

Confidential File

Conservative European Reform Group  
(ERG)

EUROPEAN  
POLICY

December 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>15-12-80</del>							
<del>16-1-81</del>							
<del>26-1-81</del>							
<del>20-11-81</del>							
<del>23-11-81</del>							
<del>24-1-82</del>							
<del>16-6-82</del>							
<del>5-4-86</del>							
11-4-86							
14-6-86							

PREM 19/1754

CF file

VC



cc Williamson (CO)

Fco

HMT

MAFF

RTA

cc Pol. office

10 DOWNING STREET

THE PRIME MINISTER

14 April 1986

Dear Edward,

When I met you and your colleagues from the European Reform Group this week, I said that I would write to you about some points which we discussed only briefly at the meeting. I appreciated the way in which you presented your views and, in particular, your assurance that you wished to work to make a success of our membership of the European Community and to achieve our objectives in it.

On the Community budget, even with the considerable protection provided by the Fontainebleau Agreement, the United Kingdom will continue to take a firm line and to oppose any misuse of resources in the Community. I think that we have demonstrated our attachment to these objectives by our recent action in the European Court of Justice. You were right to point out that, in a period when we have resolutely maintained a rigorous approach to public spending in the United Kingdom itself, it is also important that the Community's budget should be defensible. In our view it is quite premature to start talking about an increase in the 1.4 per cent VAT ceiling. The priority must be to look for further savings. The Fontainebleau Agreement states only that "the maximum rate may be increased to 1.6 per cent on 1 January 1988 by unanimous agreement of the Council and after agreement has been given in accordance with national procedures". As I pointed out this means that ratification by Parliament would be required.

Richard Body kindly offered to let me have some further thoughts on agriculture and I look forward to receiving them.

SRW

While we have consistently shown our determination to correct imbalances in the Community's agricultural markets by price restraint, it may be that other measures, including some form of "set-aside" arrangements, should now be more actively considered if we are to correct the excessive build-up of public intervention stocks of some major commodities.

I said that I would elaborate on certain points relating to the Single European Act and, in particular, on the powers of the European Assembly to block progress on Community legislation. I thought that there might have been an element of misunderstanding on this, and Teddy Taylor has subsequently written further about it. The principal law-making power to which the new cooperation procedure with the European Assembly (revised article 149) applies is article 100A which, with some important exceptions (fiscal provisions, those relating to the rights and interests of employed persons), introduces an element of majority voting into the measures necessary to achieve the internal market. But the effect of the new cooperation procedure on article 100A is:

(1) if the European Assembly, by a majority of all its members, rejects the Council's position, the Council can adopt the measure by unanimity. This action by the European Assembly would require an absolute majority there and, if one could be mustered, it would merely take the Council back to the position which exists now under Article 100;

(2) if the European Assembly, by a majority of all its members, proposes amendments and the Commission does not support them, the Council may adopt these amendments by unanimity but equally it need take no notice of them at all;

(3) if the European Assembly, by a majority of all its members, proposes amendments and the Commission supports

them, the Council may adopt the measure by qualified majority. It can also amend the measure (eg by throwing out the European Parliament's amendments) by unanimity. But this is the present rule under article 149.

I thought that I should set this out to show you that, although it is an important United Kingdom objective to speed up decision taking on the completion of the common market, we were very conscious also of the need to take account of the views which you and others have expressed about the role of the European Assembly.

I hope that we can keep in touch on these and other Community issues, particularly since the United Kingdom will have the additional responsibility of the Presidency during the second half of this year.

Y  
Lansdown

Margaret

---

The Right Honourable Sir Edward du Cann, K.B.E., M.P.



Qz.04981

MR POWELL

PRIME MINISTER'S MEETING WITH EUROPEAN REFORM GROUP

--- I attach, following the Prime Minister's meeting with the European Reform Group on 8 April, a draft letter for the Prime Minister to send to Sir Edward du Cann. This does deal directly with the point raised in Mr Taylor's letter of 8 April: by rejecting a Council position the European Parliament can make it necessary for the Council to reverse that position by unanimity but, in relation to article 100, this is merely a reversion to the current position since unanimity is required under article 100 now.

I am sending copies to Colin Budd (FCO), Rachel Lomax (Treasury), Ivor Llewelyn (MAFF) and to Sir Robert Armstrong.

D F WILLIAMSON

11 April 1986

VC3ALC

Please type for  
PM's signature  
on

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO  
SIR EDWARD DU CANN, MP

When I met you and your colleagues from the European Reform Group this week, I said that I would write to you about some points which we discussed only briefly at the meeting. I appreciated the way in which you presented your views and, in particular, your assurance that you wished to work to make a success of our membership of the European Community and to achieve our objectives in it.

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/imbalances

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/(3)

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I hope that we can keep in touch on these and other Community issues, particularly since the United Kingdom will have the additional responsibility of the Presidency during the second half of this year.

CM



SUBJECT  
cc Master

MJL BTT file  
bc for P.C.



10 DOWNING STREET

From the Private Secretary

8 April 1986

Dear Sir,

PRIME MINISTER'S MEETING WITH THE CONSERVATIVE EUROPEAN  
REFORM GROUP

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

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

David Williamson was also present.

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

Budgetary Control

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

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

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

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

#### CAP

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

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

Single European Act

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

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

Mr Williamsom has kindly agreed to prepare a draft letter.

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

*Yours sincerely,  
Charles Powell*

Charles Powell

Colin Budd Esq  
Foreign and Commonwealth Office



10 DOWNING STREET

CABINET OFFICE  
QZ 5471  
- 9 APR 1986  
FILING INSTRUCTIONS  
FILE No. ....

*From the Private Secretary*

*W. J. Jamson*  
MR WILLIAMSON  
CABINET OFFICE

*I enc. One original  
drafting change.*

*Mr Jamson*      *DF Williamson*  
*9/4/86*

I attach a copy of the record of the Prime Minister's meeting with the Conservative European Reform Group today.

I should be grateful for your comments before I circulate the record.

*CDP*

CDP

8 April 1986



## 10 DOWNING STREET

*From the Private Secretary*

8 April 1986

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Charles Powell

Colin Budd Esq  
Foreign and Commonwealth Office

UNITED KINGDOM NET PAYMENTS TO EUROPEAN COMMUNITY INSTITUTIONS

	£ million
1983-84 outturn	853
1984-85 outturn	936
1985-86 estimated outturn	800
1986-87 planned	650

The source is table 3.3 in "The Government's Expenditure Plans 1986-87 to 1988-89"



810  
CONFIDENTIAL

ccpk



Foreign and Commonwealth Office

London SW1A 2AH

7 April 1986

Prime Minister

COP  
7/4.

Dear Charles,

Prime Minister's Meeting with the European Reform Group:  
8 April

The Foreign Secretary has seen the notes prepared by David Williamson for the Prime Minister's meeting with the European Reform Group tomorrow. Sir Geoffrey is pleased with the emphasis placed on the need to take a firm line with the Group about the merits of the Fontainebleau agreement, which Mr Taylor and his colleagues opposed at the time. The agreement has delivered very good results for this country (in increasing our returns from £440 million in respect of 1983 to at least £830 million in respect of 1985).

As regards the future of the VAT ceiling, the Foreign Secretary endorses the case for standing by the letter of the Fontainebleau agreement, which provides that "the maximum rate may be increased to 1.6% on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures". I enclose a copy of the Line to Take which the Prime Minister has had for use in the House of Commons. The Commission's four-year forecast indicates that an increase in the VAT ceiling to 1.6% may become necessary in 1988, but not before, provided sufficiently rigorous decisions are taken in this year's agricultural price fixing. The Prime Minister may wish to make clear that we shall continue to oppose any increase in agricultural prices this year.

I am copying this letter to David Williamson (Cabinet Office).

Yours ever,

Colin Budd

C D Powell Esq  
PS/10 Downing Street

(C R Budd)  
Private Secretary

CONFIDENTIAL

PRIME MINISTER'S QUESTION TIME

EC BUDGET: 1.4% VAT CEILING

Line to Take

- There is no provision, under the Fontainebleau agreement, for any increase in the 1.4% VAT ceiling before 1988. Any proposal for an increase would require the unanimous agreement of the member states including the UK and approval by national parliaments.

Refuse to agree to an increase?

- The new ceiling has only recently come into force. We see no need for any proposal for a further increase.
- The Community must live within its resources. The key to that is firm action on agricultural prices.

- The agreements we have negotiated have brought about major changes in Community financing. Our refunds have risen from 750 mecu (£440) in respect of 1983 to 1,000 mecu (£570) for 1984 and at least 1,400 million ecu (£830) for 1985. So the amount we are getting back has doubled in two years.

*Net contribution? For same year?*  
Supplementary Budget this year?

- The Commission will be proposing supplementary provision to increase our 1985 abatement.

- They have said that they will also propose supplementary provision for agriculture, arising from the fall in the dollar/ecu rate.

- In our view the correct response should be to seek savings in the FEOGA budget. Important to observe the financial guideline for agriculture.

PRIME MINISTER

MEETING WITH THE CONSERVATIVE EUROPEAN <sup>REFORM</sup> ~~DEFENCE~~ GROUP

You are to see this Group, led by Sir Edward du Cann, tomorrow. You read the briefs over the weekend but may like to glance at the attached note by Teddy Taylor setting out the sort of points which the Group are likely to raise in more detail.

You will see that Mr. Taylor asks whether the Group can bring two researchers along to the meeting, one of them an American graduate. I think this would not be a very happy precedent and suggest that you ask Michael Alison to explain to Mr. Taylor that it would not be appropriate. Agree?

C.D.P

CHARLES POWELL

7 April 1986

EL3BAJ



Prime Minister <sup>(1) cell</sup>

You may find it helpful to have these briefs over the week-end. CDP 4/4

Qz.04956

MR POWELL

PRIME MINISTER'S MEETING WITH EUROPEAN REFORM GROUP, 8 APRIL

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I attach, as requested in your minute of 24 March, briefs for the Prime Minister on the three points set out in Mr Taylor's letter of 13 March and in the short papers sent under cover of his letter to Mr Alison of 26 March. The briefs are divided into points to make and background. I have also placed in the folder separately, for background information, a memorandum submitted in February by the Treasury to the Treasury and Civil Service Select Committee of the House of Commons.

I am sending copies to Colin Budd (FCO), Rachel Lomax (Treasury), Ivor Llewelyn (MAFF) and to Sir Robert Armstrong.

*DF Williamson*

D F WILLIAMSON

4 April 1986



Item 1: budgetary discipline

Points to make

1. United Kingdom is most determined of all member states in tough approach to Community budget. Will continue to oppose misuse of resources (eg excessive production leading to stockpiles). Give assurance that defensible Community budget a major UK concern, but not, of course, only UK objective in Community. Strongly committed to early completion of common market of 320 million people to benefit of British manufacturing and service industries and improved competitive position vis à vis United States and Japan.

2. Budgetary discipline is underpinned by three elements:

(i) the requirements of the Treaty and of the Own Resources Decision (which includes the VAT ceiling and the Fontainebleau mechanism). Goes without saying that these must be respected. We are gaining real advantage from the Fontainebleau mechanism - our rebate for 1983 was 750 million ecu (about £440 million) and for 1984 1000 million ecu (about £590 million) but the abatement for 1985 (payable in 1986), the first year to which the Fontainebleau mechanism applies, should be at least 1800 million ecu (about £1050 million).

- We stand by the letter of the Fontainebleau agreement, including the current VAT ceiling. The Fontainebleau agreement states only that "the maximum rate may be increased to 1.6 per cent on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures". Premature to start commenting on new own resources when the 1.4% ceiling has only been in place for three months. Present need is to use available Community resources wisely.

- Although the formal ceiling on member states' VAT contributions to the Community is now 1.4 per cent, the ceiling for our contributions has not in practice been increased and remains



below 1 per cent. In 1986, on the basis of the present budget and our best estimate of the abatement, we shall contribute about 0.61 per cent VAT while others pay at 1.29 per cent;

(ii) the reference framework for Community expenditure which is established by the Council of Ministers before the budget discussions. This was a French initiative (by M. Delors, as French Finance Minister) now included in the Council conclusions of 4 December 1984. It provides an extra element of discipline for the Council itself faced with the more spendthrift attitude of the European Parliament.

- It has strengthened the resolve of the Council to ensure that the Treaty requirement, (Article 203(9) relating to the maximum rate for non-obligatory expenditure must be respected and that it can only be increased by agreement between the Council and the European Parliament. This greater resolve can be seen in the decision of the Council itself (and five member states, including the United Kingdom, separately) to challenge in the European Court of Justice the action of the European Parliament in increasing the maximum rate in the 1986 budget unilaterally.

- The United Kingdom has already won its case for interim measures resulting in an immediate rebate of £18 million which we have now received. We are pursuing the main case against the Parliament with equal vigour. If the Court's interim measures decision is confirmed in the substantive case, our contributions to the 1986 budget would be cut by over £70 million.

(iii) the agricultural expenditure guideline, which results from a British initiative, requires that the rate of increase in agricultural expenditure should not exceed the rate of the increase in the own resources base. The guideline was respected in the 1986 budget and would, of course, be respected by the Commission's current price proposals for 1986/87, since these proposals would reduce the budget by about 400 million ecu in 1986 and by about 800 million ecu in 1987 (or about 200 million ecu after the cost of the milk outgoers' scheme).

- Commission have indicated, however, that, because of fall



in the dollar and other factors (the guideline does provide for some exceptional circumstances), they expect to propose a supplementary budget which would go above the guideline. UK has responded by asking for equivalent savings. This debate has only just begun and it is too early to speculate about the result. Some extra money will be needed, if only to provide our increased abatement.

- In any event, whether or not exceptional circumstances are invoked this year, essential to sustain the key role of the agricultural guideline in the budgetary process.

3. Thus:

- Britain now considerably protected by Fontainebleau mechanism. UK total contribution to Community budget about 0.24 per cent of our GDP, about same proportion as expenditure on arts and libraries

- nonetheless, strongly share view of European Reform Group that budgetary rigour and action to restrain misuse of resources essential

11 - demonstrated by our firm actions in the Council and in the European Court of Justice.





Item 1: budgetary discipline

Background

1. The two legs of the United Kingdom's budgetary crusade in the Community were, first, to get an automatic abatement of our contribution which could not be taken away without our agreement and, second, to establish more formal arrangements for stricter budgetary discipline. The first was achieved in a binding form by the Fontainebleau mechanism incorporated into the Own Resources Decision. The second was established, although in a somewhat weaker form than we would have wished, in the conclusions of the Council on budget discipline of 4 December 1984 (text attached).

2. It is assumed that the European Reform Group are concerned that:

(i) the budget discipline conclusions are respected, in particular the agricultural guideline and the reference framework constraints for non-obligatory spending through the maximum rate; and

(ii) there will be no new own resources for the Community;

On the 1986 budget the budgetary discipline procedures were substantially followed, until the European Parliament (which is not bound by the budgetary discipline conclusions) increased non-obligatory expenditure, mainly on the Regional and Social Funds, by about 560 million ecu without the agreement of the Council. In our view this was a clear breach of the Treaty (Article 203), in particular Article 203(9); and the Council and five member states, including the United Kingdom, have taken the European Parliament to the European Court of Justice. The United Kingdom also applied for interim measures and was successful, the European Court ruling that for the interim the lower expenditure level agreed by the Council at its second reading in November is to be applied. We hope that the Council will win the main case, probably in July.



3. The Commission have indicated that they expect to propose a supplementary budget for 1986. This would cover, inter alia, an increase of some 450 mecu in the United Kingdom's abatement, and an increase of about 790 mecu in agricultural expenditure and an extra 750 mecu for the structural funds. The agricultural figure would be the net effect of higher stock disposal; increased expenditure because of the fall in the dollar; some savings on Community agricultural expenditure; and the savings resulting from the price proposals. The amount available within the agricultural guideline is currently about 174 million ecu, so that the Commission's proposal would need to rely on the provision for exceptional circumstances.

4. The Prime Minister is recommended not to commit herself on the supplementary budget. The Commission will not publish it until May so it is too early to know what it may look like. A supplementary budget on the lines above would probably lead to a net fall in the UK's VAT contribution rate because of the extra abatement. We would also expect to be at least in balance on the increase in structural funds spending, though this would not be justified in terms of budget discipline. We wish to hold down agricultural expenditure but it is also an expensive nonsense to keep excessive quantities of agricultural products, particularly refrigerated products such as beef or butter, for long periods in public intervention stocks. We have also to bear in mind that some expenditure in 1986 might reduce pressure and debate in 1987 about a possible increase in the VAT ceiling and help to push this question off beyond the next general election.

5. The 1986 supplementary budget is likely to bring the Community close to the limit of own resources available under the 1.4% ceiling - the UK VAT rate will remain well below 1% thanks to the Fontainebleau mechanism. The Fontainebleau agreement provides for the Commission to produce a report on the operation of the own resources system and budget discipline one year before the ceiling is reached. The Commission have recently forecast that spending in 1988 may be slightly above the 1.4% limit. In

/our

*Subsidy is own total contribution*



our view it is unnecessary to comment on, still less negotiate about, these questions before the Commission report formally, and when the 1.4% ceiling has only been in place for three months. It is equally premature to consider future supplementary finance - whether through intergovernmental agreements (IGAs) or any other source - at this time. We have in any case yet to be convinced that any increase in Community resources is necessary, and that the additional pressures on agricultural spending cannot be offset elsewhere within the budget totals.

6. On the three specific points referred to in the last paragraph of the European Reform Group's paper:-

(1) the 1986 budget which the Council agreed last November assumed a rate of  $\text{£}1 = 1.20 \text{ ecu}$ . Variations in this rate do of course influence the Community's agricultural budget but do not have an automatic effect. What counts is the actual level of world prices in surplus markets;

(2) in the view of the United Kingdom - and of the Budget Council as a whole - the 1986 budget does cover costs of Spanish and Portuguese accession; it is the European Parliament which disputed this;

(3) the Commission is now suggesting that an extra quantity of some surplus products should be disposed of but this suggestion has not yet been seriously discussed.

Cabinet Office  
4 April 1986



Annex 1

The Community budget figures are:

	<u>1984</u>	<u>1985</u>	<u>1986'</u>	million ecu
Community budget	27,249	28,433	33,315	'(established by European Parliament but challenged by Council)
of which agricul- tural guarantee	18,333 (67.3%) <u>      </u>	19,955 (70.2%) <u>      </u>	21,012 (63.1%) <u>      </u>	
United Kingdom rebate/abatement (in respect of preceding year)	750	1,000	1,800(est)	

U.K. net  
contribution?

10446/84		
		RESTREINT

ECOFIN 107  
FIN 638

CONCLUSIONS OF THE COUNCIL  
on the measures necessary to guarantee  
the effective implementation of the conclusions of  
the European Council on Budgetary Discipline

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaties establishing the European Communities,

Whereas at its meetings on 19 and 20 March and 25 and 26 June 1984, the European Council reached agreement on a series of decisions and guidelines to ensure the relaunch of the Community and establish a solid basis for its further development during the present decade;

Whereas principles of budgetary and financial discipline are specifically laid down;

Whereas the European Council considered it essential that the rigorous rules which at present govern budgetary policy in each Member State shall also apply to the budget of the Communities, and stated that the level of expenditure will be fixed on the basis of available revenue, and that budgetary discipline will apply to all budgetary expenditure;

Whereas the European Council invited the Council of Ministers to adopt the measures necessary to guarantee the effective application of the principles as set out in its conclusions,

HAS ADOPTED THE FOLLOWING CONCLUSIONS:

Article 1

1. At the beginning of the budgetary procedure each year, the Council shall fix a reference framework, i.e. the maximum level of expenditure which it considers it must adopt to finance Community policies during the following financial year in accordance with Articles 2 to 5 inclusive and Article 9.

2. In order to fix the reference framework, the Council shall act by qualified majority in accordance with Article 148(2), second indent of the EEC Treaty.

3. The relevant provisions of the financial guidelines concerning the Common Agricultural Policy, set out in the Annex to the Commission Communication of 6 March 1984, shall be implemented; these provisions are annexed to these conclusions.

#### Article 2

The Council shall ensure that the net expenditure relating to agricultural markets calculated in accordance with Article 4, will increase by less than the rate of growth of the own resources base. This development shall be assessed on comparable bases from one year to the next.

Account shall be taken of exceptional circumstances, in particular in connection with enlargement.

#### Article 3

The amounts to be taken into account for the application of Article 2 shall be:

(a) as regards expenditure:

that chargeable to Section III, Part B, Titles 1 and 2 (EAGGF Guarantee) of the Budget. The calculation of agricultural expenditure for the purposes of the guideline referred to in Article 2 shall be this expenditure, reduced by the sum of amounts corresponding to the marketing of ACP sugar, refunds in connection with food aid and the payments by producers in respect of the sugar and isoglucose levies as well as the revenue from any future internal agricultural charges;

(b) as regards the own-resources base:

the potential revenue on the basis of which Titles 1 and 2 of the Revenue side of the Budget are determined. The calculation of the Community's own resources base for the purposes of the guideline referred to in Article 2 shall be the total VAT base upon which the VAT rate for the year in question is calculated, the amount of financial contributions (if any) included in the Budget of the year, together with the own resources, other than those derived from VAT, set out in Revenue Title 1, less the sugar and isoglucose levies as well as the revenue from any future internal agricultural charges.

When the potential revenue from VAT is changed following an alteration in the VAT ceiling, the guideline provided for in Article 2 shall thereafter be calculated as if the new maximum VAT rate had been applied in all the years relevant to the calculation of the guideline.

Article 4

The level of net expenditure relating to agricultural markets for a given financial year shall be calculated as follows:

- (a) the level of expenditure, as defined in Article 3(a), shall be the average of the actual outturn expenditure for 1984, and the best estimate of the outturn for 1985.



- (b) the own resources factor shall be established by dividing the forecast level of the own resources base for the financial year in question, as defined in Article 3(b), by the average own resources base for 1984 and 1985,
- (c) the level of expenditure for the financial year in question shall be determined by multiplying the amounts obtained by the application of paragraphs (a) and (b), unless the Council acting by the majority defined in Article 1(2) decides otherwise;
- (d) the method of calculation shall be re-examined in accordance with the Fontainebleau conclusions under the heading "budgetary imbalances" on the basis of the report to be presented by the Commission, one year before the 1,4% VAT ceiling is reached.

Article 5

In the event of failure to respect the qualitative guideline referred to in Article 2, the Council shall, during the following two financial years, ensure that, barring aberrant developments, agricultural expenditure is brought back within the limits imposed by this guideline. In so doing, the Council shall concentrate its activity primarily on the production sectors responsible for the failure to adhere to the guideline.

Article 6

1. The Council shall, when exercising its powers as legislative authority or branch of the budgetary authority, ensure that the reference framework is respected.

2. At the request of a member of the Council or the Commission, the Council, acting by the majority laid down in Article 1(2), may amend the reference framework.

Article 7

1. Except in the case of Decisions mentioned in paragraph 4, when the Council is on the point of adopting an act which appears likely to increase expenditure for a financial year beyond the reference framework applicable to that year, the adoption of that act shall, at the request of a member of the Council or the Commission, be suspended.

2. Within a period not exceeding one month, the Council, acting by the majority laid down in Article 1(2), shall determine whether the proposed act would, if adopted, lead to the reference framework being exceeded.

3. If the Council concludes that the proposed act would, if adopted, lead to the reference framework being exceeded, it shall reconsider the proposed act with a view to taking appropriate measures.

4. In the case of decisions affecting net expenditure relating to agricultural markets, the procedures laid down in paragraphs 5(c) and 6(b) of the Annex to the Commission's Communication of 6 March 1984 shall apply.

Article 8

When the Council is on the point of adopting an act which has considerable financial implications for several years, the Council shall, before taking the final decision, formulate an opinion on whether the financial implications of the proposed act are compatible with the principles and guidelines governing the Community's budgetary policy.

Article 9

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

2. In order to achieve this:

- when establishing the Draft Budget, the Council shall keep the increase in expenditure other than that necessarily resulting from the Treaties or from acts adopted in accordance therewith to a level no higher than half the maximum rate provided for in Article 203(9);
- at the second reading, the Council shall adopt a position such that the maximum rate is not exceeded.

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

Article 10

On the assumption that the 1986 budget will be prepared on the basis of own resources being increased in that year, these Conclusions shall first apply to the exercise of the Council's powers in 1985 concerning expenditure in the financial year 1986.

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EUROPEAN COMMUNITY BUDGET :  
BUDGET DISCIPLINE AND RELATED MATTERS

Memorandum by the Treasury

*(for House of Commons  
Select Committee)*

CONTENTS

	<u>Paragraph</u>
Introduction	1
Budget discipline	
December 1984 Agreement	2
Legal status	7
Commission's undertakings	8
European Parliament's views	9
Effectiveness	12
Implications of enlargement	21
Ecu/US dollar exchange rate changes	24
'Ex novo' review	27
Adoption and implementation of disputed 1986 budget	
Powers of European Parliament	28
Commission's execution of 1986 budget	31
Escrow account	32
Advance payments	
November 1985 advance payment	33
Prospects for 1986	35
Interest	36
Court of Auditors	
1984 budget discharge	37
Opinion on inter-governmental agreements (IGAs)	40

EUROPEAN COMMUNITIES BUDGET :  
BUDGET DISCIPLINE AND RELATED MATTERS

Memorandum by the Treasury

1. This memorandum discusses various aspects of budget discipline in the Community, and related matters, in which members of the Committee have expressed interest.

Budget discipline

2. December 1984 Agreement. The Council's conclusions of 4 December 1984 on budgetary discipline, which were deposited in the Library of the House on 10 December 1984, comprise three elements:

- (a) a reference framework for overall budget expenditure;
- (b) a financial guideline on agricultural market support expenditure;
- (c) a commitment to observe the maximum rate provisions of Article 203 on the rate of increase in non-obligatory expenditure.

3. The Council's conclusions provide that the ECOFIN Council should establish a reference framework each year at the beginning of the budgetary procedure. Since the framework is intended to be an integral part of the budgetary procedure, it is set and amended by qualified majority: this is the normal method of voting on budgetary matters. The framework can if necessary be amended. Other Councils are asked to ensure that their decisions respect the framework (Articles 1 and 6). If any decision appears to breach it, the ECOFIN Council can ask for the decision to be delayed for one month to consider appropriate measures (Article 7).

4. The financial guideline for agricultural spending provides that net expenditure on agricultural market support should increase by less than the rate of growth of the own resources base. The base-period for the comparison is the average of 1984 and 1985.

There is a special provision to ensure that changes in the VAT limit do not lead to a "step" increase in the guideline (Articles 2-4). Provision is made for account to be taken of exceptional circumstances, in particular enlargement. If the guideline should be exceeded, expenditure is to be brought back within the guideline, barring aberrant developments, over the two succeeding years (Article

5. The maximum rate provisions for non-obligatory expenditure are laid down in Article 203(9) of the EEC Treaty. The Council's conclusions (Article 9) provide for adherence to the maximum rate of growth set out in paragraph 2 of Article 203(9).

6. The Council's conclusions also include a provision (Article 8) for the ECOFIN Council to be consulted on the implications for budgetary discipline before any other Council takes a decision on multi-annual spending programmes.

7. Legal status. The budget discipline conclusions are a political agreement by the Council. They have no Treaty status. The United Kingdom would have preferred a legally binding agreement. But it was not possible to negotiate this.

8. Commission undertakings. The Commission have given certain undertakings with regard to the agricultural expenditure guideline, though not the other components of the agreement. Many elements of the guideline are in fact based on the Commission's own proposals. The Commission have undertaken to draw up their annual price fixing proposals in the light of the guideline; to provide early warning of possible excesses in agricultural spending; and to explore all possible means of reducing expenditure before seeking supplemental budget provision. These undertakings are an integral part of the system. The text is annexed to the Council's conclusions.

9. European Parliament's views. The European Parliament have never accepted the Council's approach to budgetary discipline, which they see as a threat to their role in the budgetary process. The Parliament's Budgets Committee's report on budgetary discipline in the autumn of 1984 reiterated the Parliament's opposition to one branch of the budgetary authority deciding unilaterally on measures relating to budget discipline. It argued that all

measures of budget discipline, and notably the reference framework, should be agreed by both the Parliament and the Council on the basis of proposals from the Commission; that the distinction between obligatory and non-obligatory expenditure should be abolished; and that legislative acts authorising multi-annual programmes should be agreed jointly by the Parliament and the Council.

10. When the Council met the Parliament in a conciliation meeting before final adoption of the budgetary discipline conclusions, the Parliament claimed that a reference framework which was not fixed jointly by both parts of the budget authority was contrary to the Treaty and would sow the seeds of conflict between the Council and the Parliament. As a result of these representations, the Council agreed to invite a delegation of the Parliament to meet it shortly before the meeting at which the reference framework for the year was due to be fixed. The Council also reiterated an earlier undertaking to invite the Commission and the European Parliament to examine jointly ways in which the co-operation necessary for a budgetary discipline common to all three institutions could be brought about.

11. During the 1986 budgetary process, the Council indicated willingness to hold these discussions with the Parliament and invited a delegation from the Parliament to discuss the 1986 reference framework before it was established. The Parliament did not take up these invitations.

12. Effectiveness. The 1986 budget process was the first annual budget process to be governed by the new conclusions on budget discipline.

13. In accordance with Article 1 of these conclusions, the ECOFIN Council agreed a reference framework for 1986 by qualified majority on 8 July. This incorporated the agricultural expenditure guideline for the Community of Ten and a 7.1 per cent maximum rate of increase for non-obligatory expenditure (some 430 million ecu), calculated in accordance with paragraph 2 of Article 203(9) of the Treaty. The Council also made clear, however, that further consideration would have to be given to the twin issues of



enlargement and the so-called 'cost of the past' in the course of the budgetary procedure: the 'cost of the past' is a term used to describe the overhang of commitments from previous years, particularly in the Regional Development and Social Funds, requiring to be paid off. The Council emphasised that budget discipline applied to Community expenditure as a whole, irrespective of its nature and the countries concerned.

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14. The agricultural expenditure guideline was fully respected throughout the budgetary process. The Commission's agricultural prices proposals in March 1985 were compatible with the guideline. In the 1986 budget as adopted, provision for net expenditure relating to agricultural markets in the Community of Ten was some 170 mecu within the guideline figure of 20619 mecu. This represented an increase of 2.5 per cent over 1985 for the Community of Ten and only 5.3 per cent in total, including agricultural expenditure in Spain and Portugal estimated at 570 mecu.

15. With regard to non-obligatory expenditure, the budget discipline rules have not been properly applied. In the UK's view, the Council's 'first reading' of the budget on 26 September was satisfactory. The Draft Budget then established provided for the full maximum rate of increase in non-obligatory expenditure (some 430 million ecu), rather than half the maximum rate as envisaged in the budget discipline conclusions. But this excess seemed justified given the accession of Spain and Portugal.

16. The United Kingdom first expressed concern about a threat to budget discipline during the Budget Council's 'second reading' discussion on 26 and 27 November. On that occasion, the Council voted by qualified majority to increase non-obligatory expenditure by some 1.2 billion ecu over 1985. In the United Kingdom's view the largest increase that could be considered compatible with budget discipline was some 1 billion ecu, comprising 430 million ecu under the maximum rate plus the 550-600 million ecu earmarked for Spain and Portugal. The United Kingdom therefore voted against this increase and made clear its opposition to any special provision, outside the maximum rate, for the 'cost of the past'. However, the excess of 750-800 million ecu over

the levels implied by the budget discipline conclusions for the Community of Ten was more than covered by the net new own resources which Spain and Portugal will bring to the budget, even allowing for the estimated 570 million ecu of agricultural guarantee spending in Spain and Portugal during 1986.

17. At the December Budget Council the Council decided, with the United Kingdom voting against, to offer a further 242 million ecu of non-obligatory expenditure provided that the Parliament would agree to settle on that basis. This offer was rejected by the Parliament and subsequently withdrawn.

18. The budget as adopted by the Parliament contains an increase of some 1.8 billion ecu of non-obligatory expenditure over 1985. This is clearly incompatible with the non-obligatory expenditure provisions of the budget discipline agreement. In the view of the United Kingdom and other member states, the Parliament also exceeded its powers under the Treaty in adopting this budget. The Council and five member states, including the United Kingdom, have therefore instituted proceedings against the Parliament before the European Court.

19. The Commission published their CAP price proposals for 1986/87 on 5 February. They estimate that these proposals, taken by themselves, should reduce expenditure by some 408 mecu in 1986 and 786 mecu in 1987. Nevertheless, they have indicated their intention to propose a 1986 Supplementary Budget with additional provision of 790 mecu for agricultural guarantee expenditure, including 750 mecu for the fall in the value of the US dollar relative to the ecu (see Section 6 below) and substantial supplementary stock disposals, partly offset by the effects of the price fixing proposals themselves and management economies. This proposal, if accepted, would appear to result in the financial guideline for 1986 being exceeded by some 620 million ecu.

20. The Commission have calculated the 1987 agricultural expenditure guideline as 21,818 mecu on a Community of Ten basis and have indicated their intention of proposing expenditure consistent with the guideline (with an addition of 1,345 mecu for expenditure in Spain and Portugal) in the preliminary draft budget for

1987. The Commission have, however, noted that the objective of keeping the agricultural provision in the 1987 preliminary draft budget within the guideline can only be achieved if the Council adopts the entire price fixing package. There will undoubtedly therefore be pressures on the Council for extra agricultural provision during 1986. However, the Council and Commission are both committed by the budget discipline conclusions to take all possible measures to avoid the need for a supplementary budget for agriculture; and it will be a key UK objective to see that the financial guideline is respected.

21. Implications of enlargement. When the 1986 reference framework was set in July 1985, it was agreed that special consideration would need to be given to the effects of enlargement. The 1987 reference framework will likewise need to take account of the cost of enlargement. Provision will be needed, inter alia, for the Spanish and Portuguese transitional VAT rebate mechanism, which has been set at 87 per cent for 1986 and 70 per cent for 1987.

22. The agricultural expenditure guideline is set at present on the basis of the own resources provided by a Community of Ten member states. In November 1985, at the United Kingdom's request, the ECOFIN Council invited the Commission to propose methods whereby the guideline could be extended to cover agricultural spending in Spain and Portugal. The Commission are expected to come forward with a proposal shortly. It is hoped that a suitable basis can be agreed on which to extend the agricultural guideline to all twelve member states. The United Kingdom has suggested that this might be done by a simple extension of the existing guideline on the basis of the additional net own resources provided by Spain and Portugal during the transitional period. Such a system would allow for an appropriate increase in agricultural receipts to Spain and Portugal while reinforcing the overall discipline provided by the guideline.

23. With regard to non-obligatory expenditure, the United Kingdom and other member states took the view that some additional provision was justified for enlargement over and above application of the 7.1 per cent maximum rate of increase to the Community

of Ten expenditure base. The Council did not dissent during the 1986 budgetary procedure from the Commission proposal to allocate some 550-600 mecu to cover non-obligatory expenditure in Spain and Portugal during 1986. This figure will now form part of the non-obligatory expenditure base for future years. In the United Kingdom's view, there should be no need for further adjustment to the maximum rate provisions to cover non-obligatory expenditure in Spain and Portugal.

24. Ecu/US dollar exchange rate changes. Changes in the ecu/US dollar exchange rate affect EC budget expenditure and agricultural levy receipts by changing, at least in the shorter term, world prices denominated in ecus. An increase in the value of the dollar, by increasing world prices in ecu terms and thus reducing the gap between Community support prices and world prices, tends to reduce expenditure and receipts, while a reduction in its value tends to have the reverse effect. These effects apply principally to EC expenditure on export refunds for cereals and production subsidies for oilseeds, protein crops and cotton. World prices for these commodities are in general directly influenced by US prices. There can be a lesser and more indirect effect on other expenditure, notably on export refunds for other products. The effects on budget expenditure substantially exceed in aggregate the effects on levy receipts.

25. In February 1985, the Commission calculated that a 10 per cent change in the value of the US dollar against the ecu would other things being equal increase/decrease Community expenditure (net of receipts from agricultural levies) by approximately 1 billion ecu. The Commission made it clear at the time that this estimate was based on the conventional assumption that world prices in dollars would not change as a result of a change in the dollar exchange rate, whereas in practice one would expect that over a period an increase in the value of the dollar would be compensated for, at least in part, by a reduction in dollar prices, and vice versa.

26. More recently the Commission have indicated, in the context of their CAP price proposals for 1986/87, that in the current situation a 10 per cent change in the value of the dollar might

be expected to affect Community expenditure (net of levies) by some 750 mecu. As noted earlier, they have indicated their intention of proposing a Supplementary Budget in 1986 including additional provision of 750 million ecu of agricultural guarantee spending on account of the reduction in the value of the dollar. The assumption used in the main 1986 budget was that the dollar would on average equal 1.20 ecu over 1986 as a whole. The assumption in the Commission's price-fixing proposals is an average of 1.12 ecu to the dollar. So far this year, the dollar/ecu rate has been significantly below this level. In the week 29 January - 4 February, it averaged 1.04 ecu to the dollar. The average dollar/ecu rate in 1985, for comparison, was 1.31 ecu to the dollar.

27. 'Ex novo' review. Section 1.4 of the Fontainebleau European Council conclusions states that:

"one year before the new ceiling is reached, the Commission will present to the Council a report setting out the state of play on:

- the result of budgetary discipline;
- the Community's financial needs;
- the breakdown of the budgetary costs among member states, having regard to their relative prosperity, and the consequences to be drawn from this for the application of the budgetary corrections.

The Council will re-examine the question as a whole and will take the appropriate decisions ex novo."

In addition, Article 4(d) of the budgetary discipline conclusions provides with regard to the agricultural spending guideline that:

"the method of calculation shall be re-examined in accordance with the Fontainebleau conclusions under the heading "budgetary imbalances" on the basis of the report to be presented by the Commission one year before the 1.4 per cent VAT ceiling is reached."

It was accepted by the Council of Ministers when they agreed to this text that the present method of calculation would continue to be applied as long as the 1.4 per cent ceiling remained in force.

## Adoption and implementation of disputed 1986 budget

28. Powers of European Parliament. The respective roles of the Council of Ministers and the Parliament, as the two arms of the budgetary authority in the Community, are set out in Article 203 of the Treaty. Briefly, the Council has the last word on obligatory expenditure, including agricultural guarantee, while the Parliament has the last word on non-obligatory expenditure, including the Regional Development and Social Funds, subject to the constraints laid down in the maximum rate provisions of Article 203(9).
29. The problem in the 1986 budgetary process was that the budget as adopted by the Parliament provided for a rate of increase in non-obligatory expenditure which not only goes far beyond the maximum rate as provided in the second paragraph of Article 203(9) of the Treaty but also substantially exceeds the amounts in excess of that maximum rate which the Council was prepared to agree. The Treaty provides that, if the maximum rate in Article 203(9), second paragraph, is to be exceeded (as the Council was prepared to do on this occasion), the Council and the Parliament must reach agreement on a new maximum rate (Article 203(9), final paragraph). In the event, the Council's agreement was neither sought nor given.
30. The Parliament also has the power under Article 203(8) to reject the draft budget, acting by a majority of its members and two-thirds of the votes cast.
31. Commission's execution of 1986 budget. The Commission are responsible under Article 205 of the Treaty for implementation of the budget. The Commission take the view that they must implement the budget as adopted by the Parliament until the European Court rules otherwise. The United Kingdom has applied to the Court for an interim measures order suspending implementation by the Commission of the disputed elements in the budget pending substantive judgment by the Court on the cases brought by the Council and five member states.
32. Escrow account. The procedures for payments to the Community budget are governed by legislation made under the Treaty, in

36. Interest. Payments of traditional own resources are normally made two months after their collection. Advancing dates of payment simply reduces the period between collection and payment during which member states have use of the funds, and there is no provision in the Regulations for interest to be paid by the Commission in such cases. The governments of member states similarly have interest free use of the balances in the Commission's accounts with them.

#### Court of Auditors

37. 1984 budget discharge. The Court of Auditors is required under Article 206a of the Treaty to submit a report on the accounts for each Community financial year to the Council and the European Parliament. A draft Council recommendation on the discharge to be given to the Commission in respect of the implementation of the Communities Budget for the relevant financial year is then prepared. Annexed to the recommendation is a list of comments which the Council considers should be brought to the attention of the European Parliament. The European Parliament, under Article 206b, has the final legal responsibility for granting the discharge to the Commission acting on the Council's recommendation.

38. The United Kingdom considers that the Court of Auditors has a key role to play in improving financial control within the European Community. The proposed discussion in the ECOFIN Council of the recommendation for discharge provides an opportunity to support the Court's work and to ensure that the Commission responds to the Council's comments.

39. At home, Parliament will have the opportunity to debate the Court of Auditors' report before the ECOFIN Council on 10 March.

40. Opinion on inter-governmental agreements (IGAs). The Governments of member states agreed to provide supplementary financing outside the own resources system for the 1984 and 1985 budgets. The background to this was that the 1 per cent VAT ceiling had been reached and there was no prospect of ratifying a new own resources decision in time to meet in full the expenditure requirements in the budgets for those years.

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particular the Financial Regulation of 21 December 1977 and Regulation 2891/77. These do not make any provision for payment into an escrow account in the event of a dispute. It would however be open to the Court, if it is so wished, to direct in an interim measures order that the disputed elements in the budget should be held in a special account and not spent until the Court has given judgment on the substantive cases brought by the Council and five member states.

### Advance payments

33. November 1985 advance payment. Advance payments of own resources were made eleven times in 1985. The need arose from cash flow difficulties experienced by the Commission throughout the year, initially in the absence of an adopted budget mainly because a key element in the financing of the 1985 budget - special contributions approaching 2 billion ecu by member states in excess of the previous VAT ceiling under an inter-governmental agreement - was not received until the last few weeks of the year (or early January in two cases).

34. The advance payment of traditional own resources (agricultural levies and customs duties) which the Commission sought on 20 November 1985 would normally have been paid in December. The request was made under Article 10(2) of Community Regulation 2891/77. The UK contribution was some £134 million. Parliament was informed of the advance payment on 21 November. Since the amount remaining in the Vote was only some £16.1 million, the balance was paid by means of a drawing on the Contingencies Fund of £117.9 million. The Special Supplementary Estimate approved by Parliament on 3 February 1986 enabled reimbursement to the Contingencies Fund of this amount. The December payment of traditional own resources was reduced by the £134 million advanced to November.

35. Prospects for 1986. The possibility of requests for advance payments of own resources during 1986 cannot be ruled out. But the special circumstances relating to the timing of payments under the inter-governmental agreement which gave rise to the Commission's cash flow difficulties during 1985 no longer exist.



41. In its Annual Report on the 1984 financial year (paragraphs 1.10-1.13 and 3.6), the Court argues that, by using the 1984 inter-governmental agreement to provide some 1 billion ecu to finance inescapable financial commitments in 1984, member states had not fulfilled their Treaty obligation to ensure that revenue and expenditure balance.

42. The member states, including the United Kingdom, do not share this view. In their view, payments under the inter-governmental agreements were entirely consistent with Article 4 of the 1970 own resources decision. This referred to the budget as being financed out of own resources 'irrespective of other revenue' - in French 'sans prejudice des autres recettes'. The Community receives other revenue such as gifts and bequests. The Government considers that contributions under the intergovernmental agreements for 1984 and 1985 are likewise a form of 'other revenue', and are therefore available to balance the budget in accordance with Article 199 of the EEC Treaty.

Treasury Chambers

18 February 1986



Item 2: common agricultural policy

Points to make

1. Agree with the European Reform Group that operation of the common agricultural policy has been profoundly unsatisfactory. We must keep hammering away for changes. But still a fundamental part of the political contract which made the European Community and I do not expect it to collapse or to be "repatriated".
  
2. United Kingdom approach to the CAP this year is clear
  - first priority should be price restraint. Least discriminatory way of tackling the imbalances in the markets, most in line with Conservative Party philosophy
  
  - but farmers', including UK farmers', increases in productivity and in yields have been remarkable. In recent years Community support prices in national currencies have been steadily reduced in real terms (hence food prices in shops have risen less than inflation generally). Price restraint alone, given difficulties of negotiating in Community and needs of UK farmers, not going to do the job
  
  - UK also favours some weakening of intervention, eg on beef and cereals. Greater market element makes sense
  
  - UK also willing to consider more direct action, eg through taking some land out of production or moving it to forestry if this were cost-effective and on a Community-wide basis
  
  - made clear in my NFU speech that we oppose discrimination against larger farms (eg 50 animal limit on proposed new direct payment on beef cattle).
  
3. Have noted with interest statements (eg by Herr Kiechle) that, if a price settlement were too tough for German farmers (who include many small or part-time farmers) some national aid should be given. Climate perhaps now more favourable for slightly greater national element but we would have to be satisfied that competitive situation of UK farmers was not distorted.



4. Cannot pick and choose between our obligations. We have to negotiate for best possible CAP settlement, not with the idea that, in the last resort, we need not apply what is agreed.

5. Propose that we should concentrate, as far as possible, on objectives I have mentioned and on need to reduce misuse of resources. That is crux of the matter. British public particularly critical - and rightly - of surpluses in public stock. But problem of adapting agricultural policies is real problem world-wide. Expenditure from the Community budget on agricultural support, although far too high, probably represents only about 2 per cent of total public expenditure by the member states. The United States are spending over \$20 billion on farm support in the current fiscal year-comparable to the cost of the CAP to the Community budget and a much higher cost per farmer. Despite this, many United States' farmers in dire financial trouble.

6. No realistic alternative to battling on to improve the working of the CAP, including measures (price restraint, weaker intervention, consideration of possible "set-aside") to reduce risk of stocks building up again after expensive disposal.



## Item 2: common agricultural policy

### Background

1. The Commission's proposals for prices and related measures for 1986/87 are tough. On support prices the package is effectively a price freeze, hence once again a significant reduction in real terms. There are some price cuts (eg intervention prices for butter and olive oil). The Commission proposes that intervention for beef should be considerably weakened next year to a fall-back arrangement and that intervention for cereals should be weakened by a reduction in the period, a discount for feed wheat and changes in quality standards. It is estimated that the cereals intervention changes would reduce producers' returns for feed wheat and barley by about 7 per cent. OD(E) has agreed that, on prices and intervention, we should support the general thrust of the Commission's package.

2. The Commission also proposes some supplementary measures in a form which discriminates against larger farmers: a coresponsibility levy of 3 per cent (next year 6 per cent) on cereals sold off the farm, with an exemption for the first 25 tonnes; a direct aid for beef animals which excludes milk producing farms and is restricted to the first 50 animals; and a limit on the ewe premium. We are opposing the discriminatory elements.

3. The Commission will also be bringing forward some more structural measures, and these will probably include some form of set-aside scheme.

4. The French election has delayed detailed negotiation on the agricultural package. A long haul seems probable.

5. Although the European Reform Group's paper emphasises that British agriculture "does not produce an overall surplus of food", the fact is that British farmers have expanded production very

/substantially



substantially in recent years and we do have considerable surpluses stored in the United Kingdom: for example, about 25 per cent of the Community's surplus stock of cereals is held here.

Cabinet Office  
4 April 1986

CONQUEROR

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD 8085  
PARLIAMENTARY QUESTION

Oral Question No: 39

Date: Thursday 6th March 1986

MR TEDDY TAYLOR (Conservative - Southend East): asked the Minister of Agriculture, Fisheries and Food, if he will propose at the next meeting of the Council of Ministers that the supplies of cheap food at present being sent to the Soviet Union and East Europe should be made available to pensioners and low income facilities in the United Kingdom; and if he will make a statement.

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MR GUMMER

A major objective of Government policy towards the Common Agricultural Policy (CAP) is to tackle the problem of costly surpluses at source by bringing about a better market balance of supply and demand.

While surpluses continue to exist, however, the problem of their cost-effective disposal remains. Several Community schemes already exist which enable food supplies to be made available at reduced prices. In considering any extension account has to be taken of the likely cost and effectiveness. The most economical way of disposing of stocks is often to sell them on the world market with the benefit of export refunds to bridge the gap between Community and world prices. Where there are surpluses for export the Government remains opposed to singling out particular countries for special treatment.



### Item 3: the Single European Act

#### Points to make

1. Important that we should use the momentum given by the agreement in Luxembourg to further our objectives in the Community, in particular the opening-up of the wider market to our manufacturing and service industries. But actual change in the role of the European Parliament very limited indeed.
  
2. On majority voting worth recalling that balance of original Treaty of Rome was not favourable to British interest: majority voting on agriculture and the budget, on which we have had difficulties, and unanimity on a number of important requirements for the internal market, on which we want to avoid blockages and to make progress. The changes we have now agreed (article 100A) introduce majority voting for the measures necessary to progressively establish the internal market by 31 December 1992 but maintain unanimity for fiscal provisions, those relating to the free movement of persons and those relating to the rights and interests of employees (a necessary safeguard against "social engineering"). We also negotiated arrangements to protect our high standards of human, animal and plant health: national provisions can still be applied on grounds of major needs referred to in article 36 of the Treaty. Practical effects of the changes, which are now being submitted to national parliaments for ratification, may not be great but at least some acceleration in decisions on those measures which the British Government and British industry want. I consider this a pro-British package. The Luxembourg compromise (the "veto") was never discussed in the Intergovernmental Conference and is not, of course, affected.
  
3. On role of the European Parliament, it soon became apparent that a number of member states - in particular, France - did not want to do anything significant. The new article 149 is simply a procedural change. For certain measures the Council will adopt a position on first reading, the European Parliament may propose amendments and the Commission will decide whether or not it supports them. The last word rests with the Council, as now.



4. The last paragraph in the European Reform Group's paper, claiming that the European Parliament has acquired a new blocking power, is a partial misunderstanding. The sequence is:

(1) if European Parliament, by absolute majority of all its members, rejects the Council's position, Council can adopt the measure by unanimity. But, apart from some lesser articles, the main Treaty article to which this procedure applies, is Article 100 (internal market) and this already requires unanimity. Thus, in the improbable event that the European Parliament can muster an absolute majority of its members to reject the Council's position, we would be back exactly where we are now on Article 100;

(2) if European Parliament, by absolute majority of all its members, proposes amendments and the Commission does not support them, the Council may adopt these amendments by unanimity but equally it need take no notice of them at all;

(3) if European Parliament, by absolute majority of all its members, proposes amendments and the Commission supports them, the Council may adopt the measure by qualified majority. It can also amend the measure (eg by throwing out the European Parliament's amendments) by unanimity: this is the present rule under article 149.

5. On Commission efforts to extend their competence (para 1 of the European Reform Group's note) we are taking a very vigilant attitude. This is shown by our greater activity in the European Court of Justice (UK has initiated nine cases in the last eighteen months - seven against the Commission, one against the European Parliament and one against the Council).





Item 3: the Single European Act

Background

1. The results of the Intergovernmental Conference, agreed in Luxembourg in December, have been accepted by the governments of all twelve member states (after a referendum in Denmark) and incorporated in a Single European Act. The text has been presented to Parliament as Cmnd. 9758 (attached). The Treaty changes require ratification by all twelve national parliaments. The Bill was presented to Parliament on 27 March 1986.
2. The main elements of the package of Treaty changes are -
- (i) formal provision for the European Council (article 2), which will normally now meet twice a year;
  - (ii) a change (article 100A) from voting by unanimity to majority voting on some proposals necessary for completion of the internal market, for which a target date of 31 December 1992 is set (article 8A). Fiscal provisions, those relating to the free movement of persons and those relating to the rights and interests of employees remain subject to unanimity (article 100A.2) and there are safeguards for public, animal and plant health (article 100A.4);
  - (iii) for the first time, a Treaty base for measures on research and development (articles 130F-130Q) and environment (articles 130R-130T). Action has been undertaken in these sectors for some years under the basket article 235. We believe that the new articles are a far better base for British interests, eg they require a proper framework programme for R and D providing for consideration both of priorities and costs. On environment for the first time we have included the criteria of proper scientific assessment and of "the potential benefits and costs of action or lack of action". The framework programme for research and development requires unanimity (article 130I and 130Q). Decisions on the environment also require unanimity (unless the Council, acting unanimously, were to determine otherwise) (article 130S);

/(iv)



(iv) for the first time, a Treaty base, rather grandly described as economic and social cohesion, for the Regional Fund (articles 130A-130E), including a provision for better coordination of the various structural funds (article 130D);

(v) a statement on economic and monetary policy (article 102A) which does not go beyond present practice;

(vi) slightly revised articles on social policy (articles 118A and 118B) which, however, make clear that:

"such directives shall avoid imposing administrative, financial and legal constraints in a way which would hold back the creation and development of small and medium-sized undertakings";

(vii) a so-called cooperation procedure with the European Parliament under which for certain measures the European Parliament can put forward amendments but the last word remains with the Council (new article 149). The assent of the European Parliament would now be required for applications for new accessions to the Community and for new association agreements (amended articles 237 and 238);

(viii) provision for a new court of first instance, to relieve the workload of the European Court of Justice;

(ix) separately from the changes in the Treaty of Rome, a new agreement on European Co-operation in the sphere of foreign policy. This is closely based on the British text.

3. The text of the Single European Act demonstrates how the United Kingdom ground down the unrealistic and unacceptable ideas which were given an airing at Milan and that the result should be a modest advantage for our objectives in the Community.

EUROPEAN PARLIAMENT

European Democratic Group

RS/4

2 Queen Anne's Gate,  
London, SW1H 9AA  
Tel. (01) 222 1720  
(01) 222 1729  
Telex 91 7650 EDGLDN

②

The Rt. Hon. Margaret Thatcher, MP

Rine Nist

CDP

7/4

*With the compliments of the Chairman*

HENRY PLUMB

Conservative and Unionist Party, GB  
Alianza Popular, ESP  
Det konservative folkeparti, DK  
Ulster Unionist Party, N. Ireland



EUROPEAN PARLIAMENT  
EUROPEAN DEMOCRATIC GROUP

Chairman

Sir Henry Plumb, DL, MEP

LONDON

2 Queen Anne's Gate  
London, SW1H 9AA  
Tel. (01) 222 1720  
(01) 222 1722  
Telex. 917650 EDGLDN

1st April, 1986

The Rt. Hon. Norman Tebbit, MP  
Chairman,  
Conservative and Unionist Party,  
Conservative Central Office,  
32 Smith Square,  
London SW1P 3HH

*Dear Norman,*

Thank you for your letter of 27th March. I am sorry that Teddy Taylor has been directing to you complaints that might more appropriately have been directed to me. I am equally sorry that certain of my colleagues, in their zeal to defend Party policy on the European Community, have given him occasional grounds for complaint. I shall do my best to ensure that those grounds are removed for the future: I certainly should not wish Teddy's political estrangement from the rest of the Party on European questions to be an occasion for personal unpleasantness.

I quite understand the embarrassment caused to you by continuing controversy between Teddy Taylor and those, such as ourselves, who support HMG's policy towards the European Community. I am delighted to hear that you will be seeking to restrain the Member for Southend in his attacks on the Government's European policy: such attacks sow discord in our own ranks and bring solace to our opponents. I sometimes find it difficult, I must confess, to distinguish between Teddy Taylor's view of the European Community and Robin Cook's. As the Prime Minister remarked to the CPS the other day, the battle of ideas must constantly be refought - but preferably against one's political opponents rather than one's own Party!

In view of the forthcoming meeting between the Prime Minister and the European Reform Group, I am taking the liberty of sending to Downing Street a copy of this letter and your letter to me.

*Yours ever,  
Henry*

HENRY PLUMB

c.c. The Rt. Hon. Margaret Thatcher, MP



## Conservative Central Office

32 Smith Square Westminster SW1P 3HH  
Tel. 01-222 9000 Telex 8814563

From:  
THE CHAIRMAN OF THE PARTY  
Rt. Hon. Norman Tebbit MP

NT/AM

27<sup>th</sup> March 1986

*D Henry*

Teddy Taylor has written to me several times recently complaining of rather personal attacks on him by EDG Members of the Assembly.

I am sure that you would agree with me that it would be of benefit to us all if everyone concerned toned down these rather abusive exchanges. I will do my best to that end and I hope you feel able to do likewise.

Sir Henry Plumb, DL, MEP.  
Chairman  
European Democratic Group

From: Teddy Taylor, M.A., M.P.

vzjz BTT

cc David Wilkinson  
(cc)



HOUSE OF COMMONS  
LONDON SW1A 0AA

FCO  
HMT  
MAFF

26th March, 1986.

Michael Alison Esq., M.P.,  
Private Parliamentary Secretary,  
Prime Minister's Office.

*Dear Michael,*

Many thanks for your letter asking for the names of those who will be attending the meeting with the Prime Minister on 8th April, at 4p.m.

The deputation will be as follows:-

Sir Edward du Cann (President) Sir William Clark (Vice President),  
Sir Richard Body, Den Dover, Peter Fry, Tony Marlow, Roger Moate,  
Richard Shepherd, Teddy Taylor, Peter Thurnham and Bill Walker. Sadly  
Jonathan Aitken and Neil Hamilton will be abroad on that day.

I attach three brief notes on the issues which we have proposed for discussion and if you are agreeable, Edward will introduce each item.

As you may know, we have two researchers who work almost full time in preparing papers and dealing with enquiries for CERG. They are Lawrence Vince (a Conservative County Councillor and District Councillor from Peacehaven) and Tom Hawkins, an American graduate who deals with the international side of our researches. It would obviously be a great thrill for them to come to the meeting although they would both not contribute to the discussions in any way. Would this be proper and possible?

Perhaps you could let me know.

*Yours  
Teddy*



17

HOUSE OF COMMONS  
LONDON SW1A 0AA

CONSERVATIVE EUROPEAN REFORM GROUP.

Meeting with Prime Minister on Tuesday, 8th April, at 4p.m.

Paper on First Item of proposed agenda- STRICT BUDGETARY CONTROLS.

Although members of our Group were unhappy about the increase in the Own Resources of the Community by means of lifting the VAT limit from 1 to 1.4 per cent, we very much welcomed the assurances that future EEC spending would be controlled by strict budgetary limits as set out in the December, 1984 agreement.

However, we have been acutely concerned by the many indications that the Commission and other member states are planning to break through the limits, even although the limits allow for substantial increases in spending. We take the view that if the limits are not adhered to in 1986 - the first year of strict budgetary control - much of the real achievement which the Prime Minister fought so hard to secure will be lost.

Repeated assurances were given by Government Ministers at the time of the increase in Own Resources that the limits would be "binding on the Council".

We are worried in particular that Britain may have been misled as seems clear from the various reasons given for breaking through the limits:-

- (1) Fall in dollar value. It has now emerged that the 1986 Budget was based on an exchange rate of one dollar = 1.20 ecu although the rate at the time of the Budget decision was nearer 1.40.
- (2) Admission of Portugal and Spain. Treasury Ministers stated on 14th November that these costs had been included.
- (3) Surplus Disposal and Fall in world food prices. The fall in world prices has been partly caused by EEC dumping.



HOUSE OF COMMONS  
LONDON SW1A 0AA

(12)

CONSERVATIVE EUROPEAN REFORM GROUP.

Meeting with Prime Minister on Tuesday, 8th April, at 4p.m.

Paper on Second Item of proposed agenda-BRITISH AGRICULTURE AND CAP.

Our Group has pressed consistently for CAP reform, and has suggested that there was a strong case for seeking the replacement of this policy. Apart from the fact that the policy results in 54 per cent of all EEC spending being contributed solely to food storage and disposal costs, we have argued that the dumping policy hits the Third World severely by depriving poor nations of a fair price for food and also drives an inevitable wedge between Britain and the USA. This factor has become more serious following the Commission decision not to publish the amount of subsidy for dairy produce.

However, we now see the policy as creating a further major problem in that it could, quite soon, threaten the future of British agriculture, which is by far the most efficient in the Community and which, despite high productivity, does not produce an overall surplus of food.

We fear that the CAP is now getting out of control- as can be seen most acutely in beef where refrigerated storage space for beef has become exhausted. If such an explosion occurs, the emergency measures taken could hit British farming most severely because of its high productivity.

As reform now seems unlikely because of the attitude of the French and German Governments and also of the European Assembly, we believe that there is an urgent need to prepare a contingency plan for a repatriated agricultural policy, which could well be based on a deficiency system on standard quantities related to our needs.





HOUSE OF COMMONS  
LONDON SW1A 0AA

(B)

CONSERVATIVE EUROPEAN REFORM GROUP.

Meeting with Prime Minister on Tuesday, 8th April.

Paper on Third Item of proposed Agenda- SINGLE EUROPEAN ACT.

Our Group has consistently stressed the dangers of the further undermining of our national sovereignty through the surrender of powers to the EEC and the seizing of unauthorised powers by the Commission and the Assembly. In this connection we welcome the decision taken by the Government to take the Assembly to Court over their illegal Budget.

So far as the Commission is concerned, we note that the body has failed to submit formal monthly reports to the Council under para 6b of the Council decision of December, 1984 or to make a formal report to the Council on budget overruns as specified in the same paragraph.

However, our main concern about the single European Act is that this process will continue.

First, we are concerned about the removal of the veto power in many areas of Community decision making. There are many examples, but perhaps the most topical is the indication that the very recent directive on broadcasting quotas could be implemented by majority vote.

More serious is the addition to the powers of the Assembly which give the Assembly the power to block proposals unless the Council rejects their advice unanimously. Admittedly the Assembly powers of initiation are not much changed, but it appears that their power to block reforms is increased.



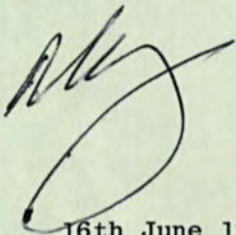
Government Chief Whip  
12 Downing Street, London SW1

PRIVATE AND CONFIDENTIAL

PRIME MINISTER

Conservative Group for Europe

David Hunt must give up his position as Chairman of the CGE on June 30th. He was allowed to complete his year after joining the Whips Office. It seems inevitable now that Beryl Goldsmith will succeed him. I think she is a dangerous and difficult woman, but despite many efforts it has proved impossible to stop her. Alan Haselhurst has agreed to be Deputy Chairman.

  
16th June 1982

Euro Pd.  
Prime Minister  
✓  
KLU  
17<sup>th</sup>

MR. COLES

I promised to let you know that the Prime Minister is meeting a small number of Conservative MPs to talk about the European Reform Group. The meeting will take place on Tuesday, 2 March, at 1615, and the Members attending are:-

Sir Nicholas Bonsor  
Sir Hugh Fraser  
Tony Marlow  
Peter Lloyd  
Teddy Taylor

CAROLINE STEPHENS

25 February, 1982.



HOUSE OF COMMONS  
LONDON SW1A 0AA

*penelope  
cl. 25/2*

24th February, 1982

*Dear Miss Stephens,*

Mr. Lloyd has asked me to thank you very much for your letter of the 19th February and to let you know that he will be free to attend a meeting with the Prime Minister in her Room at the House of Commons on Tuesday, 2nd March at 4.15 pm., to discuss the European Reform Group.

*Yours sincerely,  
Annabel Smith*

Secretary to Peter Lloyd, M.P.

Miss Caroline Stephens,  
10, Downing Street,  
London,  
S. W. 1.

Meeting 2.3.82.

please file  
C.5212

Circ Pd



10 DOWNING STREET

MR GOW

1. Do you want any special  
briefing for this meeting?

NO THANK YOU

2. Have you told John Coles?

NO.

*es.*

THE PRIME MINISTER KNOWS  
MORE ABOUT THIS SUBJECT  
THAN THOSE WHO WOULD  
BE ASKED TO BRIEF HER.

19 February, 1982

*am.*

22/2/1982

cc:- I Gow

19 February, 1982

I am writing to confirm that the Prime Minister will be pleased to see you in her Room at the House of Commons on Tuesday, 2 March at 1615 hrs.

I will write to the others confirming this meeting.

CAROLINE STEPHENS

Sir Nicholas Bonsor, MP



CF

10 DOWNING STREET

From the Private Secretary

19 February, 1982

Dear Mr. Taylor,

Sir Nicholas Bonsor approached Ian Gow requesting a meeting with the Prime Minister to discuss the European Reform Group.

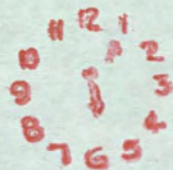
Would you be free to attend a meeting with the Prime Minister in her Room at the House of Commons on Tuesday, 2 March at 1615 hrs. I am writing in a similar vein to Hugh Fraser, Tony Marlow and Peter Lloyd.

Yours sincerely,  
Cecilia Stephens

Teddy Taylor, Esq, MP

Thank you  
O.K. for  
Teddy Taylor

73 FEB 1982





CONFIDENTIAL

file AH  
cc CW



*Handwritten signature*

10 DOWNING STREET

*From the Principal Private Secretary*

SIR ROBERT ARMSTRONG

The Prime Minister has seen and noted your minute A06020 of 20 November 1981 about Mr David Hunt's chairmanship of the Conservative Group for Europe.

✓ I am sending a copy of this minute to the Chief Whip.

*JMW.*

23 November 1981

*AH*

CONFIDENTIAL

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Ref: A06020

2  
CONFIDENTIAL

MR. WHITMORE

Prime Minister.  
This seems sensible. But if you  
have any doubts, you could  
mention them to the Chief Whip  
when he comes in on Monday  
morning. AMJ 20xi

Earlier in the year Mr. David Hunt MP was appointed Chairman of the Conservative Group for Europe.

2. Since then he has been appointed one of the Government Whips. The Chief Whip is anxious that he should not have to resign immediately from the Conservative Group for Europe.

3. It is arguable whether the guidance in Questions of Procedure for Ministers could be held to apply in this case. Though the Conservative Group for Europe may be in some sense a pressure group, the purposes which it supports are wholly in line with Government policy, and it is not easy to see that any serious embarrassment could arise.

4. The Chief Whip, who raised this question with me, and I both think that it would be preferable for Mr. Hunt to be replaced by somebody who is not a member of the Government at the next natural opportunity: I understand that an election is due in May 1982. It would be convenient to take the time between now and then to identify a suitable replacement for Mr. Hunt, who in any case has only served for a very short time. The Chief Whip and I are therefore agreed that Mr. Hunt should be allowed to continue as Chairman of the Conservative Group for Europe until next May, in order to find time for a suitable replacement to be identified, but should not stand for re-election.

5. I put this note to you for information and record: it is not something which I think we need trouble the Prime Minister to approve.

6. I am sending a copy of this minute to the Chief Whip.

RA

Robert Armstrong

20th November 1981

CONFIDENTIAL

Euro PD



Foreign and Commonwealth Office

London SW1A 2AH

(2)

Prime Minister  
To MR.

26 January 1981

Am 27/1

h.s.  
Am

Dear Michael,

I enclose for the Prime Minister's information copies of the latest letter from Mr Teddy Taylor MP about the European Reform Group's views on the EC, and of the Lord Privy Seal's reply.

I am copying this letter and enclosures to David Wright (Cabinet Office).

mt

Yours ever  
Stephen Gomersall.

S J Gomersall

M O'D B Alexander Esq  
10 Downing Street



Foreign and Commonwealth Office  
London SW1

26 January 1981

*Dear Teddy,*

Thank you for your letter of 21 January.

I fear however that you have missed the point. The point is not whether the Treaties can legally be amended (they can), but whether the policies originally enunciated by the European Reform Group are compatible with UK membership of the Community (they are not); the reason for the latter being that the European Reform Group's policies in question are so at variance with the objectives of the Community which are embodied in the Treaties that there is no realistic prospect of our partners agreeing to the necessary amendment.

*Yours*

*la*

Teddy Taylor Esq MP  
House of Commons  
London SW1A 0AA



HOUSE OF COMMONS  
LONDON SW1A 0AA

17  
ECD(1)

cc PS  
PS/UPS

Mr Hannay  
Mr Burrows

21st January, 1981. 22  
1

*Taylor*

Thank you for your kind letter of the 16th January and I am glad to receive your confirmation that policies involving amendment to the Treaties were not necessarily incompatible with continuing membership of the E.E.C.

I am, therefore, really at a loss to understand your original written answer to me which appeared to be based on a contrary assumption.

As you know, I do not believe that the policies of the Reform Group and our aims of securing change by agreement, along the lines of our four aims, would require an alteration of the Treaty.

However, as you now accept that even if such changes were required, it would not of necessity be contrary to continued membership, I therefore wonder if, on reflection, you would wish to reconsider the Parliamentary answer.

I do not wish to bore you with going over the ground once again, but surely you will accept the point on principle.

*Taylor*

The Rt.Hon.Sir Ian Gilmour,Bt., M.P.  
Lord Privy Seal,  
Foreign & Commonwealth Office,  
S.W. 1.

*Euro Pol*

*EURO POL*



Foreign and Commonwealth Office

London SW1A 2AH

*②*  
*Prime Minister*  
*To Mr. [unclear]*  
*[unclear]*

16 January 1981

*[Handwritten mark]*

*Dear Michael,*

Further to your letter of 15 December, Teddy Taylor MP has written again to the Lord Privy Seal on the subject of Government policy to the European Community. I enclose for information a copy of the letter and of the Lord Privy Seal's reply.

I am copying this letter to Michael Franklin.

*Yours ever*  
*S J Gomersall*

S J Gomersall  
Private Secretary to the  
Lord Privy Seal

M O'D B Alexander Esq  
10 Downing Street



Foreign and Commonwealth Office  
London SW1

16 January 1981

*Teddy,*

Thank you for your letter of 30 December. Like you I think we must agree to disagree, but I am concerned that there should be no misunderstanding about the Government's position on amendment of the Treaties.

My letter of 23 December did not suggest that policies involving amendment to the Treaties were incompatible with continuing membership. On the contrary, I said that the Treaties had been amended in the past and could be amended again. I went on to say that in the Government's view amendments of the Treaties were not necessary to achieve our aims in the restructuring exercise, nor were they the right way to achieve those aims. As the Prime Minister pointed out in the radio interview to which you refer, any changes in the Treaties will come by agreement between the ten Member States.

*gus*

*lan*

Teddy Taylor Esq MP  
House of Commons  
London SW1A 0AA

ECD(1)



The LPS would like to reply, contesting (again) his point about the price amendment of the Treaty. please submit w. previous correspondence.

HOUSE OF COMMONS  
LONDON SW1A 0AA

Slyomenak  
7/11.

From: Teddy Taylor M.P.

cc. ps  
ps Mr. Ford  
Lord Bridges  
Mr. Hanning  
Mr. Franklin Cat. Off.

31 December, 1980

The Rt.Hon.Sir Ian Gilmour Bt.M.P  
Lord Privy Seal,  
Foreign & Commonwealth Office,  
Downing Street,  
London SW1A 2AL

R. J.

(479)

Thank you very much for your further letter of 23 December about the Reform Group.

I am surprised that the whole basis of your letter once again is that items of policy which involve an amendment to the Treaty are regarded by you as incompatible with continuing membership. This certainly is not the view expressed by the Prime Minister in her excellent interview, and I hope that it is an issue you will re-consider.

I appreciate the courtesy of your lengthy advice and am afraid that we can only agree to disagree.

- 1. Mr Spockley to see
  - 2. Mr Hoggan for a draft
- please

7/11



LIST OF GUESTS ATTENDING THE MEETING AND DRINKS TO BE GIVEN  
BY THE PRIME MINISTER FOR THE CONSERVATIVE EUROPEAN REFORM GROUP  
ON MONDAY, 15 DECEMBER 1980, FROM 7.15 PM TO 8.15 PM

---

- The Prime Minister
- Mr. Ian Gow, MP
- Mr. Jonathan Aitken, MP
- Mr. Anthony Baumont-Dark, MP
- Sir Ronald Bell, MP
- ? Mr. David Bevan, MP
- ? Mr. John Blackburn, MP
- ? Mr. Richard Body, MP
- ? Sir Nicholas Bonsor, MP
- Mr. Michael Brown, MP
- Mr. John Browne, MP
- ? Mr. John Butcher, MP
- ? Mr. John Carlisle, MP
- ? Mr. Alan Clark, MP
- ? Mr. Geoffrey Dickens, MP
- Mr. Den Dover, MP
- ? Mr. Robert Dunn, MP
- Mr. John Farr, MP
- Mr. Peter Fry, MP
- Mr. Peter Griffiths, MP
- Mr. Warren Hawksley, MP
- Mr. Toby Jessel, MP
- Mr. Peter Lloyd, MP
- ? Mr. Tony Marlowe, MP
- Mr. Albert McQuarrie, MP
- Mr. Roger Moate, MP
- Mr. Gerry Neale, MP
- Mr. Matthew Parris, MP
- Mr. James Pawsey, MP

- ? Mr. Barry Porter, MP
- ? Mr. Richard Shepherd, MP
- Mr. Tony Speller, MP
- Mr. Teddy Taylor, MP
- Mr. Neil Thorne, MP
- Mr. John Townend, MP
- Mr. Bill Walker, MP
- Mr. Gary Waller, MP
- Mr. Nicholas Winterton, MP

Secretary to the Group: Mr. John Shepherd

018



Mr. Alexander

With the Compliments  
of the  
Private Secretary  
to the  
Lord Privy Seal

15  
/ 12



Foreign and Commonwealth Office  
London SW1

15 December 1980

Thank you for your letter of 4 December about the European Community.

On the first point in your letter, of course the Government fully share your view that we must work for a better balance in European Community net budget contributions. We have already achieved a great deal in this area, and there is no doubt that this was because of the Prime Minister's determination and the Government's commitment to Europe. The contrast with the failure of our predecessors is evident. We shall be seeking further progress during the process of examination of the Community budget which will take place, in accordance with the agreement of 30 May, during 1981. In the agreement, our partners have accepted the need to prevent the recurrence of unacceptable situations for any individual Member State and to review the whole structure of Community expenditure policies.

On the question of national powers to control dumping, we have not in fact negotiated away, since we joined the Community, our national powers. The position is that in the Treaty of Accession itself (endorsed by both Houses of Parliament) we agreed that the

/United

Teddy Taylor Esq MP  
House of Commons  
London SW1A 0AA

United Kingdom would retain certain residual national powers for a transitional period. There were in 1973 considerable differences between UK national rates of customs duty and the Common External Tariff (CET) of the EC. Until our system was harmonised with the CET we needed to retain the power to apply anti-dumping duties at different rates as well. With our inclusion in the customs union on 1 July 1977, however, this requirement disappeared.

Independent action by Member States on dumping or any other external trade matter would be incompatible with Chapter 3 of the Treaty of Rome and in particular with Article 113 which explicitly states that '... the Common Commercial Policy shall be based on uniform principles, particularly in regard to ... measures to protect trade such as those to be taken in case of dumping ...'. Since the EC is a full customs union within which goods circulate freely, anti-dumping action has to be on a Community basis if it is to be effective. So the restoration to Member States of the right to take unilateral action on unfair trading practices including dumping is inconsistent with our obligations under the Common Commercial Policy and would weaken the effectiveness of the Community's action as a whole.

The Department of Trade has however an active anti-dumping unit to help British industry in presenting its anti-dumping complaints in Brussels. There is close liaison between this unit and Commission staff.

Thirdly, you say that you cannot believe that the general aim of reasserting the power of National Parliaments - in the terms of your group's statement - over the European Community institutions is in any way incompatible with membership.

The powers of the European Community institutions are set out in the Treaties to which the United Kingdom acceded under the Treaty of Accession. The reassertion of the power of National Parliaments over the institutions of the Community in such a way as to interfere with the powers conferred by the Treaties on those institutions,

/would

would be incompatible with the obligations we accepted when we ratified the Treaty of Accession. In practice however the vast majority of important decisions in the European Community are taken by the Council on the basis of consensus. Ministers are as accountable to Parliament for their Community activities as they are for any other activities. Westminster scrutiny procedures provide for examination of draft Community legislation before it is approved by the Council of Ministers. The Government have undertaken in the House of Commons not to give approval in the Council of Ministers to a proposal which has been recommended for a debate by the House before that debate has taken place, save in exceptional circumstances or where the Scrutiny Committee agrees that UK consent in Council need not be withheld.

You mention in particular the question of the export of subsidised food to the Soviet Union. As you know, the Government has consistently opposed all subsidised food exports to the Soviet Union but we have not been able to secure agreement to this within the Community. Decisions are taken in a management committee which does not require unanimous agreement. However, at the instigation of the Council on 15 January and with our active support, the Community has restricted sales of a number of agricultural commodities to the Soviet Union since the invasion of Afghanistan. In the case of the remainder we continue to argue that the restrictions should be extended to them also.

Your fourth proposal, to 'abolish' or 'eliminate' the Common Agricultural Policy, is incompatible with our membership of the Community. The Treaty of Rome in Articles 38 to 46 explicitly requires that there should be a Common Agricultural Policy. Article 39, in particular, states what the objectives of the CAP shall be, viz. 'to increase agricultural productivity ... to ensure a fair standard of living for the agricultural community ... to stabilize markets ... to assure the availability of supplies ... to ensure that the supplies reach consumers at reasonable prices'. The Government, like all

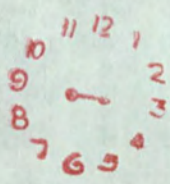
/British

British Governments since our membership, support the objectives of the CAP as set out in this Article. They are similar to the objectives of British agricultural policy before our membership of the Community. That is not to say we are satisfied with the present workings of the policy. We are not. Fortunately our view of the need for far-reaching reforms in its operation is shared increasingly by other Member States, some of which have already put forward ideas of their own. This is quite possible within the framework of the Treaty. Rather than abolition of the CAP, as you suggest, it is effective reform of the policy which is needed. The commitment to restructuring of the Community budget which we achieved in the 30 May agreement provides a unique opportunity to bring this about.

It would be my hope that on reflection you will agree these points, and that the Government should continue to pursue our policies within the framework of the Treaty of Rome.

*Signed original  
to be despatched  
this afternoon*

15 DEC 1955





Alan

Wd. prefer not.  
Can you find a home  
for it?

*Jance*  
Is this for you?

10/12/80  
17/12



10/12/80

10 DOWNING STREET

15 December 1980

From the Private Secretary

European Reform Group

The Prime Minister has seen the draft reply from the Lord Privy Seal to Mr. Teddy Taylor, MP, enclosed with your letter to me of 11 December. She thinks that it is a little too confrontational and would hope that the Lord Privy Seal would be prepared to make the following amendments in the final version:-

- (a) Paragraph 1 : delete second sentence.
- (b) Paragraph 2 : delete the last two sentences.
- (c) Paragraph 7 : 4th sentence : delete "fully".
- (d) Paragraph 8 : insert after second sentence new sentence as follows "Decisions are taken in a management committee which does not require unanimous agreement."
- (e) Paragraph 9 : redraft first sentence to read as follows "Your fourth proposal, to 'abolish' or 'eliminate' the Common Agricultural Policy is incompatible with our membership of the Community." The Prime Minister also thinks that it would be useful to quote from Article 39.
- (f) Delete final paragraph and substitute "It would be my hope that you could agree these points. If so, perhaps we could both accept that they can be carried out within the framework of the Treaty of Rome."

MA

SS

S.J. Gomersall, Esq.,  
Lord Privy Seal's Office.



10 DOWNING STREET

Pompe Minister.

(2)

I attach some background  
on the ERG - most of which  
no doubt will be familiar to  
you.

Paul  
- 12/11

mf

La Paul



Foreign and Commonwealth Office

London SW1A 2AH

12 December 1980

*Dear Michael,*

Further to my letter of 11 December and our conversation this morning, I attach the original published list of the European Reform Group and its prospectus, and the text of the relevant exchanges in the House of Commons on 3 December. Annual elections for the Officers of the Tory backbench European Affairs Committee were held on 8 December. As a result the make-up is distinctly less markedly European and more ambiguous. It is as follows:

Chairman	: Mr George Gardiner
Vice Presidents	: Mr Ray Whitney and Mr Peter Lloyd (ERG)
Secretary	: Mr Richard Shepherd (ERG)

*Yours ever,  
S J Gomersall.*

S J Gomersall

M O'D B Alexander Esq  
10 Downing Street

Conservative European Reform Group

It has been agreed to form a group in Parliament which will consist of Conservative members who support the following statement:

"We believe in the urgent need for fundamental reform of the Common Market in the interest of securing genuine European co-operation based on the partnership of nation-states. It is our belief that the present structure of the EEC is damaging to the interests of the UK and that this situation will persist until substantial and fundamental changes are made either in the basic structure of the Common Market or else in the relationship that Britain has with the Community. With the Community reaching the limits of its financial resources and approaching its imminent enlargement this is clearly the right opportunity to secure the necessary change. In particular we believe that there is an urgent need to adopt policies directed to:

- A) The ending of the C.A.P. and the restoration to national governments of control over agriculture policy.
- B) The reform of the system of financing the Community budget to take account of the ending of the C.A.P. and to ensure that no member state has to carry an unfair share of expenditure as Britain has done since joining the EEC.
- C) The restoration to each member state of the right to take action on unfair trading practices, such as dumping, by third countries.
- D) The reassertion of the power of national Parliaments over the institutions of the Community.

Members of the Conservative European Reform Group

Jonathan Aitken  
Anthony Beaumont-Dark  
Sir Ronald Bell  
David Bevan  
John Blackburn  
Richard Body  
Sir Nicholas Bonsor  
Michael Brown  
John Butcher  
John Carlisle  
Geoffrey Dickens  
Den Dover  
John Farr  
Peter Fry  
Peter Griffiths  
Warren Hawksley  
Charles Irving  
Toby Jessel  
Michael Latham

Peter Lloyd  
Tony Marlow  
Albert McQuarrie  
Roger Moate  
Gerry Neale  
Matthew Parris  
James Pawsey  
Barry Porter  
Harvey Proctor  
Richard Shepherd  
Keith Stainton  
Teddy Taylor  
Robert Taylor  
Neil Thorne  
John Townend  
Bill Walker  
Nick Winterton

My right hon. and noble Friend has made a number of suggestions—that there should be a greater political commitment to co-operation in foreign policy; some sort of permanent support staff; and an improved procedure for convening meetings in an emergency.

Foreign Ministers have agreed that the organisation of political co-operation should be examined. The political directors will now prepare a report, and that will be considered by Foreign Ministers in due course.

**Several Hon. Members** *rose*—

**Mr. Speaker:** I shall call first those hon. Members whose questions are being answered.

**Mr. Evans:** Will the Lord Privy Seal confirm that, despite the suggestions of the Foreign Secretary, no other country in the EEC has taken up any of the suggestions that he put forward regarding co-operation on foreign policy?

**Sir Ian Gilmour:** That is implicit. I have already answered that question in my original reply. I said that we have agreed that the organisation of political co-operation should be examined, and that is one of the questions that will be considered.

**Sir Anthony Meyer:** Will my right hon. Friend explain to any of my hon. Friends who may have been misled by the subtle charm of my hon. Friend the Member for Southend, East (Mr. Taylor) that the objectives of the so-called European reform group are irreconcilable with the settled policies of this party and this Government, and that its activities cause grave damage to effective European political co-operation, at a time when such co-operation is desperately needed to dissuade the Russians from putting any pressure on Poland?

**Sir Ian Gilmour:** Yes, I agree with my hon. Friend. But the charm of my hon. Friend the Member for Southend, East (Mr. Taylor) must indeed have been very subtle because the prospectus that the group put forward is not only at odds with the policies of this Government, but it is incompatible with our continued membership of the Community. It is, therefore, a dud prospectus. At present, political co-operation is vitally important.

**Mr. Knox:** In view of the deepening world economic recession, does my right hon. Friend propose to take any initiative with his counterparts in Europe in order to obtain a positive response from the EEC to the Brandt Commission report?

**Sir Ian Gilmour:** As my hon. Friend said earlier, we are continuing discussions and a number of conferences are taking place. We do not have an immediate initiative in mind within the EEC, but this is one of the matters that crops up continually.

**Mr. David Hunt:** What initiative is my right hon. Friend planning to take to strengthen political co-operation at a time when that is more necessary than it has ever been in view of the serious and dangerous trouble spots throughout the world and when the Community has an opportunity to show to the new Reagan Administration the strength that it can achieve?

**Sir Ian Gilmour:** I agree with my right hon. Friend, and I have outlined some of the organisational matters that my right hon. and noble Friend has suggested. As to the immediate situation, which the whole House will agree is serious, my right hon. Friend the Prime Minister is about to make a statement on the Luxembourg declaration.

**Mr. Jay:** Is the continuing sale of subsidised butter to the Soviet Union by the EEC one example of EEC foreign policy?

**Sir Ian Gilmour:** No, it is not. It is an unfortunate example of trade policy which, as the right hon. Gentleman is aware, is opposed by the British Government.

**Mr. Proctor:** Will my right hon. Friend urge his Foreign Minister colleague to urge the Argentine to get its hands off the Falkland Islands?

**Sir Ian Gilmour:** That is not a matter that is likely to come up quickly in discussions on political co-operation. It is not a fact that political co-operation can sometimes lead to absurd questions?

**Mr. Rowlands:** Is not one example the decision of the Government to support the evil Pol Pot regime representative of Cambodia in the



Foreign and Commonwealth Office

London SW1A 2AH

No.

*I have to try to  
keep the party together,  
and we have taken by the  
L.P.S. in doing  
to the one which  
I look in Prime Minister.*

11 December 1980

(1)

*Dear Nicholas  
Please when you see  
the Lord Privy Seal would like to be assured  
that you are broadly content with the line in this  
letter before he despatches it.*

CONSERVATIVE EUROPEAN REFORM GROUP (ERG)

*Am 12/11*

I enclose a draft reply to a letter the Lord Privy Seal has received from Mr Teddie Taylor MP about the policies proposed by the Conservative European Reform Group. The draft confirms the position taken by the Lord Privy Seal in the House of 3 December, and makes clear that certain points in the Group's programme are not negotiable.

In view of her meeting with Mr Taylor and the Reform Group on 15 December the Prime Minister may wish to see the draft reply.

*I am copying this letter to Nicholas Franklin, Cabinet Office.*

*Yours ever  
S J Gomersall.*

S J Gomersall

M O'D B Alexander Esq  
10 Downing Street

**DRAFT:** minute/letter/teleletter/despach/note

**TYPE:** Draft/Final 1+

**FROM:**

**Reference**

Lord Privy Seal

**DEPARTMENT:**

**TEL. NO:**

**SECURITY CLASSIFICATION**

**TO:**

**Your Reference**

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Teddy Taylor Esq MP  
 House of Commons  
 London SW1A 0AA

**Copies to:**

**PRIVACY MARKING**

**SUBJECT:**

.....In Confidence

**CAVEAT**.....

Thank you for your letter of 4 December about the European Community. [ I am afraid it confirms my earlier view that your stated aims, specifically three out of four of them, are incompatible with our membership of the Community. ]

On the first point in your letter, of course the Government fully share your view that we must work for a better balance in European Community net budget contributions. We have already achieved a great deal in this area, and there is no doubt that this was because of the Prime Minister's determination and the Government's commitment to Europe. The contrast with the failure of our predecessors is evident. We shall be seeking further progress during the process of examination of the Community budget which will take place, in accordance with the agreement of 30 May, during 1981. In the agreement, our partners have accepted the need to prevent the recurrence of unacceptable situations for any individual Member State and to review the whole structure of Community expenditure policies. [ But any chance of success would be vitiated if the Government's commitment to the Community itself were in doubt. That is why I believe your approach is misconceived, and likely to impede rather than encourage reforms in the Community which will benefit Britian. ]

Enclosures—flag(s).....

/On the question



On the question of national powers to control dumping, we have not in fact negotiated away, since we joined the Community, our national powers. The position is that in the Treaty of Accession itself (endorsed by both Houses of Parliament) we agreed that the United Kingdom would retain certain residual national powers for a transitional period. There were in 1973 considerable differences between UK national rates of customs duty and the Common External Tariff (CET) of the EC. Until our system was harmonised with the CET we needed to retain the power to apply anti-dumping duties at different rates as well. With our inclusion in the customs union on 1 July 1977, however, this requirement disappeared.

Independent action by Member States on dumping or any other external trade matter would be incompatible with Chapter 3 of the Treaty of Rome and in particular with Article 113 which explicitly states that '... the Common Commercial Policy shall be based on uniform principles, particularly in regard to ... measures to protect trade such as those to be taken in case of dumping ...'. Since the EC is a full customs union within which goods circulate freely, anti-dumping action has to be on a Community basis if it is to be effective. So the restoration to Member States of the right to take unilateral action on unfair trading practices including dumping is inconsistent with our obligations under the Common Commercial Policy and would weaken the effectiveness of the Community's action as a whole.

The Department of Trade has however an active anti-dumping unit to help British industry in presenting its anti-dumping complaints in Brussels. There is close liaison between this unit and Commission staff.

Thirdly, you say that you cannot believe that the general aim of reasserting the power of National Parliaments - in the terms of your group's statement - over the European Community institutions is in any way incompatible with membership.

/The powers

The powers of the European Community institutions are set out in the Treaties to which the United Kingdom acceded under the Treaty of Accession. The reassertion of the power of national Parliaments over the institutions of the Community in such a way as to interfere with the powers conferred by the Treaties on those institutions, would be incompatible with the obligations we accepted when we ratified the Treaty of Accession. In practice however the vast majority of important decisions in the European Community are taken by the Council on the basis of <sup>full agreement</sup> consensus. Ministers are as fully accountable to Parliament for their Community activities as they are for any other activities. Westminster scrutiny procedures provide for examination of draft Community legislation before it is approved by the Council of Ministers. The Government have undertaken in the House of Commons not to give approval in the Council of Ministers to a proposal which has been recommended for a debate by the House before that debate has taken place, save in exceptional circumstances or where the Scrutiny Committee agrees that UK consent in Council need not be withheld.

You mention in particular the question of the export of subsidised food to the Soviet Union. As you know, the Government has consistently opposed all subsidised food exports to the Soviet Union but we have not been able to secure agreement to this within the Community. However, at the instigation of the Council on 15 January and with our active support, the Community has restricted sales of a number of agricultural commodities to the Soviet Union since the invasion of Afghanistan. In the case of the remainder we continue to argue that the restrictions should be extended to them also.

Your fourth proposal, to 'abolish' or 'eliminate' the Common Agricultural Policy, is ~~yet another reason why the changes you propose are incompatible with the Government's policy and our membership.~~ The Treaty of Rome in Articles 38 to 46 explicitly requires that there should be a Common Agricultural Policy. Article 39, in particular, states what the objectives of the CAP shall be. The Government, like all

/British

Quote

Decisions are taken in a management committee which does not remain unreviewed.

British Governments since our membership, support the objectives of the CAP as set out in this Article. They are similar to the objectives of British agricultural policy before our membership of the Community. That is not to say we are satisfied with the present workings of the policy. We are not. Fortunately our view of the need for far-reaching reforms in its operation is shared increasingly by other Member States, some of which have already put forward ideas of their own. This is quite possible within the framework of the Treaty. Rather than abolition of the CAP, as you suggest, it is effective reform of the policy which is needed. The commitment to restructuring of the Community budget which we achieved in the 30 May agreement provides a unique opportunity to bring this about.

You will see therefore the reasons why your prospectus is consistent with withdrawal from the Community but not with the Government's policy of making a success of our membership and of reform of Community policies.

*I would be my hope that you  
 could agree these points. If so perhaps  
 we could both agree that they can be  
 carried out within the framework of the Treaty  
 of Rome*

From: Teddy Taylor, M.P.

PS/LPS /



HOUSE OF COMMONS  
LONDON SW1A 0AA

Thursday, 4th December.

Sir Ian Gilmour, M.P.,  
Lord Privy Seal,  
Foreign Office.

*Teddy Taylor*

I was concerned to read in Hansard this morning that you had stated twice that the aims of the Conservative European Reform Group were inconsistent with membership of the EEC. I would be grateful if you could advise me on what basis you arrived at this conclusion as the Group believes that it would be possible to seek to achieve its aims in negotiation without the consequences you mention.

(1) I cannot believe that our aim of securing a better balance in contributions is in any way inconsistent with Membership as this is something which the Prime Minister has already been engaged in.

(2) Nor can I believe that the aim of seeking to restore the power to nation states to control dumping would be inconsistent with membership. This was a power which we had in the initial years of membership and which was negotiated away. I cannot see any reason why the power solely to control dumping could not be sought in negotiation.

(3) I also cannot believe that the general aim of seeking to restore power over the EEC institutions is in any way incompatible with membership. We made it clear in our Press statement and conference that the power we had in mind was in relation to

(K)

cc. ps  
ps/mr Howard  
ps/pms  
Lanbridge  
Mr Hanway  
Mr Fisher  
4/12  
MAY

the export of subsidised food to the Soviet Union which the Commission is pursuing and which the British Government opposes. This, we believe, is not only a reasonable objective in negotiation but would also be a natural consequence of the abolition of the CAP. It is, I would think, reasonable that Britain should seek to have the power to prevent the export of subsidised foodstuffs from intervention stocks in the United Kingdom.

(F) This leaves our aim to abolish the CAP and I can only assume that you believe that this is inconsistent with membership. If so, it would appear to be a significant change in Government policy. My understanding is that when the Council of Ministers instructe the Commission to draw up plans for a change in the structure which would not affect the principles of the CAP, the British Government made it clear that we regarded this reservation as being a commitment to maintain the principles from which the CAP was established on the support of agriculture and that the Government made it clear that these principles could be secured by means other than the maintenance of the CAP. If the Government now considers that the maintenance of the CAP is essential for the continuance of the EEC, I would think that this is a major shift in policy.

I would greatly appreciate your observations and clarification.

Yours

Teddy

