrictions remain in force until the end of 1986.

Shipbuilding

4.10 The Industry Council on 3 March exchanged views on the Community regime for state aids to shipbuilding to replace the Fifth Directive when it expires at the end of 1986 and on 9 June received a progress report from the Commission on its consultations on the new regime for state aids to shipbuilding.

Intellectual Property

4.11 Informal negotiations with the object of finding a way to bring the Community Patent Convention into operation have continued. The Council Working Party on Intellectual Property (Trade Marks) met six times to consider the amended Commission proposal for a Council regulation for a Community Trade Mark. Another Council Working Party has been considering a Commission proposal for a Council directive on the legal protection of original topographies of semiconductor products.

SECTION V: RESEARCH AND DEVELOPMENT

Framework Programme

5.1 The Council held preliminary policy debates at its meetings in April and June on the Commission's informal proposals for the second Community Framework Programme for Research and Development. Once the Single European Act is ratified the new Framework Programme, unlike the first one, will have a legal basis in the Treaty as established in new agreed Articles. The Commission has identified seven broad areas as appropriate for Community research programmes. These cover energy (particularly nuclear fission and fusion); industrial technologies (particularly information and telecommunication technologies, technology for manufacturing industries and biotechnology); the management of resources (agriculture, materials); quality of life (health, safety and environment); science and technology for development and promoting European scientific and technical potential. The Commission have costed their informal proposals at some 10 billion ecus (£6 billion).

5.2 The Council's discussions concentrated on establishing firm selection criteria to be applied to individual programmes where evidence of the value added by the Community dimension is seen as important. Each member state also gave a clear indication of the relative priorities it attached to each proposed programme area. Ministers were agreed that the greatest emphasis should be placed on those areas aimed at promoting Europe's industrial competitiveness, with particular importance being attached to programmes such as ESPRIT (Information Technology), RACE (Telecommunications) and BRITE (Basic Technologies and Application of New Technologies). The high level of funding suggested by the Commission was criticised by some member states including the United Kingdom. The Commission's formal proposals were expected to be submitted to Council in July.

Joint Research Centre

5.3 The Council agreed that the work of the Community's own laboratories, the Joint Research Centre, should be more closely linked with the industrial objectives of the overall Framework Programme. The Council called for an independent review panel, composed mainly of European industrialists, to be set up to examine the activities of the Centre and its future role. The review panel will report before mid-November.

Environment and Materials Programmes

5.4 Research programmes in the environment and materials sectors had been agreed in principle by the Council at their meeting on 10 December 1985, but were still subject to the opinion of the European Parliament. The amendments proposed by the European Parliament resulted in conciliation discussions at the Council's meeting on 8 April. Several technical amendments were proposed by the European Parliament and agreed by Council, but the Council was unable to meet the European Parliament's request that the funding allocated to each programme be raised. The conciliation procedure was formally concluded on 9 June in time for Ministers to adopt the programmes at the 10 June Council.

ESPRIT

5.5 An independent review board studied the progress of ESPRIT (European Strategic Programme for Research and Development of Information Technologies) and submitted a mid term review to Council. At the April Council Ministers approved a resolution based on this review reaffirming their commitment to ESPRIT. However, the Council also noted its concern for the future development of management mechanisms and called for a further report on the technical results of ESPRIT I. This report will be produced by the Commission by October and is seen as a vital input to consideration of a second phase of ESPRIT.

SECTION VI: ENVIRONMENT AND TRANSPORT

Environmental Issues

6.1 The Environment Council agreed a directive extending the implementation of Directive 76/464/EEC on the discharge of dangerous substances to water. It includes a set of standard articles and an annex with details of emission limit values and environmental quality standards which will be required for DDT, pentachlorophenol and carbon tetrachloride. The Council asked that the Commission should, in bringing forward further proposals for substances for inclusion in the annex, respect the criteria set out in the parent directive - toxicity, persistence, bioaccumulation - and give priority to substances likely to be present in Community waters at levels which cause particularly important environmental problems. Agreement was also reached on a directive controlling the use of sewage sludge.

6.2 The Council agreed amendments to Directive 84/631/EEC on the transfrontier shipment of hazardous waste, to Directive 82/501/EEC on major accident hazards (the so-called "Seveso Directive") and to Decision 77/795/EEC establishing a Community water information system. The Council reached general agreement on all the main points arising from a proposal for a directive on animal experimentation. Other subjects discussed included the sulphur content of gas oil, waste oils and emissions from large combustion plants. The Council held a preliminary exchange of views on priorities for the fourth Environment Action Programme and took note of oral reports by the Commission on preparations for European Year of the Environment, which starts in March 1987.

6.3 Ministers also discussed the accident at the nuclear plant at Chernobyl, USSR, which occurred on 26 April and expressed their concern for all those affected. They concluded that there was a need for improved international communication and co-operation in relation to aspects of civil nuclear power.

Transport Issues

6.4 The Dutch Presidency held an informal meeting of Community Transport Ministers on 8-9 January in The Hague to discuss the main transport themes for their Presidency - aviation, shipping and road haulage. Formal meetings of the Transport Council were then held on 14 March, 18-19 June and 30 June.

6.5 On aviation, little progress was made. At the Council on 30 June, conclusions were agreed confirming the need for a coherent Community air transport system with greater competition on intra-Community air services, and setting a target date for the establishment of such a system by 1992 as part of the completion of the internal market. Outside the Council, the European Court of Justice delivered its judgment in May in the French air tariffs case which confirmed that the competition rules of the Treaty applied to aviation.

6.6 The package of four shipping instruments submitted to the Council as part of the Commission's memorandum on sea transport was considered by the Council on 14 March and 18 June. Despite good progress on three of the four instruments (dealing with competition, coordinated resistance, and unfair pricing) disagreement over the draft regulation on freedom to provide services, prevented the adoption of the package.

6.7 The Council's work on road haulage concentrated on two issues - the transitional arrangement leading to full liberalisation of road haulage by 1992 and lorry weights. On the former, the Council on 30 June concluded that there should be annual 40 per cent increases in the Community quota of road haulage permits from 1987 - 1992. It was agreed that bilateral quotas would be maintained in the transitional period and would be adjusted to meet traffic needs, including the full requirements of transit traffic. The conclusions also laid down the broad outline of the final arrangements for the organisation of the market after 1992. On lorry weights the Council on 30 June agreed a directive setting a

standard of 11.5 tonnes for the maximum drive axle weight for heavy lorries. The United Kingdom and the Republic of Ireland gained a derogation of unspecified duration to allow them to preserve their present limit of 10.5 tonnes. The 30 June Council also agreed a directive specifying the arrangements for proof of compliance with lorry weights legislation.

6.8 Other issues discussed included frontier facilitation, where a further directive on the arrangements for controlling goods crossing Community frontiers was agreed in principle at the 30 June Council: road safety, with the launch of European Road Safety Year at the informal meeting of Ministers on 8-9 January; and transport infrastructure and relations with Austria, which were both briefly discussed at the informal Ministerial meeting and at the 18-19 June Council.

SECTION VII: SOCIAL AFFAIRSEmployment

7.1 Employment Ministers met informally on 17 February and discussed the employment and labour market situation in the Community. They also considered the subject of women in the labour market. This was discussed further at an informal meeting of Employment Ministers on women's matters on 10 March. The Standing Employment Committee, composed of Employment Ministers, the Commission, and representatives of trade union and employer organisations, met on 24 April.

7.2 The Commission issued its decision on 1986 allocations from the European Social Fund on 7 May 1986. The United Kingdom obtained 16.4 per cent (£280 million) of the total sum - a reduction from 24 per cent (£306 million) in 1985. Part of the reduction in percentage terms was accounted for by a fall in the value of the £ against the ecu: another reason was the accession of Spain and Portugal. The Commission's guidelines for the management of the Social Fund for 1987 were published on 7 June. Although broadly similar to those in force for 1986 the Commission introduced some further limitations in the scope of the guidelines both as regards eligibility and geographical priority.

7.3 The Labour and Social Affairs Council on 5 June agreed a recommendation on the employment of disabled people and a resolution on a medium-term action programme (1986-1990) for the promotion of equal opportunities for women. The Council discussed, but did not reach agreement on, draft directives on equal treatment for self-employed women and the proscription of four specified carcinogens. The Commission announced at the Council that it would not be pursuing further discussions on the draft parental leave directive. Instead it stated

its intention of proposing a series of "actions" in the area of sharing family and occupational responsibilities. The Council also decided to postpone until 1989 at the earliest any further discussion on the draft directive on the informing and consulting of employees ("Vredeling"), recalling that the June 1985 Labour and Social Affairs Council had concluded that the implementation of the directive would pose fundamental problems for certain member states where the matters involved were governed by collective agreements and that a solution should be found to this problem of principle before continuing to examine the proposal.

7.4 A joint initiative on employment was launched by the United Kingdom, Italy and the Republic of Ireland by means of a paper on "Employment growth into the 1990's - a strategy for the labour market". The paper, which proposes measures in four main areas - promoting enterprise and self-employment; flexible patterns and conditions of work; training; and steps to help long-term unemployed people - was welcomed by the Council which agreed to continue its work on it during the United Kingdom Presidency. The Council also discussed a Presidency note on the long-term unemployed.

Health Matters

7.5 The Health Council and the Ministers of Health meeting within the Council met on 29 May, and agreed a framework for action programmes in cancer and toxicology. They also agreed on common standards for the protection of dialysis patients from exposure to aluminium, and on a common format for a Community emergency health card to be introduced by those member states who consider it desirable to do so. Other subjects discussed included Acquired Immune Deficiency Syndrome (AIDS), alcohol abuse and medical research.

Equal Treatment in Occupational Social Security Schemes

7.6 The Labour and Social Affairs Council on 5 June agreed a directive on the implementation of the principle of equal treatment of men and

women in occupational social security schemes. This prohibits discrimination between men and women in the conditions of membership of schemes, in the level of contributions and, subject to certain exceptions, in the level and type of benefit.

7.7 The directive requires that, with a few special exceptions, the necessary changes are implemented in six years. Deferment of compulsory application of the principle of equal treatment is allowed in relation to pensionable ages, the implications of differences in pension ages between the sexes on benefit structure and to provision of survivors benefits while differences remain in the State social security system.

Second Community Programme to Combat Poverty

7.8 In February 1986 the Commission chose 4 projects under the "marginals" theme, ie at-risk groups which did not feature in the initial selection of projects, submitted to them by member states. One of these projects is located in the United Kingdom.

7.9 In June 1986 the Commission submitted to the Council a proposal that the total budget be increased from 25 million ecus (£16 million) to 29 million ecus (£18 million). This is to enable the programme to be extended to Spain and Portugal following their accession to membership of the Community on 1 January 1986.

Consumer Affairs

7.10 Council Decision 86/138/EEC was adopted on 22 April 1986 concerning a demonstration project with a view to the introduction of a Community system of information on accidents involving consumer products. The system will be largely based on the United Kingdom home accident surveillance system. At the Consumer Affairs Council on 6 May, Ministers agreed a resolution concerning the future orientation of the policy of the Community for the protection and promotion of consumer interests; the resolution was formally adopted on 23 June.

Education

7.11 The Education Council on 9 June agreed that the COMETT programme of co-operation between higher education and industry in the field of advanced training should proceed at the level of 45 million ecus over the next three years. COMETT will provide Community assistance for development of a network of training partnerships between higher education institutions and industry: exchange of students and personnel between them; development and testing of joint training projects and multi-lateral initiatives for the development of multi-media training. The scheme will start in 1987 and applications will be invited towards the end of 1986. The Council discussed the ERASMUS proposals on student exchange and asked that they should be referred back for decision later in the year. The Council adopted a resolution on consumer education in schools and also agreed a programme of medium term activities to be pursued in education.

SECTION VIII: ENERGY

8.1 The Energy Council on 20 March discussed the substantial fall in oil prices. Ministers agreed that lower prices would have beneficial effects on the economic outlook for the Community, without detrimental effects on energy policy goals in the short term. There was therefore no reason to adopt new Community measures in response. The Energy Council on 3 June continued its discussion of the oil market. It invited the Commission to monitor developments in the market and to keep the Council informed. Work should also continue towards promoting the opening up of other major industrial markets so that exports of Middle East refined products are not unduly concentrated on the Community alone.

8.2 Ministers agreed in June to a new decision governing the payment of aids by member states to the coal industry. The new decision provides a stable Community framework for the industry for some years ahead, an essential condition to bringing it to economic viability. Both Councils continued discussion of the proposal to support the cost of social measures resulting from the restructuring of the coal industry. However Ministers were again unable to reach a conclusion. Ministers also discussed a second report by the Commission on the lignite and peat industries and confirmed that these fuels make a useful contribution to the attainment of the Community's energy objectives.

8.3 The June Council agreed a resolution to help to promote new and renewable energy sources. This seeks to develop the economic exploitation of those sources in the Community, avoiding duplication of effort and enabling all potential exploiters to benefit from the experience acquired by others. It also facilitates industrial co-operation and the extension of markets for new and renewable energy sources.

8.4 Discussion of the proposed new Community energy objectives for 1995 progressed to the point where, with only one or two points outstanding, the draft resolution was substantially agreed. Council also noted that the Commission had just forwarded to it a communication on the efficient use of energy in industrial firms.

Receipts from the Community

8.5 The United Kingdom Atomic Energy Authority expects to receive sums in the full year in the order of £18 million in respect of the Joint European Torus (JET) and the Authority's own fusion research programme, and just over £1 million for its non-nuclear, radioactive waste management and safety research and development programmes. British Coal received from the EEC and the European Coal and Steel Community (ECSC) together £2 million in grants for research and development and £31 million for re-adaptation aid for miners. The European Regional Development Fund paid grants totalling £1 million to the electricity supply industry and £2 million to the gas industry for projects in the United Kingdom.

SECTION IX: EXTERNAL RELATIONS, TRADE AND AID

External Trade

9.1 The Community played an important role in the work of the GATT (General Agreement on Tariffs and Trade) Preparatory Committee, which has a mandate to submit recommendations for adoption at the GATT Ministerial Meeting in Uruguay in September on the objectives, subject matter and modalities for the participation in a new round of multilateral trade negotiations. The Foreign Affairs Council, on 17 June, reaffirmed the Community's commitment to the new Round, and to its successful and speedy launching. The Council also welcomed the overall approach proposed by the Commission.

EC/EFTA

9.2 The Community reached agreement with the European Free Trade Association (EFTA) countries on the adaptation protocols to the free trade agreements and the ECSC agreements to take account of Spanish and Portuguese accession. Additional agreements on agricultural, non-agricultural, processed agricultural and fishery products were also reached in the form of exchange of letters. Bilateral Community framework agreements on scientific and technical cooperation were signed with Finland, Sweden and Switzerland.

9.3 The EC Commissioner for External Relations met EFTA Ministers in Reykjavik in June and renewed the Community's determination to maintain the momentum of expert level work on the implementation of the objectives of the April 1984 Luxembourg Joint Declaration on further EC/EFTA cooperation. In this context, agreement was reached between the EFTA countries and the Community to open negotiations with the aim of concluding an agreement to introduce a single administrative document for customs purposes by 1 January 1988.

9.4 Joint Committee meetings were held with Austria, Finland and Switzerland on a variety of issues under the terms of the free trade agreements with these countries.

Mediterranean Policy of the Enlarged Community

9.5 The Community began negotiations with Mediterranean third countries on the adaptation of their co-operation/association agreements to take account of enlargement. These negotiations, which are continuing, are intended to ensure that their trade access is not adversely affected by Spanish and Portuguese accession.

EC/United States

9.6 The period has been marked by a number of trade disagreements. The United States, maintaining that the arrangements for the accession of Spain and Portugal damaged its grain and soya exports to those countries, imposed quantitative restrictions in May on a range of Community agricultural exports, but at a level higher than existing trade. Further measures were threatened if US requests for changes in the accession arrangements were not met. The Community responded by introducing monitoring of imports of certain US agricultural products and indicated that it would consider taking restrictive measures if Community exports were adversely affected by the US measures. Efforts are being made to resolve the dispute through GATT consultation. Following the introduction by the United States of unilateral restrictions on imports of Community semi-finished steel products in January, the Community responded by imposing quantitative restrictions on imports from the US of certain fertilisers, coated paper and bovine fats. The United States however did lift the restrictions imposed in 1983 on the import of certain special steels, and accordingly at the end of February, the Community terminated the retaliatory measures it had taken in that case. The Community also made it clear that it would retaliate if a renewed US law continued to exclude from the US market Community exports of certain printed material, in English. The progress is being carefully monitored of Congressional proposals for the reform of US trade law, many of which are protectionist in intent.

EC/Canada

9.7 The Commission and the Canadian Government discussed the continued operation by Provincial Liquor Boards of practices which discriminate against imported alcoholic beverages. The Community maintained its request that a GATT Panel should rule on the dispute. The Community and the Canadian Government concluded an agreement, effective from 1 April, compensating the Community for measures taken by Canada to extend the duration of its restrictions on footwear imports.

EC/Japan

9.8 On 10 March, the Foreign Affairs Council agreed a declaration recognising the commitment of the Japanese Government to open its domestic market. It noted Japan's efforts to increase the value of the Yen, instigate changes in the structure of the economy in order to increase import propensity, and stress the need for tangible results as soon as possible. The declaration indicates the line of action to be followed by the Commission, including the monitoring of progress on the implementation of the Japanese Action Programme, maintaining pressure for liberalisation in particular markets and sectors, and keeping under review the redress available in GATT to combat unfair trade. It also identifies areas in which relations between Japan and the Community might be expanded and intensified. During the period, regular contacts have been maintained between the Community and Japan at both senior and working level. The President of the Commission visited Tokyo from 20-24 January. Commission officials discussed the follow up to the Action Programme with their Japanese counterparts in March and had further talks in April to pursue the specific issue of discrimination against Community exports of alcoholic drinks.

EC/China

9.9 The EC/China Joint Commission met in Peking on 6-7 March. While reaffirming its wish to develop closer links with the Community through trade and other forms of co-operation, China attached particular importance to securing better access for her exports.

EC/Sri Lanka

9.10 A range of economic and trade issues were discussed with particular emphasis on the promotion of exports and investment.

EC/Turkey

9.11 Steps were taken to re-establish normal relations between Turkey and the Community in recognition of Turkey's progress in restoring democracy. At the Foreign Affairs Council on 17 February, the Community agreed that work should go ahead on a number of outstanding issues, including the unblocking of Community aid money already committed to Turkey, with the aim of holding an EC/Turkey Association Council in the early autumn. A date (16 September) for the Association Council was fixed at the Foreign Affairs Council on 16 June.

EC/Latin America

9.12 The European Council on 26/27 June asked the Commission to submit a document on the Community's relations with Latin America in accordance with the objectives set out in the declaration annexed to the Spanish and Portuguese Treaty of Accession.

EC/Association of South East Asian Nations (ASEAN)

9.13 An EC/ASEAN Joint Commission was held in Brussels on 20/21 March to review progress under the EC/ASEAN cooperation agreement. An ASEAN "dialogue partners" meeting was held in Manila on 26/27 June. The Community was represented by the Troika with Mr Renton representing the United Kingdom.

EC/Council For Mutual Economic Assistance (CMEA)

9.14 Exchanges continued between the Commission and the Secretariat of the CMEA, as well as with the Foreign Ministers of the European CMEA states, with a view to normalisation of relations.

Textiles

9.15 The Community agreed a negotiating mandate both for the renewal of the Multi-Fibre Arrangement (MFA) itself for a further 4-5 year period after the end of July 1986 and for the continuation of the Community's

bilateral agreements governing imports from the principal supplying countries for a similar period following December 1986. The mandate envisages the renewal of the MFA on terms which will provide continued effective protection for the most sensitive sectors of the textile and clothing industry. There will be some elements of liberalisation especially for the poorest countries and those with open markets and a small measure of liberalisation in respect of children's clothes.

9.16 The Community negotiated a Voluntary Restraint Arrangement (VRA) with Turkey on a number of clothing products. This was signed in June and its entry into force will replace the safeguard provisions established by the Community in late 1985. Together with the arrangement on certain textile products negotiated in 1985 this now provides for a comprehensive VRA regime in the textile and clothing sector in respect of Turkey.

Steel

9.17 The Community renewed for a further year the VRAs on steel imports from certain EFTA and Council for Mutual Economic Assistance (CMEA) countries and from Australia, South Africa, South Korea and Brazil. The Community has also agreed that the Commission should open negotiations on a possible VRA with Venezuela. Imports of steel from countries which have not concluded VRAs remain subject to a system of basic import reference prices.

Overseas Development

9.18 The Third Lome Convention came into force on 1 May. Relations with the African, Caribbean and Pacific (ACP) countries were dominated by arrangements for programming European Development Fund aid under the new Convention and by negotiations on the price to be paid for ACP raw sugar exports to the Community in 1985/86. A special meeting of the ACP/EEC Council of Ministers was held on 4 March to consider the latter issue. The regular annual meeting of the ACP/EEC Council was held in Barbados on 24/25 April. On 30 June the Council adopted two decisions governing

trade and aid relations with the overseas countries and territories of the member states for the period up to 1990. National indicative programmes establishing priorities and policies for aid from the European Development Fund were agreed with 25 ACP countries. By the end of the period programmes had been agreed with 56 of the 66 ACP states.

9.19 The Development Council on 17 April concentrated on the immediate and long term prospects for Africa. The Council reviewed the Community's programme of rehabilitation assistance to the countries worst affected by famine in 1985, endorsed a Commission initiative for a co-ordinated and systematic approach to the problems of environmental degradation in Africa, and discussed the Community approach to the Special Session of the United Nations general assembly on Africa held at New York in May. It also discussed the need for reforms in the Community's food aid programme to make it more responsive to emergencies and to increase its effectiveness as an instrument of development. Ministers reviewed recent progress in applying food strategies in four African countries, and in programming the resources available under the Third Lome Convention.

9.20 Negotiations were completed for a replacement to the Food Aid Convention 1980 which expired on 30 June 1986. The Community and the member states signed the new Convention, under which they undertake to provide a minimum of 1.67 million tonnes of cereals annually as food aid.

9.21 Under the European Development Fund 42 projects worth a total of £182 million were approved, including £64 million for the Community's rehabilitation programme. Food aid worth £190 million was allocated from the Community's regular food aid programme; 11 projects worth £78 million were approved under the Community's aid programme to Asian and Latin American developing countries; under the Community's agreements with Mediterranean partners, 13 projects to a value of £42 million were approved.

SECTION X: EUROPEAN POLITICAL CO-OPERATION

Introduction

10.1 The Ten became Twelve with the accession of Spain and Portugal on 1 January: a further significant step in the development of European Political Co-operation. The member states have continued to consult and co-operate on a wide range of international issues. The Single European Act, which was signed in February, and incorporates in Title III Treaty Provisions on European Co-operation in the sphere of Foreign Policy, was agreed in substance at the Luxembourg European Council in December 1985. The Treaty Provisions, which result from the United Kingdom initiative, will provide a sound basis for the future development of European Political Co-operation. The new European Political Co-operation Secretariat is expected to start work on 1 January 1987, subject to ratification of the Single European Act by all the member states.

South Africa

10.2 On 14 February the Presidency, on behalf of the Twelve, conveyed to the South African Foreign Minister their concern about the progressively deteriorating situation in South Africa.

10.3 On 25 February the Foreign Ministers noted the reforms announced in President Botha's speech on 31 January and urged the South African Government to implement them as soon as possible.

10.4 The Twelve called for a national dialogue with the genuine representatives of those South Africans excluded from the present Government structure. They also called for the unconditional release of Nelson Mandela and all political prisoners and detainees as well as for the lifting of the ban on the African National Congress and other political parties.

10.5 On 12-13 June the Twelve agreed on a common reporting format to improve the monitoring of the way the revised 'Code of Conduct' for firms from the member states operating in South Africa (itself agreed in November 1985) is to be implemented.

10.6 On 27 June the Heads of State and Government expressed their grave concern about the worsening situation in South Africa, in particular the reimposition of the State of Emergency, the indiscriminate arrest of thousands of South Africans and the extensive use of press censorship. They called for the start of a genuine national dialogue on South Africa's future as the only way to avoid increasing repression, polarisation and bloodshed. They reaffirmed that the total abolition of apartheid remained the main goal of the Twelve's policy towards South Africa. The European Council agreed that there should be an increase in financial and material assistance to the victims of apartheid, in particular those affected by the disturbances in Crossroads, and to political prisoners. They again called on the South African Government to release Nelson Mandela and other political prisoners unconditionally and to lift the ban on the African National Congress, the Pan Africanist Congress of Azania and other political parties. They agreed that the Twelve should consult with other industrialised countries on further measures which might be needed, covering in particular a ban on new investments, the import of coal, iron, steel and gold coins from South Africa. Finally, they asked Sir Geoffrey Howe to visit South Africa in his Presidency capacity, in an effort to establish conditions in which the necessary dialogue could commence.

International Terrorism

10.7 The question of international terrorism remained a major concern of the Twelve in political co-operation, following the terrorist attacks at Rome and Vienna airports in December 1985. The Foreign Ministers issued a statement on 27 January in which they again condemned all forms of international terrorism, expressed their concern about the tension which has developed in the Mediterranean and stated their readiness to co-operate with all states on the problem of international terrorism. They agreed to intensify and promote common action and decided to establish a permanent working body within the framework of political co-operation to give impetus to the work of the Twelve in this field. The Twelve agreed to improve security at air, rail and sea ports; to establish effective control of persons entering or leaving the Community and circulating within it; and to promote common visa policies with respect to the problem of terrorism. The Twelve further confirmed that they would not export arms or other military equipment to countries which are clearly implicated in supporting terrorism and would do everything within their power to ensure that their nationals and industry would not seek any commercial advantage from measures taken by other states in reaction to terrorist attacks and other terrorist activities.

10.8 Following the terrorist attack on the TWA aircraft on 2 April 1986 and on the 'La Belle' discotheque in Berlin on 5 April 1986 Ministers met three times in eight days. At an emergency meeting held on 14 April the Foreign Ministers agreed to act against those involved in state supported terrorism, in particular Libya. On 17 April, after the US bombing of Tripoli and Benghazi, again in emergency session, they agreed that their decision of 14 April remained valid and determined to act as quickly as possible on the recommendation which had been drawn up in the meantime by officials. On 21 April the Foreign Ministers agreed to reduce the size of Libyan Peoples' Bureaux and of other official Libyan bodies in the member states, to restrict the movements of Libyan

diplomats and to apply to Libyans a stricter visa regime. They reaffirmed that no arms or other military equipment would be exported to Libya and that in their efforts to eliminate international terrorism they would use their joint influence in contacts with Libya and with other states concerned. They also undertook to intensify action on combatting the abuse of diplomatic immunity.

10.9 Trevi Ministers (the Ministers who within each member state are responsible for counter terrorism) met in The Hague on 24 April. They agreed that Trevi would in future have regular contacts with the United States and other countries. Ministers agreed to intensify Community action against terrorism, and the United Kingdom gave notice of proposals to amend domestic legislation to modernise its extradition law.

Iran/Iraq

10.10 At their meeting on 25 February the Foreign Ministers expressed their grave concern at the renewed escalation of the conflict in the region. They called upon those involved in the conflict to respect the sovereignty and territorial integrity of neighbouring states and not to interfere with third countries' commercial navigation in international waters or with civil aviation in the area. They also condemned the use of chemical weapons and the violation of humanitarian law.

10.11 The Twelve expressed their support for the efforts being made by the Secretary General of the United Nations and urged both Iran and Iraq to co-operate with the Security Council.

The Middle East

10.12 The Venice Declaration remained the basis for policy on the Arab/Israel conflict. The Dutch Presidency remained in active contact with the parties concerned, including the Palestine Liberation Organisation (PLO), in an effort to establish how the Twelve could best contribute towards peace in the Middle East.

Central America

10.13 Under the Dutch Presidency the Twelve continued to play an active diplomatic role to support the efforts of the Contadora Group. In addition to normal diplomatic exchanges the Twelve sent five joint messages, the most recent on 23 May, to the Central American States aimed at encouraging them to engage in serious negotiations with a view to signing the Contadora Act.

Conference on Security and Co-operation in Europe (CSCE)

10.14 The Twelve achieved successful co-ordination of their policies at the meeting on human contacts in Berne in May and at the conference on Confidence-and-Security-Building Measures and Disarmament in Europe. They also made progress in preparing for the Autumn follow-up meeting in Vienna.

The Philippines

10.15 In their declaration of 14 February the Foreign Ministers welcomed President Marcos' decision to step down, congratulated the new President, Mrs Aquino, and commended her consistent stand in defence of democratic principles.

Sri Lanka

10.16 On 25 February Foreign Ministers appealed to all parties concerned to continue their dialogue in order to achieve a political solution in the interest of peace and reconciliation within the framework of a united Sri Lanka.

SECTION XI: CHERNOBYL

11.1 The accident at the Chernobyl nuclear power station in the Ukraine, USSR, on 26 April, which led to widespread radiation contamination in Europe, including the United Kingdom and much of the European Community, presented the Community with new and difficult challenges. In the aftermath of the disaster, Ministers discussed the implications for the Community in the Agriculture, Environment, Energy and Foreign Affairs Councils, and in the European Council at the Hague. These discussions concentrated on the steps that needed to be taken immediately to prevent the import into the Community of contaminated food, and for the longer term, on the lessons to be learnt, internationally and within the Community, from the disaster.

11.2 The immediate problem of preventing the import of contaminated food was met by a regulation which temporarily prohibited imports of certain agricultural products from countries within a radius of 1,000 kilometres of Chernobyl. The countries affected by this suspension of trade were Bulgaria, Czechoslovakia, Hungary, Poland, Romania, the USSR and Yugoslavia. The regulation was in operation from 13 May to 31 May. The Foreign Affairs Council on 12 May agreed a statement laying down certain guidelines for intra-Community trade. This committed member states inter alia to limit contamination levels for exports to that acceptable to the recipient (EC) state, and recognise the controls imposed by other member states.

11.3 The initial regulation was replaced by a further regulation which operates from 1 June until 30 September 1986. The new regulation permits the resumption of previously prohibited imports and requires member states to check that imports of agricultural produce from all non-member states do not exceed the permitted maximum levels of radiation contamination specified. It also takes into account the level of

radiation contamination in the country of origin of the imports. The permitted maximum levels, agreed after detailed discussion was set at 370 becquerels/kg for milk and baby foods, and 600 becquerels/kg for all other products.

11.4 The Environment Council concluded that there was a need for improved international communication and co-operation in relation to all aspects of civil nuclear power. For the longer term, the Energy Council discussed and emphasised the importance of learning lessons from the disaster both internationally and within the Community. The Council agreed that the appropriate forum for such action was the International Atomic Energy Agency (IAEA), since this provided the best framework for co-ordination between the Community and IAEA member states.

11.5 These conclusions were endorsed by the European Council at the Hague on 26 and 27 June, The European Council also concluded that complementary action was possible and desirable within the European Community, and that the Community institutions and the member states, each within the limits of their powers, should concert their action, in particular on the protection of health and the environment, the safety of installations and their use, the procedures to be followed in the event of a crisis, and research. The European Council stressed the need to promote IAEA international conventions guaranteeing the essential exchange of information and governing mutual assistance in the event of accidents. Two such conventions have since been agreed.

SECTION XII: EUROPEAN PARLIAMENT

12.1 The European Parliament held six plenary sessions in Strasbourg. Sixty Spanish and twenty-four Portuguese members nominated by their respective national parliaments joined the European Parliament on 1 January on the accession of Spain and Portugal. There are now 518 MEPs.

12.2 During the period under review, the European Parliament concentrated on the results of the Intergovernmental Conference (which ended in December 1985), on environmental questions (including the repercussions of the Chernobyl accident) and on the major challenges for European Political Cooperation (especially the protection of human rights in the world). In April it adopted an important resolution supporting the Commission's proposals for an agricultural price freeze and for cuts in production for commodities in surplus.

12.3 The following members of the Government visited Strasbourg during European Parliament sessions to prepare for the British Presidency of the European Community: The Hon Peter Brooke, Minister of State at the Treasury in February and June; Mrs Lynda Chalker, Minister of State, Foreign and Commonwealth Office in April and June and Mr Timothy Raison, Minister for Overseas Development at the Foreign and Commonwealth Office in May.

SECTION XIII: THE EUROPEAN COURT OF JUSTICEMembership

13.1 On 1 January 1986 Mr Jose Carlos de Carvalho Moitinho de Almeida was appointed Judge of the Court from 1 January 1986 to 6 October 1988, and on 15 January 1986 Mr Gil Carlos Rodriguez Iglesias was appointed Judge of the Court from 15 January 1986 to 6 October 1991. On 1 January 1986 Mr Jose Luis da Cruz Vilaca was appointed Advocate General of the Court for the period 1 January 1986 to 6 October 1988.

Cases

13.2. References from United Kingdom courts or tribunals reached the Court in seven cases. The United Kingdom has submitted Observations in two of those cases and is likely to be submitting Observations in four of the other five. It has also submitted Observations in 12 references from courts in other member states. In addition, it has intervened as a party in one direct action.

13.3 A particular feature of the last six months has been the increase in the number of actions brought by the United Kingdom against Community institutions. Seven such actions have been brought. Three of these were actions against the Commission under Article 173 EC Treaty, namely the two 'Sheepmeat' cases and the 'Consultancy Quotas' case. The first Sheepmeat case challenges Commission regulations requiring 'clawback' to be charged in respect of animals and products for which variable premium cannot be granted. The second sheepmeat action is mutatis mutandis identical to the application in Case 305/85 which was mentioned in the last White Paper. Both cases challenge, for different marketing years, the Commission regulation concerning the calculation of annual

premium payable per ewe for Great Britain. The Consultancy Quotas case challenges the Commission decision to reintroduce the system whereby the Commission takes into account the nationality of firms in drawing up lists of candidates for service contracts concluded within the framework of the second Lome Convention.

13.4 The United Kingdom brought two actions, both in the agricultural area, against the Council. One involves a challenge to the vires of the Council to make instruments harmonising the law on the use of hormones for consumer protection under Article 43 EC Treaty alone. The other relates to battery hens and raises similar issues to those in the hormones case. Finally, but perhaps the most significant, was the action against the European Parliament, in which the United Kingdom sought partial annulment of the EC budget adopted by the European Parliament for 1986. Case 23/86, United Kingdom v European Parliament and the similar Case 34/86, Council v European Parliament (in which Germany, France and the United Kingdom intervened) are referred to in paragraphs 2.1-2.3.

13.5 The Commission has brought one action against the United Kingdom in which it alleges an infringement of the EC Treaty in that under United Kingdom legislation, after 1 April 1987 it will be forbidden to use on any road in the United Kingdom any vehicle manufactured after 1 October 1986 which is not fitted with a dim-dip headlight device.

Court judgments

13.6 In Case 152/84, Marshall v. Southampton and South West Hampshire Area Health Authority, the Court held that it was discriminatory and contrary to the Equal Treatment Directive to dismiss a woman at age 60 (the age at which she became entitled to a state pension) when a man was allowed to work until age 65 (the age at which a man becomes entitled to a state pension). The Court also held that an individual could rely upon the directive against the Authority in its capacity as employer since the relevant provisions of the directive had direct effect as against a state authority.

13.7 In Case 222/84, J v. Chief Constable of the Royal Ulster Constabulary (RUC) the Equal Treatment Directive was again considered by the Court. Mrs J was a member of the RUC full time reserve from 1974 to 1980 serving as an un-armed, uniformed police officer. It is the policy of the Chief Constable of the RUC that women members of the RUC and RUC Reserve should not carry firearms. As a result of this policy the Chief Constable was unable to offer Mrs J a further contract of full time employment when the contract under which she had been serving ended in 1980. The Court held that the nature of certain policing activities may be such that the sex of police officers constitutes a determining factor entitling a member state to restrict such work and the training leading thereto to men. Whether such discrimination is permissible is for the national court to decide. The Court also decided that a certificate issued by the Secretary of State to the effect that the Chief Constable's policy was in the interests of national security could not be treated as conclusive evidence so as to exclude the exercise of any power of review by the courts and thereby deprive an individual of asserting by judicial process the rights conferred by the directive.

13.8 Case 121/85, Conegate Limited v HM Customs and Excise, concerned the importation into the United Kingdom of inflatable dolls of an erotic nature from the Federal Republic of Germany. The Court held that it was not open to a member state to rely on grounds of public morality within the meaning of Article 36 of the Treaty to prohibit the importation of goods where the same goods may be manufactured freely in its territory and marketed in that territory subject only to certain national restrictions.

13.9 In Joined Cases 209-213/84, Ministere Public v Asjes and Others, the Court considered the compatibility of the competition rules of the EEC Treaty with the provisions of French law requiring the approval by the French authorities of air tariffs. This was a case of great importance for the United Kingdom which has been promoting the liberalisation of air transport in Europe. The Court decided that the

competition rules of the Treaty were applicable to transport matters and in particular air transport. In the absence of Council rules giving effect to the competition articles of the Treaty the obligation to rule on the admissibility of agreements, decisions and concerted practices and on the abuse of a dominant position in the market fell on the competent authorities within the member states.

13.10 Case 133/84, United Kingdom v Commission, involved a challenge by the United Kingdom to Commission decisions on the clearance of the United Kingdom's accounts in respect of the European Agricultural Guidance and Guarantee Fund (EAGGF) accounts for 1978 and 1979. The challenge failed in respect of seed production aid for peas and field beans. It succeeded, however, in respect of sales of skimmed-milk powder and butter.

13.11 In Case 150/85, Drake v The Adjudication Officer, the Court considered the principle of equal treatment for men and women in matters of social security. The Court held that it was discriminatory on grounds of sex and thus contrary to the Directive 79/7/EEC not to pay benefit to a married woman in respect of care given by her to her invalid mother where that woman lived with or was maintained by her husband, where such benefit would have been paid in corresponding circumstances to a married man.

SECTION XIV: ECONOMIC AND SOCIAL COMMITTEE (ESC)

14.1 The Economic and Social Committee held five plenary sessions in Brussels. These included an extraordinary and formal session on 13 March to instal the new Spanish members, the Portuguese authorities not having nominated their members in time. Some 45 opinions were adopted including one on the Common Agricultural Policy which called for "radical measures" to reform the CAP, employment of disabled people, ERASMUS (a scheme for student mobility and increased cooperation between Universities), maritime transport and asbestos.

SECTION XV: PARLIAMENTARY SCRUTINY OF EC LEGISLATION

15.1 The House of Commons Select Committee on European Legislation considered 484 documents and recommended 37 of those for further consideration by the House. 14 debates were held on the floor of the House covering a total of 37 documents. 4 debates were held in Standing Committee covering 5 documents.

15.2 The House of Lords Select Committee on the European Communities considered 509 documents and recommended 78 for further scrutiny. 9 reports covering 18 documents were presented to the House for debate. There were no reports presented to the House for information. 4 debates on the Committee's reports covering 9 documents were held in the House of Lords.

RESTRICTED

ANNEX A

MEETING OF THE EUROPEAN COUNCIL

<u>DATE</u>	<u>LOCATION</u>	<u>UK MINISTERS ATTENDING</u>
26-27 June	The Hague	Rt Hon Margaret Thatcher MP Prime Minister Rt Hon Sir Geoffrey Howe QC, MP Secretary of State for Foreign and Commonwealth Affairs

MEETINGS OF THE COUNCIL OF MINISTERS

<u>DATE</u>	<u>SESSION</u>	<u>UK MINISTERS ATTENDING</u>
20-21 January	Agriculture	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food Rt Hon John Selwyn Gummer MP Minister of State, Ministry of Agriculture, Fisheries and Food
20 January	Economic and Finance	The Permanent Representative to the European Community represented the United Kingdom
27 - 28 January	Foreign Affairs	Mrs Lynda Chalker, MP Minister of State, Foreign and Commonwealth Office John Butcher Esq MP Parliamentary Under-Secretary of State for Industry
4 February	Internal Market	Hon Alan Clark MP Minister for Trade
17 - 18 February	Foreign Affairs	Mrs Lynda Chalker MP Minister of State Foreign and Commonwealth Office Hon Alan Clark MP Minister for Trade
24-25 February	Agriculture	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food Rt Hon John Selwyn Gummer MP Minister of State, Ministry of Agriculture, Fisheries and Food

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<u>DATE</u>	<u>SESSION</u>	<u>UK MINISTERS ATTENDING</u>
3 March	Industry	John Butcher Esq, MP Parliamentary Under-Secretary of State for Industry
6 March	Environment	Hon William Waldegrave MP Minister of State for the Environment, Countryside and Local Government
10 March	Economic and Finance	Hon Peter Brooke MP Minister of State to the Treasury
10-11 March	Foreign Affairs	Rt Hon Sir Geoffrey Howe QC, MP Secretary of State for Foreign and Commonwealth Affairs Mrs Lynda Chalker, MP Minister of State, Foreign and Commonwealth Office Hon Alan Clark MP Minister for Trade
14 March	Transport	Rt Hon Nicholas Ridley MP Secretary of State for Transport
18 March	Internal Market	Hon Alan Clark MP Minister for Trade
20 March	Energy	Rt Hon Alick Buchanan-Smith MP Minister of State for Energy
24-25 March	Agriculture	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food Rt Hon John Selwyn Gummer MP Minister of State, Ministry of Agriculture, Fisheries and Food
8 April	Research	Geoffrey Pattie Esq, MP Minister of State for Industry and Information Technology
17 April	Development	Rt Hon Timothy Raison MP Minister for Overseas Development

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<u>DATE</u>	<u>SESSION</u>	<u>UK MINISTERS ATTENDING</u>
21 - 22 April	Foreign Affairs	Rt Hon Sir Geoffrey Howe QC, MP Secretary of State for Foreign and Commonwealth Affairs Mrs Lynda Chalker, MP Minister of State, Foreign and Commonwealth Office
21-25 April	Agriculture	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food Rt Hon John Selwyn Gummer MP Minister of State, Ministry of Agriculture, Fisheries and Food
28 April	Economic and Finance	Rt Hon Nigel Lawson MP Chancellor of the Exchequer
6 May	Internal Market	Hon Alan Clark MP Minister for Trade
6 May	Consumer Affairs	Michael Howard Esq, QC, MP Parliamentary Under-Secretary of State for Corporate and Consumer Affairs
12-13 May	Foreign Affairs	Mrs Lynda Chalker, MP Minister of State, Foreign and Commonwealth Office
26-27 May	Agriculture	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food Rt Hon John Selwyn Gummer MP Minister of State, Ministry of Agriculture, Fisheries and Food
29 May	Health	Rt Hon Barney Hayhoe MP Minister for Health
3 June	Energy	Rt Hon Peter Walker MP Secretary of State for Energy
5 June	Labour and Social Affairs	Rt Hon Kenneth Clarke QC, MP Paymaster General

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<u>DATE</u>	<u>SESSION</u>	<u>UK MINISTERS ATTENDING</u>
9 June	Industry	Hon Peter Morrison MP Minister of State for Industry
9 June	Education	Mr Christopher Patten MP Minister of State for Education and Science
10 June	Research	Geoffrey Pattie Esq, MP Minister of State for Industry and Information Technology
12 June	Environment	Hon William Waldegrave MP Minister of State for the Environment, Countryside and Local Government Mrs Angela Rumbold MP Parliamentary Under Secretary of State for the Environment David Mellor Esq, MP Parliamentary Under Secretary of State for Home Affairs
16 June	Economic and Finance	Rt Hon Nigel Lawson MP Chancellor of the Exchequer
16-17 June	Foreign Affairs	Rt Hon Sir Geoffrey Howe QC, MP Secretary of State for Foreign and Commonwealth Affairs Hon Alan Clark MP Minister for Trade
18-19 and 30 June	Transport	Rt Hon John Moore MP Secretary of State for Transport
23 June	Internal Market	Hon Alan Clark MP Minister for Trade
24-25 June	Agriculture	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food Rt Hon John Selwyn Gummer MP Minister of State, Ministry of Agriculture, Fisheries and Food

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<u>DATE</u>	<u>SESSION</u>	<u>UK MINISTERS ATTENDING</u>
25 June	Fish	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food Rt Hon John Selwyn Gummer MP Minister of State, Ministry of Agriculture, Fisheries and Food

OTHER MEETINGS

<u>DATE</u>	<u>SESSION</u>	<u>UK MINISTERS ATTENDING</u>
8-9 January	Informal Meeting of Transport Ministers	The Earl of Caithness Parliamentary Under-Secretary of State, Department of Transport Michael Spicer Esq, MP Parliamentary Under-Secretary of State, Department of Transport
17 February	Informal Meeting of Employment Ministers	Rt Hon Kenneth Clarke QC, MP Paymaster General
10 March	Informal Meeting of Ministers on Women's Employment Issues	Ian Lang Esq, MP Parliamentary Under-Secretary of State, Department of Employment
4-6 April	Informal Meeting of Economic and Finance Ministers	Rt Hon Nigel Lawson MP Chancellor of the Exchequer
17-18 April	OECD, Paris	Hon Alan Clark MP Minister for Trade
23 April	Informal Meeting on the European Social Fund	Rt Hon Kenneth Clarke QC, MP Paymaster General
23-24 April	The Trevi meeting, The Hague	Rt Hon Douglas Hurd MP Secretary of State for the Home Department

OTHER MEETINGS (cont'd)

<u>DATE</u>	<u>SESSION</u>	<u>UK MINISTERS ATTENDING</u>
9-10 June	Informal Meeting of Agriculture Ministers	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food Rt Hon John Selwyn Gummer MP Minister of State, Ministry of Agriculture, Fisheries and Food
30 June	EUREKA Ministerial Conference, London	Rt Hon Paul Channon MP Secretary of State for Trade and Industry

ANNEX B

MAJOR PROPOSALS ADOPTED

Customs and Indirect Taxation

Council Directive /86 - Twenty-first Council Directive on the harmonisation of the laws of the member states relating to turnover taxes - permitting the Hellenic Republic to further defer the introduction of the common system of value added tax until 1 July 1987.

Council Regulation 1147/86 - amending Regulation 754/76 laying down the customs treatment to be applied to goods returned to the customs territory of the Community.

Agriculture and Fisheries

Council Regulation 114/86 - extending until 31 December 1986 the validity of Regulations (EEC) 3721/85, 3730/85, 3734/85 and 3777/85 concerning fisheries.

Council Regulation 193/86 - opening, allocating and providing for the administration of a Community tariff quota for frozen beef and veal.

Council Regulation 331/86 - introducing a temporary derogation from the Community reference price system for fishery products imported into Portugal.

Council Regulation 426/86 - on the common organisation of the market in products processed from fruit and vegetables.

Council Regulation 448/86 - establishing for the period from 3 March to 30 June, certain measures for the conservation and management of fishery resources applicable to vessels flying the Japanese flag in waters falling under the sovereignty or jurisdiction of Portugal.

Council Regulation 484/86 - on the Community financing of withdrawals of fruit and vegetables in Spain during the first phase.

Council Regulation 497/86 - fixing the initial quantitative restrictions on the import into Portugal of certain floricultural products from third countries.

Council Regulation 503/86 - fixing for the period 1 March to 31 December 1986, the guide prices for certain fishery products, listed in Annex 1A and E of Regulation (EEC) 3796/81, and amending Regulation (EEC) 3602/85 as regards the guide price for Atlantic sardines and anchovies.

Council Regulation 568/86 - concerning the application of Protocol No 4, annexed to the Act of Accession of Spain and Portugal, with regard to the mechanism for additional responsibilities within the framework of fisheries agreements concluded by the Community with third countries.

Council Regulation 654/86 - fixing for the 1986 fishing year, the overall foreseeable level of imports for the products subject to the supplementary trade mechanism in the fisheries sector.

Council Regulation 780/86 - concerning the conclusion of the Agreement between the European Economic Community and the Government of the Democratic Republic of Madagascar on fishing off the coast of Madagascar.

Council Regulation 804/86 - amending Regulation (EEC) 137/79 on the institution of a special method of administrative co-operation for applying intra-Community treatment to the fishery catches of vessels of member states.

Council Regulation 1006/86 - amending Regulation 2727/75 on the common organisation of the market in cereals with regard to arrangements for production refunds.

Council Regulation 1007/86 - amending Regulation 1418/76 on the common organisation of the market in rice in respect of the arrangements for production refunds.

Council Regulation 1008/86 - laying down detailed rules for production refunds applicable to potato starch.

Council Regulation 1009/86 - establishing general rules applying to production refunds in the cereals and rice sector.

Council Regulation 1010/86 - laying down general rules for the production refund on certain sugar products used in the chemical industry.

Council Regulation 1156/86 - establishing a system of surveillance applicable to imports into France of yellow-fin tuna intended for the industrial manufacture of products falling within heading No 16.04 of the Common Customs Tariff.

Council Regulation 1316/86 - adopting the application in Portugal of Regulation 797/85 on improving the efficiency of agricultural structures.

Council Regulation 1336/86 - fixing compensation for the definitive discontinuation of milk production.

Council Regulation 1343/86 - adopting general rules for the application of the levy referred to in Article 5c of Regulation (EEC) 804/68 in the milk and milk products sector.

Council Regulation 1351/86 - amending Regulation (EEC) 1035/72 on the common organisation of the market in fruit and vegetables.

Council Regulation 1352/86 - fixing for the 1986/87 marketing year certain prices and other amounts applicable in the fruit and vegetable sector.

Council Regulation 1355/86 - including hybrid sorghum for sowing in the common organisation of the market in seeds and introducing, for this species, a system of reference prices.

Council Regulation 1418/86 - fixing the number of vessels flying the flag of Portugal authorised to fish for albacore tuna in waters under the sovereignty or jurisdiction of Spain.

Council Regulation 1419/86 - fixing the number of vessels flying the flag of Spain authorised to fish for albacore tuna in waters under the sovereignty or jurisdiction of Portugal.

Council Regulation 1420/86 - amending Regulations (EEC) 3542/85, 3543/85 and 3544/85 on the opening, allocating and administration of Community tariff quotas for certain fish and fillets of fish.

Council Regulation 1450/86 - fixing rice prices for the 1986/87 marketing year.

Council Regulation 1451/86 - fixing the monthly price increases for paddy rice and husked rice for 1986/87 marketing year.

Council Regulation 1482/86 - amending Regulation 3717/85 laying down certain technical and control measures relating to the fishing activities in Spanish waters of vessels flying the flag of Portugal.

Council Regulation 1483/86 - amending Regulation 3718/85 laying down certain technical and control measures relating to the fishing activities in Portuguese waters of vessels flying the flag of Spain.

Council Regulation 1579/86 - amending Regulation 2727/75 on the common organisation of the market in cereals.

Council Regulation 1580/86 - amending Regulation 2731/75 fixing standard qualities for common wheat, rye, barley, maize, sorghum and durum wheat.

Council Regulation 1583/86 - amending Regulation 3103/76 on aid for durum wheat.

Council Regulation 1584/86 - fixing the prices applicable to cereals for the 1986/87 marketing year.

Council Regulation 1585/86 - fixing the monthly price increases for cereals, wheat and rye flour and wheat groats and meal for the 1986/87 marketing year.

Council Regulation 1586/86 - of 23 May 1986 fixing for the 1986/87 marketing year the amount of the aid for durum wheat.

Council Regulation 1625/86 - amending Regulation 355/79 laying down general rules for the description and presentation of wines and grape musts.

Council Regulation 1626/86 - amending Regulation 3309/85 laying down general rules for the description and presentation of sparkling wines and aeriatiion sparkling wines.

Council Regulation 1627/86 - laying down rules for the description of special wines with regard to the indication of alcoholic strength.

Council Regulation 1628/86 - amending Regulation 1533/85 on the opening, allocating and administration of a Community tariff quota for certain eels falling within the subheading ex 03.01A II of the Common Customs Tariff.

Council Regulation 1648/86 - opening, allocating and providing for the administration of a Community tariff quota for cod, dried not salted, falling within sub-heading ex 03.02 A1b of the Common Customs Tariff and originating in Norway.

Council Regulation 1653/86 - opening for 1986 a special import quota for high quality fresh, chilled or frozen beef and veal.

Council Regulation 1726/86 - opening, allocating and providing for the administration of a Community tariff quota of 38,000 head of heifers and cows, other than those intended for slaughter, of certain mountain breeds.

Council Regulation 1727/86 - opening, allocating and providing for the administration of a Community tariff quota of 5,000 head of bulls, cows and heifers, other than those intended for slaughter, of certain Alpine breeds.

Council Regulation 1838/86 - extending the system of import licences to cherry juice and frozen peas.

Council Regulation 1902/86 - amending Regulation 758/86 on the import system applicable to manioc originating in third countries which are not members of GATT.

Council Regulation 1983/86 - laying down general rules for the system of direct aid for small producers in the cereals sector.

Council Directive 86/102 - amending Directive 74/329 on the approximation of laws of the member states relating to emulsifiers, stabilisers, thickeners and gelling agents for use in foodstuffs.

Council Directive 86/113 - on the welfare of laying hens kept in battery cages.

Council Directive 86/155 - amending, on account of the accession of Spain and Portugal, certain directives concerning the marketing of seeds and plants.

Council Directive 86/197 - amending Directive 79/112 on the approximation of the laws of the member states relating to the labelling, presentation and advertising of foodstuffs for sale to the ultimate consumer.

Council Directive 86/214 - amending Article 6 of Directive 79/117 prohibiting the placing on the market and uses of plant production products containing certain active substances.

Council Directive 86/355 - adding ethylene oxide to the annex of Directive 79/117 prohibiting the placing on the market and uses of plant protection products containing certain active substances.

Council Directive 86/362 - on the fixing of maximum levels for pesticide residues in and on cereals.

Council Directive 86/363 - on the fixing of maximum levels for pesticide residues in and on foodstuffs of animal origin.

Council Decision 86/222 - concerning the conclusion of a protocol renewing the Co-operation Agreement between the EEC and Thailand on manioc production, marketing and trade.

Council Estimate 86/15 - concerning young male bovine animals weighting 300 kgs, or less, and intended for fattening for the period 1 January to 31 December 1986.

Council Estimate 86/16 - concerning beef and veal intended for the processing industry for the period 1 January to 31 December 1986.

Commission Regulation 9/86 - amending the detailed rules for applying the variable slaughter premium for sheep by extending a clawback charge on export to all categories of sheep and sheepmeat not eligible to receive the premium.

Commission Regulation 67/86 - setting a temporary minimum import price for provisionally preserved raspberries.

Commission Regulation 635/86 - fixing certain quantitative restrictions on trade in fruit and vegetables between Spain and Portugal.

Commission Regulation 636/86 - fixing certain quantitative restrictions on imports into Spain of certain fruit and vegetables from third countries.

Commission Regulation 637/86 - fixing certain quantitative restrictions on imports into Portugal and certain fruits and vegetables from third countries.

Commission Regulation 638/86 - laying down detailed rules for the management of the quotas applicable in respect of imports into Portugal and Spain of certain fruits and vegetables from the Community as constituted at 31 December 1985.

Commission Regulation 643/86 - laying down detailed rules for the application of the Supplementary Trade Mechanism to the live plants and floriculture products listed in Annex XXII to the Act of Accession and imported into Portugal.

Commission Regulation 765/86 - laying down detailed rules for the sale of butter from intervention stock, for export to certain destinations.

Commission Regulation 984/86 - Supplementing Regulation (EEC) 1847/85 listing the representative producer markets for certain fruit and vegetables.

Commission Regulation 1257/86 - extending the temporary minimum import price arrangements for sour (morello) cherries from May 1986 to May 1987.

Commission Regulation 1481/86 - revising arrangements on the determination of prices of fresh or chilled lamb carcasses on representative Community markets and the survey of prices of certain other qualities of sheep carcasses in the Community.

Commission Regulation 1860/86 - amending Regulation 1633/84 by increasing the maximum payable weight for variable slaughter premium for sheep.

Commission Regulation 1994/86 - extending the temporary minimum import price arrangements for provisionally preserved raspberries.

Commission Directive 86/109 - limiting the marketing of seed of certain species of fodder plants and oil and fibre plants to seed which has been officially certified as 'basic seed' or 'certified seed'.

Commission Decision 86/110 - on the conditions under which derogations may be made from the prohibition on the use of EEC labels for the purpose of re-sealing and relabelling packages of seed produced in third countries.

Commission Decision 86/130 - laying down performance monitoring methods and methods for assessing genetic value of cattle for pure-bred breeding animals of the bovine species.

Science and Technological Research

Council Decision 86/234/EEC - concerning multiannual R&D programmes in the field of the environment (1986-1990).

Council Decision 86/235/EEC - concerning a research programme on materials (raw materials and advanced materials) (1986-1989).

Consumer Affairs

Council Decision 86/138/EEC - on a demonstration project with a view to the introduction of a Community system on information on accidents involving consumer products.

Council Resolution - on the future orientation of the policy of the Community for the protection and promotion of consumer interests.

Environment

Council Directive 86/94/EEC - amending for the second time Directive 73/404/EEC on the approximation of the laws of the member states relating to detergents.

Council Decision 86/85/EEC - amending Council Decision 81/971/EEC establishing a Community information system for the control and reduction of pollution caused by hydrocarbons discharged at sea.

Council Decision 86/277/EEC - on the conclusion of the Protocol to the 1979 Convention on long-range transboundary air pollution on long-term financing of the cooperative programme for monitoring and evaluation of the long-range transmission of air pollutants in Europe (EMEP).

Council Directive 86/278/EEC - on the protection of the environment, and in particular of the soil, when sewage sludge is used in agriculture.

Council Directive 86/279/EEC - amending Directive 84/631/EEC on the supervision and control within the European Community of the transfrontier shipment of hazardous waste.

Council Directive 86/280/EEC - on limit values and quality objectives for discharges of certain dangerous substances included in List 1 of the Annex to Directive 76/464/EEC.

Energy

Commission Decision 86/24/ECSC - approving aids from the Federal Republic of Germany to the coal mining industry during 1985.

Commission Decision 86/25/ECSC - approving aids from the French Republic to the coal mining industry during 1985.

Commission Decision 86/26/ECSC - approving aids from the Kingdom of Belgium to the coal mining industry during 1985.

Commission Decision 86/27/ECSC - approving additional aids from the United Kingdom to the coal mining industry during the 1984/85 financial year.

Commission Decision 86/2064/ECSC - establishing Community rules for State aid to the coal industry.

Food Safety

Regulation EEC/1388/86 - on the suspension of the import of certain agricultural produce originating in certain third countries.

Commission Regulation EEC/1505/86 - laying down certain detailed rules for the application of Council Regulation EEC/1388/86 on the suspension of the import of certain agricultural products originating in certain third countries.

Council Regulation EEC/1707/86 - on the conditions governing imports of agricultural products originating in third countries following the accident at the Chernobyl nuclear power station.

Commission Regulation EEC/1762/86 - laying down detailed rules for the application of Council Regulation 1707/86 on the conditions governing imports of agricultural products originating in third countries following the accident at the Chernobyl nuclear power station.

Social Affairs and Health and Safety at Work

Council Directive 86/188/EEC -- on the protection of workers from the risks related to exposure to noise at work.

Council Directive 86/ /EEC on rear-mounted roll-over protection structures of narrow track wheeled agricultural and forestry tractors.

Council Directive 86/ /EEC relating to the power take-offs of wheeled agricultural and forestry tractors and their protection.

Council Directive /86 concerning implementation of the principle of equal treatment of men and women in matters of occupational social security.

ANNEX C

MAJOR MINISTERIAL SPEECHES ON COMMUNITY TOPICS

<u>Date</u>	<u>Speaker</u>	<u>Occasion</u>
30 January	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food	International Cereals Seminar, Berlin
30 January	Hon William Waldegrave MP Minister of State for the Environment, Countryside and Local Government	Centre for Environmental Management and Planning, Aberdeen
5 February	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food	Agra-Europe Conference, London
11 February	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food	NFU AGM, London
4 March	Rt Hon Sir Geoffrey Howe QC, MP Secretary of State for Foreign and Commonwealth Affairs	Institute of Directors, London
7 March	Lord Gray of Contin Minister of State Scottish Office	Scottish NFU, Aviemore
21 March	Rt Hon Malcolm Rifkind QC, MP Secretary of State for Scotland	EEC Fisheries Conference, Glasgow
9 April	Rt Hon Sir Geoffrey Howe QC, MP Secretary of State for Foreign and Commonwealth Affairs	Lord Mayor's Diplomatic Banquet, London
16 April	Speech delivered by Mrs Lynda Chalker MP Minister of State for Foreign and Commonwealth Affairs on behalf of Rt Hon Sir Geoffrey Howe QC, MP Secretary of State for Foreign and Commonwealth Affairs	Conservative Group for Europe, London

<u>Date</u>	<u>Speaker</u>	<u>Occasion</u>
17 April	Rt Hon Paul Channon MP Secretary of State for Trade and Industry	French Chamber of Commerce Gala Dinner, London
25 April	Rt Hon Paul Channon MP Secretary of State for Trade and Industry	EMF Foundation, London
25 April	Rt Hon Douglas Hurd MP Secretary of State for the Home Department	The Norwich Constituencies Dinner
4 May	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food	Commodity Club, Washington DC
8 May	Rt Hon Douglas Hurd MP Secretary of State for the Home Department	European Democratic Group, London
16 May	Lord Gray of Contin Minister of State Scottish Office	Scottish Conservative and Unionist Party Conference, Perth
21 May	Rt Hon Malcolm Rifkind QC, MP Secretary of State for Scotland	America-European Community Association, East Kilbride
23 May	Rt Hon Malcolm Rifkind QC, MP Secretary of State for Scotland	Wigtown Agricultural Society, Newton Stewart
23 May	Mrs Lynda Chalker MP Minister of State for Foreign and Commonwealth Affairs	Council of British Chambers of Commerce in Europe, Madrid
6 June	Rt Hon Sir Geoffrey Howe QC, MP Secretary of State for Foreign and Commonwealth Affairs	Dutch Chapter of The America-European Community Association, The Hague
9 June	Hon Alan Clark MP Minister for Trade	European Business Institute, London
11 June	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food	National Sheep Association/ ADAS Open Day, Darlington

<u>Date</u>	<u>Speaker</u>	<u>Occasion</u>
12 June	Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food	European Atlantic Group, London
13 June	Rt Hon Lord Young of Graffham Secretary of State for Employment	British Chamber of Commerce, Brussels
13 June	Hon Alan Clark MP Minister for Trade	Union of Industries of the European Community (UNICE), Council of Presidents, Brussels
20 June	Geoffrey Pattie Esq, MP Minister of State for Industry and Information Technology	CBI-EUREKA Conference, London
20 June	Rt Hon Timothy Raison MP Minister for Overseas Development	Dyfed County Conference

MAJOR TREATIES AND AGREEMENTS SIGNED BY THE COMMUNITY

1. The Single European Act

Signed at Luxembourg on 17 February 1986 by nine member states and The Hague on 28 February 1986 by the remaining three.

2. A Protocol renewing the EC/Thailand Co-operation Agreement on Manioc Signed at Brussels on 23 May 1986.

3. Convention for the Protection, Management and Development of the Marine and Coastal Environment of the Eastern African Region and the two Protocols amended thereto.

Signed in Kenya on 20 June 1986.

4. Food Aid Convention 1986 laying down minimum quantities of food aid to be provided annually by major food aid donors.

Signed at New York on 26 June 1986.

5. Protocol amending the Convention for the Prevention of Marine Pollution from land-based sources to include provisions on the prevention of pollution through the atmosphere.

Signed at Paris on 30 June 1986.

ANNEX E

LIST OF EUROPEAN COURT OF JUSTICE CASES IN WHICH
THE UNITED KINGDOM HAS BEEN INVOLVED

i. Cases referred to the European Court under Article 177 of the EEC
Treaty from United Kingdom Courts or Tribunals

Case 77/86: R -v- Commissioners of Customs and Excise ex parte The National Dried Fruit Trade Association (challenge to Community legislation on minimum import price systems)

Case 79/86: Hamilton -v- Whitelock (tachographs)

Case 102/86: Apple and Pear Development Council -v- Commissioners of Customs and Excise (consideration for VAT purposes)

Case 138/86: Direct Cosmetics Limited v HM Customs & Excise (validity of a derogation from the sixth VAT Directive.)

Case 139/86: Laughtons Photographs v HM Customs & Excise (validity of a derogation from the Sixth VAT Directive.)

Case 141/86: R v HM Customs & Excise ex parte Imperial Tobacco Limited (Challenge to validity and interpretation of Community legislation on classification of tobacco stem (Virginia flue-cured).)

Case 434/85: Allen and Hanburys Limited -v- Generics (UK) Limited (drug imports - this case supersedes Case 243/85 referred to in the previous White Paper).

ii. References under Article 177 of the EEC Treaty in which
Observations have been submitted by the United Kingdom

1. Case 313/85: Iveco Fiat s.p.a. v. N V Van Hool (Judgments Convention)
2. Cases 331, 376 and 378/85: Bianco and Others v. Monsieur Le Directeur General Des Douanes et Droits Indirects (recovery of charges illegally levied)
3. Cases 379, 380 and 381/85: Giletti, Giardini and Tampan v. Caisse Regionale d'Assurance Maladie Rhone-Alpes and Others (social security benefits)
4. Case 384/85: Clarke v. Chief Adjudication Officer (disability allowance)
5. Case 433/85: Feldain v. Monsieur Le Directeur General Des Impots, Colmar (French excise tax)
6. Case 434/85: Allen and Hanburys Limited v. Generics (UK) Limited (drug imports)
7. Case 12/86: Demirel v. Stadt Sattwabish (Turkish immigrants)
8. Case 22/86: Rindone v. Allgemeine Ortskrankenkasse Bad Urach-Munsingen (sickness benefit)
9. Case 39/86: Sylvie Lair v Universitaet Hanover (educational grant)
10. Case 79/86: Hamilton v Whitelock (tachographs)

11. Case 80/86: Officer van Justitie v Kolpinghuis Nijmegen B V
(direct effect of directive)

12. Case 93/86: Severini v Caisse Primaire Central d'Assurance
Maladie (supplementary benefit)

iii. Actions under Article 173 of the EEC Treaty in which the United
Kingdom is a primary party

Case 23/86: United Kingdom v European Parliament (EC budget)

Case 23/86R: United Kingdom v European Parliament (interim
measures - EC budget)

Case 61/86: United Kingdom v Commission (sheepmeat)

Case 68/86: United Kingdom v Council (hormones)

Case 114/86: United Kingdom v Commission (EDF consultancy
quotas)

Case 131/86: United Kingdom v Council (battery hens)

Case 142/86: United Kingdom v Commission (sheepmeat)

iv. Actions under Article 169 of the EEC Treaty against the United
Kingdom

Case 60/86: Commission v United Kingdom (dim-dip facility)

v. Actions in which the United Kingdom has intervened and made written submissions under Article 37 of the Protocol on the Statute of the Court of Justice

Case 181/85: France v Commission (French alcohol)

Case 213/85: Commission v Netherlands (Dutch gas pricing).

Case 283/85: France v Commission (migration decision)

Case 315/85: Commission v Luxembourg (pensions)

Case 34/86: Council v European Parliament (EC budget)

PERSONAL



10 DOWNING STREET
LONDON SW1A 2AA

7 October 1986

From the Private Secretary

Dear Stephen,

EUROPEAN COMMUNITY: DIRECTIVE ON ENVIRONMENTAL ASSESSMENT

Your Secretary of State has sent a personal minute to the Prime Minister recording his concern about the application of the EC Directive on environmental assessment to off-shore projects, and suggesting that the Prime Minister might discuss the problem with him and the Environment Secretary.

I will of course show the minute to the Prime Minister when she returns from the Party Conference at the weekend. Having had some experience of these matters in an earlier incarnation, I would point out:-

- (i) that when the Directive was discussed in EQO in 1981 it was proposed that "we should avoid any firm commitment to environmental assessments in relation to off-shore developments". The Chairman's summing up said:

"Our tactical approach to the application of the draft Directive to off-shore oil and gas installations should be to seek a greater measure of discretion for Member States to decide the circumstances in which it was appropriate to require an environmental assessment, so as to enable us to decide for ourselves how far the provisions of the Directive should apply to the United Kingdom continental shelf".

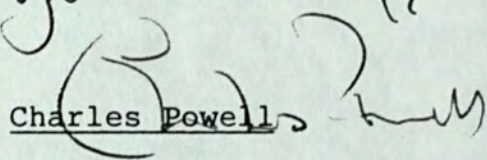
- (ii) this objective was achieved. Mandatory environmental assessments apply only to certain very major developments and not to off-shore projects.
- (iii) Annex II of the Directive is absolutely clear that it is for Member States to decide which lesser projects should be subject to environmental assessment. "Projects of the classes listed in Annex II shall be made subject to an assessment ... where Member States consider that their characteristics so require".

PERSONAL

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-2-

It seems to me therefore that our position vis-à-vis the Commission is well protected, as is the Department of Energy's position vis-à-vis the Department of the Environment. If the latter want to try to change established policy there would have to be a collective ministerial discussion. Might it be possible for your Secretary of State to have a quiet word with Mr Ridley to see whether this is really his intention? That would still leave open the possibility of the Prime Minister intervening if necessary.

Yours sincerely,

Charles Powell

Stephen Sklaroff, Esq.,
Department of Energy.



PERSONAL

Qz.05360

MR POWELL (10 DOWNING STREET)

European Community: directive on environmental assessment

When this directive was under negotiation, the United Kingdom decided that the right course was:

(i) to restrict the number of cases for which an environmental assessment was mandatory to a limited number of very major projects and

(ii) thus to give ourselves the possibility of excluding all offshore projects because they do not fall within the mandatory list (Annex I of the Directive).

In the Official Committee on European Questions (EQO) discussion on 23 April 1981 it was proposed that "we should therefore avoid any firm commitment to environmental assessments in relation to offshore developments, and press for discretionary application to such developments" and the Chairman, summing up the discussion, said:

"Our tactical approach to the question of the draft Directive to offshore oil and gas installations should be to seek a greater measure of discretion for member states to decide the circumstances in which it was appropriate to require an environmental assessment, so as to enable us to decide for ourselves how far the provisions of the directive should apply to the United Kingdom continental shelf".

This objective has been achieved. Annex I (mandatory environmental assessments) applies only to certain very major developments such as major airports or integrated steel works and does not apply to any of the developments about which, offshore, the Secretary of State for Energy is concerned.



PERSONAL

We have to decide by July 1988 how we are going to operate this directive. It is up to us to decide what to do about the environmental assessment of projects in Annex II (discretionary). Article 4.2 is absolutely clear:

"Projects of the classes listed in Annex II shall be made subject to an assessment, in accordance with Articles 5 to 10, where member states consider that their characteristics so require".

The Department of the Environment is now consulting other departments about the implementation of the directive and may be showing some over-enthusiasm for environmental assessment of Annex II projects (their letter inviting other departments to put forward views refers to "the need to pay some attention to Annex II projects and not to limit the implementation of the directive solely to Annex I projects.") When this trawl has been completed shortly, however, we shall require a further interdepartmental discussion in EQO which is planned for the beginning of November.

From this I conclude that there is absolutely no need for us to slide into requiring environmental assessments, under the terms of this directive, of offshore projects for the extraction of petroleum or natural gas and that, subject to careful handling with the Commission who will no doubt dislike our action, we can go on as we are. If the Department of the Environment does want for environmental reasons to apply more onerous environmental assessment to such projects, they should seek a collective Ministerial decision.

D F WILLIAMSON

7 October 1986

2

PERSONAL

PERSONAL



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

MR WILLIAMSON
CABINET OFFICE

EC DIRECTIVE ON ENVIRONMENTAL ASSESSMENT

BF 11
What do you think lies behind the attached papers? Is there a history to it? Grateful for any light you can shed. But please do not reveal to Departments your knowledge of the Energy Secretary's minute given its personal marking.

Charles Powell

6 October 1986

PERSONAL



PRIME MINISTER

EC DIRECTIVE ON ENVIRONMENTAL ASSESSMENT: APPLICATION TO OFFSHORE OIL AND GAS DEVELOPMENTS

As you know, I am concerned about the application of this EC Directive to the oil and gas industry. The Directive provides for mandatory environmental assessment for certain kinds of development project, listed in Annex I to the Directive, but is discretionary for other kinds of project in the much longer list in Annex II.

There is no doubt that the Directive applies to onshore developments. I have already reserved my position on the suggestion that discretionary power should be taken to require assessments to be made for projects where existing planning procedures already ensure that environmental considerations are examined adequately.

Discussion between Departments has now turned to the applicability of the Directive offshore where, in the main, the planning laws do not apply. There is no disagreement over the applicability of the Directive to the territorial sea, but it is arguable whether the Directive applies to the area of the United Kingdom Continental Shelf (UKCS). My officials are being invited to join in an assessment of the implications of applying the Directive to the UKCS, against the possibility that a modest move towards recognising the Directive's application outside territorial waters might be considered tactically prudent in order to satisfy the Commission and forestall a more searching scrutiny.

I am very reluctant, merely on the basis of this possibility, to set up new and quite unnecessary bureaucratic machinery to consider the environmental implications of every offshore application in the precise fashion set out in the Directive. Rigid application of these procedures could require a prospective developer to prepare and publish extensive amounts of detailed information as set out in Annex III to the Directive, (copy enclosed) and to afford an opportunity for public comment.

We already have perfectly satisfactory arrangements in place to ensure that adequate consultations take place on the environmental aspects of development proposals in sensitive offshore areas. These

PERSONAL



provide for companies to consult all local interested bodies, including the relevant local authorities; and my Department consults with the Department of the Environment and other relevant Government Departments during the consideration of the development plan.

It seems to me unlikely, if this matter is properly handled, that we shall ever face a challenge by the Commission before the European Court of Justice. In our dealings with the Commission, I would prefer to avoid provoking discussion and thus avoid a head-on collision. If the question is raised, we can point to our existing arrangements for offshore areas in general and claim with justification that these satisfactorily meet the purposes of the Directive.

I am not sending this minute to Nicholas Ridley as I believe it would be better for you to have a personal word with both of us rather than this doing the rounds of Whitehall.

A handwritten signature in blue ink, appearing to be 'D. G. C.', is written over the typed name 'D. G. C.'.

Secretary of State for Energy

6 October 1986

PERSONAL

COUNCIL DIRECTIVE

of 27 June 1985

on the assessment of the effects of certain public and private projects on the environment

(85/337/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Articles 100 and 235 thereof,

Having regard to the proposal from the Commission⁽¹⁾,

Having regard to the opinion of the European Parliament⁽²⁾,

Having regard to the opinion of the Economic and Social Committee⁽³⁾,

Whereas the 1973⁽⁴⁾ and 1977⁽⁵⁾ action programmes of the European Communities on the environment, as well as the 1983⁽⁶⁾ action programme, the main outlines of which have been approved by the Council of the European Communities and the representatives of the Governments of the Member States, stress that the best environmental policy consists in preventing the creation of pollution or nuisances at source, rather than subsequently trying to counteract their effects; whereas they affirm the need to take effects on the environment into account at the earliest possible stage in all the technical planning and decision-making processes; whereas to that end, they provide for the implementation of procedures to evaluate such effects;

Whereas the disparities between the laws in force in the various Member States with regard to the assessment of the environmental effects of public and private projects may create unfavourable competitive conditions and thereby directly affect the functioning of the common market; whereas, therefore, it is necessary to approximate national laws in this field pursuant to Article 100 of the Treaty;

Whereas, in addition, it is necessary to achieve one of the Community's objectives in the sphere of the protection of the environment and the quality of life;

Whereas, since the Treaty has not provided the powers required for this end, recourse should be had to Article 235 of the Treaty;

Whereas general principles for the assessment of environmental effects should be introduced with a view to supplementing and coordinating development consent procedures governing public and private projects likely to have a major effect on the environment;

Whereas development consent for public and private projects which are likely to have significant effects on the environment should be granted only after prior assessment of the likely significant environmental effects of these projects has been carried out; whereas this assessment must be conducted on the basis of the appropriate information supplied by the developer, which may be supplemented by the authorities and by the people who may be concerned by the project in question;

Whereas the principles of the assessment of environmental effects should be harmonized, in particular with reference to the projects which should be subject to assessment, the main obligations of the developers and the content of the assessment;

Whereas projects belonging to certain types have significant effects on the environment and these projects must as a rule be subject to systematic assessment;

Whereas projects of other types may not have significant effects on the environment in every case and whereas these projects should be assessed where the Member States consider that their characteristics so require;

Whereas, for projects which are subject to assessment, a certain minimal amount of information must be supplied, concerning the project and its effects;

Whereas the effects of a project on the environment must be assessed in order to take account of concerns to protect human health, to contribute by means of a better environment to the quality of life, to ensure maintenance of the diversity of species and to maintain the reproductive capacity of the ecosystem as a basic resource for life;

⁽¹⁾ OJ No C 169, 9. 7. 1980, p. 14.

⁽²⁾ OJ No C 66, 15. 3. 1982, p. 89.

⁽³⁾ OJ No C 185, 27. 7. 1981, p. 8.

⁽⁴⁾ OJ No C 112, 20. 12. 1973, p. 1.

⁽⁵⁾ OJ No C 139, 13. 6. 1977, p. 1.

⁽⁶⁾ OJ No C 46, 17. 2. 1983, p. 1.

Whereas, however, this Directive should not be applied to projects the details of which are adopted by a specific act of national legislation, since the objectives of this Directive, including that of supplying information, are achieved through the legislative process;

Whereas, furthermore, it may be appropriate in exceptional cases to exempt a specific project from the assessment procedures laid down by this Directive, subject to appropriate information being supplied to the Commission,

HAS ADOPTED THIS DIRECTIVE:

Article 1

1. This Directive shall apply to the assessment of the environmental effects of those public and private projects which are likely to have significant effects on the environment.

2. For the purposes of this Directive:

'project' means:

- the execution of construction works or of other installations or schemes,
- other interventions in the natural surroundings and landscape including those involving the extraction of mineral resources;

'developer' means:

the applicant for authorization for a private project or the public authority which initiates a project;

'development consent' means:

the decision of the competent authority or authorities which entitles the developer to proceed with the project.

3. The competent authority or authorities shall be that or those which the Member States designate as responsible for performing the duties arising from this Directive.

4. Projects serving national defence purposes are not covered by this Directive.

5. This Directive shall not apply to projects the details of which are adopted by a specific act of national legislation, since the objectives of this Directive, including that of supplying information, are achieved through the legislative process.

Article 2

1. Member States shall adopt all measures necessary to ensure that, before consent is given, projects likely

to have significant effects on the environment by virtue *inter alia*, of their nature, size or location are made subject to an assessment with regard to their effects.

These projects are defined in Article 4.

2. The environmental impact assessment may be integrated into the existing procedures for consent to projects in the Member States, or, failing this, into other procedures or into procedures to be established to comply with the aims of this Directive.

3. Member States may, in exceptional cases, exempt a specific project in whole or in part from the provisions laid down in this Directive.

In this event, the Member States shall:

- (a) consider whether another form of assessment would be appropriate and whether the information thus collected should be made available to the public;
- (b) make available to the public concerned the information relating to the exemption and the reasons for granting it;
- (c) inform the Commission, prior to granting consent, of the reasons justifying the exemption granted, and provide it with the information made available, where appropriate, to their own nationals.

The Commission shall immediately forward the documents received to the other Member States.

The Commission shall report annually to the Council on the application of this paragraph.

Article 3

The environmental impact assessment will identify, describe and assess in an appropriate manner, in the light of each individual case and in accordance with the Articles 4 to 11, the direct and indirect effects of a project on the following factors:

- human beings, fauna and flora,
- soil, water, air, climate and the landscape,
- the inter-action between the factors mentioned in the first and second indent,
- material assets and the cultural heritage.

Article 4

1. Subject to Article 2 (3), projects of the classes listed in Annex I shall be made subject to an assessment in accordance with Articles 5 to 10.

2. Projects of the classes listed in Annex II shall be made subject to an assessment, in accordance with Articles 5 to 10, where Member States consider that their characteristics so require.

To this end Member States may *inter alia* specify certain types of projects as being subject to an assessment or may establish the criteria and/or thresholds necessary to determine which of the projects of the classes listed in Annex II are to be subject to an assessment in accordance with Articles 5 to 10.

Article 5

1. In the case of projects which, pursuant to Article 4, must be subjected to an environmental impact assessment in accordance with Articles 5 to 10, Member States shall adopt the necessary measures to ensure that the developer supplies in an appropriate form the information specified in Annex III inasmuch as:

- (a) the Member States consider that the information is relevant to a given stage of the consent procedure and to the specific characteristics of a particular project or type of project and of the environmental features likely to be affected;
- (b) the Member States consider that a developer may reasonably be required to compile this information having regard *inter alia* to current knowledge and methods of assessment.

2. The information to be provided by the developer in accordance with paragraph 1 shall include at least:

- a description of the project comprising information on the site, design and size of the project,
- a description of the measures envisaged in order to avoid, reduce and, if possible, remedy significant adverse effects,
- the data required to identify and assess the main effects which the project is likely to have on the environment,
- a non-technical summary of the information mentioned in indents 1 to 3.

3. Where they consider it necessary, Member States shall ensure that any authorities with relevant information in their possession make this information available to the developer.

Article 6

1. Member States shall take the measures necessary to ensure that the authorities likely to be concerned by the project by reason of their specific environmental responsibilities are given an opportunity to express their opinion on the request for development consent. Member States shall designate the authorities to be consulted for this purpose in general terms or in each case when the request for consent is made. The information gathered pursuant to Article 5 shall be forwarded to these authorities. Detailed arrangements for consultation shall be laid down by the Member States.

2. Member States shall ensure that:

- any request for development consent and any information gathered pursuant to Article 5 are made available to the public,
- the public concerned is given the opportunity to express an opinion before the project is initiated.

3. The detailed arrangements for such information and consultation shall be determined by the Member States, which may in particular, depending on the particular characteristics of the projects or sites concerned:

- determine the public concerned,
- specify the places where the information can be consulted,
- specify the way in which the public may be informed, for example by bill-posting within a certain radius, publication in local newspapers, organization of exhibitions with plans, drawings, tables, graphs, models,
- determine the manner in which the public is to be consulted, for example, by written submissions, by public enquiry,
- fix appropriate time limits for the various stages of the procedure in order to ensure that a decision is taken within a reasonable period.

Article 7

Where a Member State is aware that a project is likely to have significant effects on the environment in another Member State or where a Member State likely to be significantly affected so requests, the Member State in whose territory the project is intended to be carried out shall forward the information gathered pursuant to Article 5 to the other Member State at the same time as it makes it available to its own nationals. Such information shall serve as a basis for any consultations necessary in the framework of the bilateral relations between two Member States on a reciprocal and equivalent basis.

Article 8

Information gathered pursuant to Articles 5, 6 and 7 must be taken into consideration in the development consent procedure.

Article 9

When a decision has been taken, the competent authority or authorities shall inform the public concerned of:

- the content of the decision and any conditions attached thereto,
- the reasons and considerations on which the decision is based where the Member States' legislation so provides.

The detailed arrangements for such information shall be determined by the Member States.

If another Member State has been informed pursuant to Article 7, it will also be informed of the decision in question.

Article 10

The provisions of this Directive shall not affect the obligation on the competent authorities to respect the limitations imposed by national regulations and administrative provisions and accepted legal practices with regard to industrial and commercial secrecy and the safeguarding of the public interest.

Where Article 7 applies, the transmission of information to another Member State and the reception of information by another Member State shall be subject to the limitations in force in the Member State in which the project is proposed.

Article 11

1. The Member States and the Commission shall exchange information on the experience gained in applying this Directive.

2. In particular, Member States shall inform the Commission of any criteria and/or thresholds adopted for the selection of the projects in question, in accordance with Article 4 (2), or of the types of projects concerned which, pursuant to Article 4 (2), are subject to assessment in accordance with Articles 5 to 10.

3. Five years after notification of this Directive, the Commission shall send the European Parliament and the Council a report on its application and effective-

ness. The report shall be based on the aforementioned exchange of information.

4. On the basis of this exchange of information, the Commission shall submit to the Council additional proposals, should this be necessary, with a view to this Directive's being applied in a sufficiently coordinated manner.

Article 12

1. Member States shall take the measures necessary to comply with this Directive within three years of its notification (1).

2. Member States shall communicate to the Commission the texts of the provisions of national law which they adopt in the field covered by this Directive.

Article 13

The provisions of this Directive shall not affect the right of Member States to lay down stricter rules regarding scope and procedure when assessing environmental effects.

Article 14

This Directive is addressed to the Member States.

Done at Luxembourg, 27 June 1985.

For the Council

The President

A. BIONDI

(1) This Directive was notified to the Member States on 3 July 1985.

ANNEX I

PROJECTS SUBJECT TO ARTICLE 4 (1)

1. Crude-oil refineries (excluding undertakings manufacturing only lubricants from crude oil) and installations for the gasification and liquefaction of 500 tonnes or more of coal or bituminous shale per day.
2. Thermal power stations and other combustion installations with a heat output of 300 megawatts or more and nuclear power stations and other nuclear reactors (except research installations for the production and conversion of fissionable and fertile materials, whose maximum power does not exceed 1 kilowatt continuous thermal load).
3. Installations solely designed for the permanent storage or final disposal of radioactive waste.
4. Integrated works for the initial melting of cast-iron and steel.
5. Installations for the extraction of asbestos and for the processing and transformation of asbestos and products containing asbestos: for asbestos-cement products, with an annual production of more than 20 000 tonnes of finished products, for friction material, with an annual production of more than 50 tonnes of finished products, and for other uses of asbestos, utilization of more than 200 tonnes per year.
6. Integrated chemical installations.
7. Construction of motorways, express roads⁽¹⁾ and lines for long-distance railway traffic and of airports⁽²⁾ with a basic runway length of 2 100 m or more.
8. Trading ports and also inland waterways and ports for inland-waterway traffic which permit the passage of vessels of over 1 350 tonnes.
9. Waste-disposal installations for the incineration, chemical treatment or land fill of toxic and dangerous wastes.

(1) For the purposes of the Directive, 'express road' means a road which complies with the definition in the European Agreement on main international traffic arteries of 15 November 1975.

(2) For the purposes of this Directive, 'airport' means airports which comply with the definition in the 1944 Chicago Convention setting up the International Civil Aviation Organization (Annex 14).

ANNEX II

PROJECTS SUBJECT TO ARTICLE 4 (2)

1. Agriculture

- (a) Projects for the restructuring of rural land holdings.
- (b) Projects for the use of uncultivated land or semi-natural areas for intensive agricultural purposes.
- (c) Water-management projects for agriculture.
- (d) Initial afforestation where this may lead to adverse ecological changes and land reclamation for the purposes of conversion to another type of land use.
- (e) Poultry-rearing installations.
- (f) Pig-rearing installations.
- (g) Salmon breeding.
- (h) Reclamation of land from the sea.

2. Extractive industry

- (a) Extraction of peat.
- (b) Deep drillings with the exception of drillings for investigating the stability of the soil and in particular:
 - geothermal drilling,
 - drilling for the storage of nuclear waste material,
 - drilling for water supplies.
- (c) Extraction of minerals other than metalliferous and energy-producing minerals, such as marble, sand, gravel, shale, salt, phosphates and potash.
- (d) Extraction of coal and lignite by underground mining.
- (e) Extraction of coal and lignite by open-cast mining.
- (f) Extraction of petroleum.
- (g) Extraction of natural gas.
- (h) Extraction of ores.
- (i) Extraction of bituminous shale.
- (j) Extraction of minerals other than metalliferous and energy-producing minerals by open-cast mining.
- (k) Surface industrial installations for the extraction of coal, petroleum, natural gas and ores, as well as bituminous shale.
- (l) Coke ovens (dry coal distillation).
- (m) Installations for the manufacture of cement.

3. Energy industry

- (a) Industrial installations for the production of electricity, steam and hot water (unless included in Annex I).
- (b) Industrial installations for carrying gas, steam and hot water; transmission of electrical energy by overhead cables.
- (c) Surface storage of natural gas.
- (d) Underground storage of combustible gases.
- (e) Surface storage of fossil fuels.
- (f) Industrial briquetting of coal and lignite.
- (g) Installations for the production or enrichment of nuclear fuels.
- (h) Installations for the reprocessing of irradiated nuclear fuels.
- (i) Installations for the collection and processing of radioactive waste (unless included in Annex I).
- (j) Installations for hydroelectric energy production.

4. Processing of metals

- (a) Iron and steelworks, including foundries, forges, drawing plants and rolling mills (unless included in Annex I).
- (b) Installations for the production, including smelting, refining, drawing and rolling, of non-ferrous metals, excluding precious metals.
- (c) Pressing, drawing and stamping of large castings.
- (d) Surface treatment and coating of metals.
- (e) Boilermaking, manufacture of reservoirs, tanks and other sheet-metal containers.
- (f) Manufacture and assembly of motor vehicles and manufacture of motor-vehicle engines.
- (g) Shipyards.
- (h) Installations for the construction and repair of aircraft.
- (i) Manufacture of railway equipment.
- (j) Swaging by explosives.
- (k) Installations for the roasting and sintering of metallic ores.

5. Manufacture of glass**6. Chemical industry**

- (a) Treatment of intermediate products and production of chemicals (unless included in Annex I).
- (b) Production of pesticides and pharmaceutical products, paint and varnishes, elastomers and peroxides.
- (c) Storage facilities for petroleum, petrochemical and chemical products.

7. Food industry

- (a) Manufacture of vegetable and animal oils and fats.
- (b) Packing and canning of animal and vegetable products.
- (c) Manufacture of dairy products.
- (d) Brewing and malting.
- (e) Confectionery and syrup manufacture.
- (f) Installations for the slaughter of animals.
- (g) Industrial starch manufacturing installations.
- (h) Fish-meal and fish-oil factories.
- (i) Sugar factories.

8. Textile, leather, wood and paper industries

- (a) Wool scouring, degreasing and bleaching factories.
- (b) Manufacture of fibre board, particle board and plywood.
- (c) Manufacture of pulp, paper and board.
- (d) Fibre-dyeing factories.
- (e) Cellulose-processing and production installations.
- (f) Tannery and leather-dressing factories.

9. Rubber industry

Manufacture and treatment of elastomer-based products.

10. Infrastructure projects

- (a) Industrial-estate development projects.
- (b) Urban-development projects.
- (c) Ski-lifts and cable-cars.
- (d) Construction of roads, harbours, including fishing harbours, and airfields (projects not listed in Annex I).
- (e) Canalization and flood-relief works.
- (f) Dams and other installations designed to hold water or store it on a long-term basis.
- (g) Tramways, elevated and underground railways, suspended lines or similar lines of a particular type, used exclusively or mainly for passenger transport.
- (h) Oil and gas pipeline installations.
- (i) Installation of long-distance aqueducts.
- (j) Yacht marinas.

11. Other projects

- (a) Holiday villages, hotel complexes.
- (b) Permanent racing and test tracks for cars and motor cycles.
- (c) Installations for the disposal of industrial and domestic waste (unless included in Annex I).
- (d) Waste water treatment plants.
- (e) Sludge-deposition sites.
- (f) Storage of scrap iron.
- (g) Test benches for engines, turbines or reactors.
- (h) Manufacture of artificial mineral fibres.
- (i) Manufacture, packing, loading or placing in cartridges of gunpowder and explosives.
- (j) Knackers' yards.

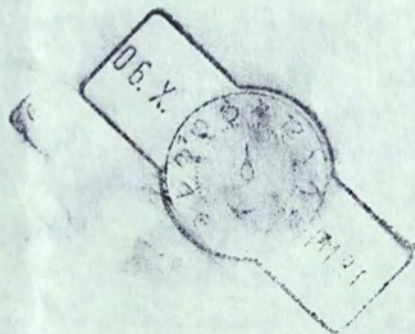
12. Modifications to development projects included in Annex I and projects in Annex I undertaken exclusively or mainly for the development and testing of new methods or products and not used for more than one year.
-

ANNEX III

INFORMATION REFERRED TO IN ARTICLE 5 (1)

1. Description of the project, including in particular:
 - a description of the physical characteristics of the whole project and the land-use requirements during the construction and operational phases,
 - a description of the main characteristics of the production processes, for instance, nature and quantity of the materials used,
 - an estimate, by type and quantity, of expected residues and emissions (water, air and soil pollution, noise, vibration, light, heat, radiation, etc.) resulting from the operation of the proposed project.
2. Where appropriate, an outline of the main alternatives studied by the developer and an indication of the main reasons for his choice, taking into account the environmental effects.
3. A description of the aspects of the environment likely to be significantly affected by the proposed project, including, in particular, population, fauna, flora, soil, water, air, climatic factors, material assets, including the architectural and archaeological heritage, landscape and the inter-relationship between the above factors.
4. A description (*) of the likely significant effects of the proposed project on the environment resulting from:
 - the existence of the project,
 - the use of natural resources,
 - the emission of pollutants, the creation of nuisances and the elimination of waste;and the description by the developer of the forecasting methods used to assess the effects on the environment.
5. A description of the measures envisaged to prevent, reduce and where possible offset any significant adverse effects on the environment.
6. A non-technical summary of the information provided under the above headings.
7. An indication of any difficulties (technical deficiencies or lack of know-how) encountered by the developer in compiling the required information.

(*) This description should cover the direct effects and any indirect, secondary, cumulative, short, medium and long-term, permanent and temporary, positive and negative effects of the project.



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DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

RESTRICTED

6 October 1986

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1

EDP
7/x

Dear David,

REMOVAL OF BARRIERS TO BUSINESS IN EUROPE

In my letter of 27 August ^{at 11ap PT32} I promised a substantive reply to yours of 31 July when I had reviewed this Department's major targets for deregulation.

I have been able to identify seven substantial existing Community measures for inclusion among our priority lists of targets for deregulation. These are:

- i) The Fourth Company Law Directive;
- ii) The Sixth VAT Directive;
- iii) Equal Treatment Directive;
- iv) Directive on Equal Pay for Men and Women;
- v) Directive on Collective Redundancies;
- vi) Acquired Rights Directive
- vii) Directive on the Conservation of Wild Birds

... I attach notes in the form that you requested. Generally we are seeking revision and amendment rather than repeal.

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BOARD OF TRADE
BICENTENARY



I agree that we should press ahead with our efforts to secure active examination of these at an early stage.

We must as you say also ensure a substantial input by the CBI and UNICE into the Belmont Study, as I made a point of stressing when I addressed a special CBI conference earlier this month. I hope that they will do so, although the signs are that the principal concern is with proposed rather than existing legislation. In the past the CBI has, of course, opposed a number of measures which are now part of the EC regulatory framework. But in most cases they declined to nominate these as targets for deregulation, on the grounds that their members generally found deviation from the status quo more troublesome than the substance of the measure itself.

The list identifies - as your letter requested - the targets which we might aim to secure as a result of action flowing from the Belmont Study. There are, however, a number of other deregulatory objectives which we should keep in mind but which it will be difficult to pursue either through the Belmont Study or through the 'fiche' system which the Commission have now begun to implement for new proposals. The first is a general point and involves the Commission's whole approach to company law. The Commission should, I am sure, spend less time on making new law and more on refurbishment. Commercial practices change, and it is standard UK procedure to review provisions regulating companies from time to time in order to establish whether they are still relevant. But there is no such procedure at Community level. In theory the Contact Committee system provides the necessary machinery, but the machinery does not function to this end. Secondly, there are a number of EC proposals which have been under discussion for a long time. They may involve unwelcome impact costs but since they are strictly not new proposals, the Commission are not willing to subject them to the rigours of the fiche system. They will not be under review by Belmont, and we must be careful that they do not slip through the net. Thirdly, the administration of directives (or rules under the Treaty) can be burdensome irrespective of the substance. Again, this is not a matter which Belmont will be addressing, but one which may well have a part in our response to the report. We might consider all of these points at your proposed meeting.

I have also seen Nicholas Ridley's letter to you of 19 September and agree, of course, that there is a tension between deregulation and environmental protection. But the same applies in other areas such as consumer protection, and our concern should be to ensure

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that a balance is struck between the potential benefits of regulation and its cost to industry. Equally, I agree that environmental protection can bring benefits to certain sectors of industry - but these should not blind us to the costs they impose on industry as a whole. The balance of advantage in industrial terms is rarely likely to tip in favour of regulation.

I am copying this letter to the recipients of yours of 31 July.

ms,
PAUL CHANNON *Paul*

THE FOURTH COMPANY LAW DIRECTIVE (78/660/EEC)

a. Purpose

With the seventh company law directive, it specifies reporting duties of firms including form and content of annual reporting.

b. Burden

This Directive makes it impossible for us to reverse the decision taken in 1967 requiring accounts to be filed at the Companies Registration Offices by all private companies, irrespective of their size. This arguably puts an unnecessary burden on very small companies and creates problems in terms of enforcement. The case for changing present requirements would need careful consideration but we would like to have room for manoeuvre.

c. Solution

Review the requirements of the Directive.

d. Prospects of Agreement

Realistically, very slim. Some member states have not even implemented the Directive yet and there is no evidence to suggest that we can expect any support. The UK has far more very small companies - around half a million - than any other member state: we are therefore in a very different position to anybody else.

THE SIXTH VAT DIRECTIVE (77/388/EEC - ARTICLE 24(2))

a) PURPOSE: .

Allows Member States to set an exemption limit for registration for VAT by small businesses and, if the limit was above the minimum at the time the directive was implemented, to maintain the value in real terms.

b) BURDEN:

Member States unable to be sufficiently flexible in determining the limits.

c) SOLUTION:

Directive should be amended to recognise the differences in the control of small traders in each of the Member States and to allow a harmonised upper threshold not less than that of the highest already permitted, ie Ireland's at £25,000(Irish)

d) PROSPECTS OF AGREEMENT:

The UK has been pressing this matter for some time. An uphill task - a number of Member States are concerned about loss of VAT revenues.

EQUAL TREATMENT DIRECTIVE (76/207/EEC)

a. Purpose:

Requires equal treatment of men and women in access to employment, vocational training, promotion and working conditions.

b. Burdens:

Potentially onerous for SMEs. UK implementing legislation (Sex Discrimination Act 1975 and parallel N Ireland legislation) currently provides exemption for SMEs employing five or less people. ECJ in November 1983 upheld Commission's case that this (and other features) did not meet requirements of directive. The UK has implemented the judgement for diplomatic reasons.

c. Solution:

Amend directive to allow exemption for small firms.

d. Prospects for success:

Mr King when Secretary of State for Employment tried personally to negotiate an exemption for SMEs without success. The chances of success on such a fundamental directive are frankly small. Any initiative would have to be carefully presented to avoid the impression of an attack on equality rather than on unnecessary burdens.

DIRECTIVE ON EQUAL PAY FOR MEN AND WOMEN (75/117/EEC of Feb 1975)

a Purpose

To eliminate all discrimination on grounds of sex with regard to all aspects and conditions of remuneration.

b Burden

There is no problem with equal pay as such but regulations on equal pay for work of equal value had to be introduced in the UK with effect from 1 January 1984 following a ruling of the European Court of Justice that UK law failed to comply with the Directive. When the Directive was agreed, the UK Government was assured by the Commission that the UK legislation (the Equal Pay Act 1970) did comply. The new Regulations disrupt established bargaining structures, could increase labour costs and damage competitiveness. Until now it has been felt that while increased costs to employers are potentially considerable it would be better to wait and see what effect individual judgements have.

c Solution

Amend the Directive to remove the "Equal Value" element.

d Prospects for Success

On the face of it not great. Much will depend on what actually happens in the UK as a result of the regulations and on whether this concerns employers in other European countries.

DIRECTIVE ON COLLECTIVE REDUNDANCIES (75/129/EEC)

a. Purpose

Requires both advance notification (to SOS for Employment) of redundancies of 10 or more employees and advance consultation with recognised trade unions.

b. Burden

Compliance cost and reduction of flexibility in labour market.

c. Solution

Increase threshold level to 100 employees. (Above that, Directive probably on balance useful to Government).

d. Prospects for Success

It is difficult for us to assess as this subject is a D/Em lead and has not had a very high profile.

ACQUIRED RIGHTS DIRECTIVE (77/187/EEC of February 1977)

a. Purpose:

To protect employees' rights on transfer of a business by providing for:

- automatic transfer of employees' contracts of employment from the ~~transferor~~ to the transferee; and
- employee representatives to be informed and consulted prior to the transfer of the business or parts of it.

Directive implemented in UK by the Transfer of Undertakings (Protection of Employment) Regulations 1981.

b. Burden:

Obligations on employers reduce likelihood of business being transferred as going concern, so reducing employment. Creates legal and practical uncertainties, delays commercial decisions and reduces business flexibility and reorganisation. Consultation procedures and disproportionate amount of litigation also impose costs and administrative burdens.

c. Solution:

Repeal totally, or remove SMEs from scope by introducing threshold of (say) 100 employees.

d. Prospects for Success:

Not very great but D/Em are best placed to judge.

DIRECTIVE ON THE CONSERVATION OF WILD BIRDS (79/409/EC)

a. PURPOSE

To establish general arrangements for the protection of all species of wild birds in Member States. Member States are required inter alia to classify suitable territories as special protection areas for conservation of particularly vulnerable species and to avoid "pollution and deterioration of habitats or any disturbance affecting the birds insofar as these would be significant (for their survival and reproduction)".

b. BURDEN

Experience has shown that the Commission regards the Directive as precluding almost any developments in protection areas - or even areas the Commission considers ought to have been protected. Problems have already arisen at sites in Scotland and may grow as protection areas are extended into major estuaries.

c. SOLUTION

Modify the measure to give Member States greater discretion to allow development.

d. PROSPECTS OF AGREEMENT

Seven Member States (not including the UK) have been taken to Court for failing to implement the Directive properly in the time allowed. This suggests that there may be a fair chance of securing agreement to modification. Action in this area has obvious political difficulties which will need careful handling.

EURO POL: Budget PT33





Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Stephen Ratcliffe Esq
PS/Secretary of State
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

*ESP
G/A.*

3 October 1986

Dear Stephen

REMOVING BARRIERS TO BUSINESS IN EUROPE

at 110p P132
Your Secretary of State sent the Chancellor a copy of his letter of 31 July to Mr Channon.

The Chancellor fully agrees that we should be ready to respond to the results of the Belmont Study when they are available and thus should concentrate on establishing our priorities for change in advance. That said, we do not have any particular EC regulations to nominate as targets for change. I should add though that Customs & Excise and the Inland Revenue are in continuing contact with the relevant EC institutions and indeed the trading public, and so the European area is kept under constant review.

I am copying this letter to Private Secretaries to the Prime Minister, the Foreign Secretary, the Home Secretary, the Secretaries of State for Energy, Health and Social Services, the Environment, Trade and Industry, and Transport, the Minister for Agriculture and to Sir Robert Armstrong.

Yours ever,

Tony Knowles

A W KUCZYS
Private Secretary

EURO POL Budget PT33





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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 4749

Private Secretary
Secretary of State for Foreign
and Commonwealth Affairs,
Downing Street East
LONDON
SW1

3 October 1986

Dear Sir,

The Minister of State to the Treasury has asked me to let you have an advance copy of the 'Statement on the 1986 Community Budget' White Paper which is being laid before Parliament today.

It is to be published at 12 noon.

Copies of this letter and enclosure go to all Private Secretaries to Members of the Cabinet, Sir Robert Armstrong and Tim Flesher at No.10.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'B. O. Dyer'.

B O DYER
Parliamentary Clerk

* Cmnd 9907 Oct 86.



Ref. A086/2747

PRIME MINISTER

Cabinet: Community Affairs

In the course of his report on the IMF/IBRD meeting in Washington the Chancellor of the Exchequer may refer to the informal meeting of Finance Ministers at Gleneagles on 19-20 September, which he chaired and which prepared the Community position for the Washington meetings. The Chancellor of the Exchequer took the opportunity at the informal meeting to emphasise to the Greek Minister of National Economy our concerns over the subsidised export of Greek cement to the United Kingdom and the need to bring this subsidy to an end. There are signs from Athens that the Greeks are now feeling this pressure since they are frightened of the leverage we can exert over the second tranche of their Community loan later this year.

2. The Home Secretary will refer to the meeting of Interior Ministers on closer co-operation against terrorism which he chaired in London on 25 September. This was a "Trevi" meeting of the twelve member states since defence against terrorism is a matter for concerted national, not Community, action. Under the shadow of the bombings in Paris the meeting was productive and down-to-earth. It reaffirmed the Twelve's determination not to make concessions to terrorists. A number of measures to improve co-operation against terrorism were agreed, including better exchanges of information and intelligence, even closer police collaboration and the installation of up-to-date secure communications between the police forces of the Twelve. Further work is planned on such matters as extradition and expulsion procedures. The meeting was well reported and was seen as evidence of improved efficiency in counter-terrorist action in Europe and of the United Kingdom's strong leadership on these



issues. As part of our earlier Presidency planning there will be another meeting under Mr Hurd's Chairmanship in October, which will deal with action against drugs and strengthening the external frontier of the Community.

3. The Secretary of State for Trade and Industry may mention the successful launching of the GATT "Uruguay Round" at the GATT Ministerial meeting in Punta del Este. Mr Channon attended and in his Presidency role was responsible for the co-ordination of the Community negotiating position. In particular, it was the Presidency which played the main part in deciding the satisfactory formula on agriculture in the final declaration. This will enable the GATT negotiations to advance from the declaration at the Tokyo Economic Summit on the world-wide problems of trade in key agricultural products towards seeking negotiated solutions. A formula was also agreed which will allow negotiations on trade in another area of importance to us, services to be handled within the Round.

4. The Minister of Agriculture, Fisheries and Food will mention the informal meeting of Agriculture Ministers on 28-30 September in Cumbria at which he was the host. HRH The Prince of Wales took part in some of the proceedings. In preparation for this meeting the Minister had circulated his paper on the diversion of land from cereal production ("set-aside"). The reception was reasonable, although some member states are cool or mildly hostile (without producing any convincing alternative). We are satisfied with the launch. The paper will now go more formally to the Agriculture Council.

5. The Minister of Agriculture, Fisheries and Food may also refer to the Fisheries Council on 22 September. The main outcome was an agreement by qualified majority on tighter measures to conserve fish stocks in Community waters, with successive reductions in mesh size on 1 January 1987 and 1 January 1989.



6. The Secretary of State for Employment will report on the successful informal meeting of Employment Ministers in Edinburgh on 22-23 September at which he and the Paymaster General were the hosts. The meeting discussed the United Kingdom's proposals for a strategy to create employment by promoting enterprise, by developing flexible patterns and conditions of work, by improved training and by special action for the long-term unemployed. Our approach was well received by all member states and - despite earlier Commission hesitation - by Monsieur Delors, the President of the Commission, who attended especially for the discussion. Press publicity was good. We have also now largely achieved our second objective of putting to rest the frightful series of "social-engineering" proposals (eg the Vredeling directive) which had been preoccupying Community discussion for years. The gist of our proposals is to be set out in the form of a resolution to be adopted at the Social Affairs Council on 11 December which will set out a work programme for the Community. The European Council on 5-6 December will be asked to give its strong backing to this development.

7. There is to be an informal meeting of Transport Ministers on 3 October; a meeting of the Internal Market Council on 7 October; a meeting of the Economic and Finance Council on 13 October; and a meeting of the Agriculture Council on 13-14 October.

RA

ROBERT ARMSTRONG

1 October 1986

PART 32 ends:-

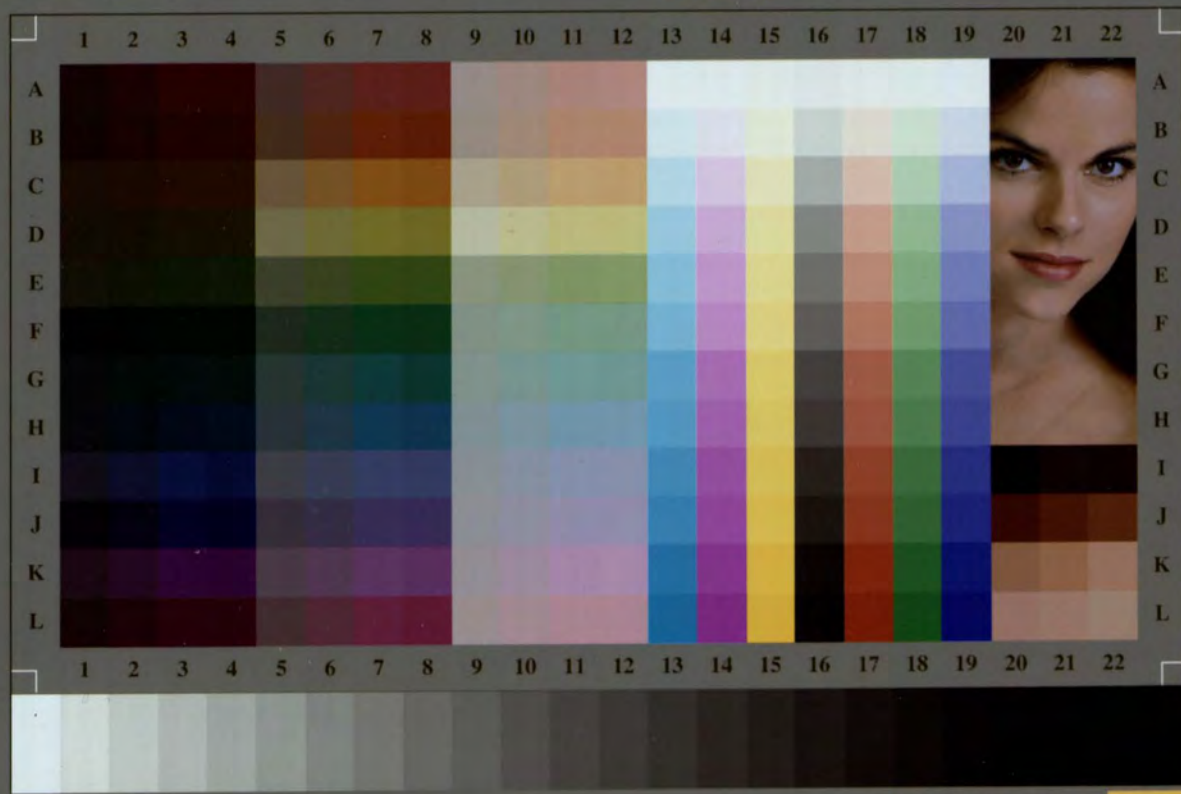
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PART 33 begins:-

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