

PART 34

Confidential Filing.

The Community Budget.

Developments in the European
Community.

EUROPEAN

POLICY

Part 1: May 1979

Part 34: ~~October~~ December 1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PART 34 ends:-

SS/WALES TO MAS/DTI 30.1.V7

PART 35 begins:-

D. WILLIAMS TO CDP 2.2.V7

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(86) 40 th Conclusions, Minutes 2 and 4	05.12.86
CC(86) 41 st Conclusions, Minute 4	11.12.86
CC(86) 42 nd Conclusions, Minutes 2 and 4	18.12.86

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed Wayland

Date 13 October 2015

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The Rt Hon
Nicholas Edwards MP

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From The Secretary of State for Wales

30th January 1987

Den Cole

*CJP
2/2*

EC INTEGRATED OPERATIONS

Thank you for copying to me your letter of 22 December to Lynda Chalker in which you set out the possible way forward so far as EC Integrated Operations are concerned. I have also seen *at nap* Tom King's reply.

On the whole I would agree with your overall assessment that continued general discussion is probably not going to take us much further forward in clarifying the scope of the proposals and that the next step should be to submit an application for a specific area, or areas, and see what this yields.

I am, however, far less convinced that this approach needs to be undertaken on as extensive a geographic basis as your letter suggests, particularly since we are dealing with an initiative the administrative and resource implications of which remain to be quantified.

As you say, it is entirely likely that during discussions on specific programmes we will encounter demands from the Commission for new measures (particularly for small firms) and that these will give rise to difficult decisions of priority in terms of funding. If these cannot be resolved then applications will not be capable of proceeding and the work undertaken on the drafting and negotiating of individual initiatives (which will be considerable) will have been abortive.

It therefore, seems to me that a more cautious approach on the basis of a few pilot areas is what is required at this stage and that since the Commission has identified steel areas as a priority we should look at one or two of these first. It will not surprise you to know that I would regard Industrial South Wales as one such. The Belfast proposal is also well advanced. That for Birmingham should equally enable us to test the water so far as Inner City Partnership areas are concerned.

/If these look

Giles Shaw Esq MP
Minister of State for Industry
Department of Trade and Industry
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If these look to be successful and cost effective both in terms of maximising receipts locally and at the overall UK level (which Tom King's letter suggests might not be the case) then we can always extend our efforts further. We can also, of course, consider at a later stage any other initiatives on which the Commission might be particularly encouraging. For the present, however, 4 initiatives, of varying sorts, ought to be quite sufficient for us to gauge the advantages and disadvantages of what is on offer.

Copies of this letter go to members of OD(E) and E(A) and to Malcolm Rifkind, Peter Walker, David Young, Michael Jopling, Rhodes Boyson, Kenneth Baker and Sir Robert Armstrong.

J. Evans

Nick

EURO Pol: Budget 9734



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EX NOVO REVIEW: DELORS IN PARIS

SUMMARY

1. FRENCH FOUND DELORS IMPRECISE ON SUBSTANCE AND TIMING, AND UNPERSUASIVE IN HIS BID TO LAUNCH AN AMBITIOUS REVIEW. THEY LISTENED MORE THAN ARGUED BUT LEFT HIM IN NO DOUBT THAT THEIR HIGHEST PRIORITIES ARE BETTER CONTROL OVER EXPENDITURE (TO BE ACHIEVED STEP-BY-STEP), ASSURED FINANCING OF THE CAP AND GETTING THROUGH 1987 AND 1988 IN REASONABLE ORDER. THE GOVERNMENT OPPOSES GENERALISATION OF DIRECT AID TO SMALL FARMERS AND DOUBLING OF THE STRUCTURAL FUNDS, AND REGRETS DELORS' LACK OF EMPHASIS ON PRICING POLICY.

DETAIL

2. DELORS, WHO ARRIVED IN PARIS ON 22 JANUARY, WAS RECEIVED BY THE PRIME MINISTER, BALLADUR, RAIMOND AND BOSSON (JOINTLY) AND THE PRESIDENT, IN THAT ORDER. THE ELYSEE CLAIMS THAT MITTERRAND LEFT THE GOVERNMENT FREE TO EXPRESS ITS VIEWS ON THE COMMISSION'S PACKAGE AND DID NOT PRONOUNCE ON THE DETAIL. INTER-MINISTERIAL PREPARATION FOR THE VISIT WAS THOROUGH AND THE SGCI SAY COHABITATION WORKED WELL ON THIS OCCASION. IN OUR ROUND OF CALLS ON THE ELYSEE, MINISTRY OF FINANCE (SEPARATE DISCUSSIONS WITH TRESOR AND BUDGET DIRECTORATES), THE QUAI AND SGCI, WE HAVE DETECTED ONLY LIMITED DIVERGENCES OF VIEW. MATIGNON CANCELLED A CALL FIXED FOR TODAY BUT WILL SEE US TOMORROW.

3. THE FRENCH FOUND THAT BOTH THE COMMISSION'S DOCUMENTS AND DELORS' ORAL PRESENTATIONS LACKED PRECISION BOTH ON THE SUBSTANCE OF PROPOSED ACTION AND THE TIMETABLE FOR DECISION-MAKING. DELORS APPEARED UNCONCERNED WHEN DIFFICULTIES OF TIMING WERE DRAWN TO HIS ATTENTION AND EXPRESSED DISTASTE FOR SHORT-TERM EXPEDIENTS. IN CONSEQUENCE, MINISTERS ARE ANXIOUS THAT PRESSING PROBLEMS OF COMMUNITY FINANCES IN 1987 AND 1988 MAY BE MISHANDLED BECAUSE OF A DISTRACTING DEBATE OVER COMPLEX ISSUES WITH FAR-REACHING CONSEQUENCES WHICH CANNOT BE SETTLED RAPIDLY.

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GENERAL FINANCIAL ISSUES

4. ACCORDING TO MME GUIGOU (ELYSEE), DELORS WAS TOLD THAT THE FRENCH FAVOUR RAISING THE VAT CEILING TO 1.6 PER CENT IN 1988, TO COPE WITH IMMEDIATE FINANCIAL NEEDS WHILE DISCUSSION ON LONGER-TERM ISSUES RAISED BY DELORS PROCEEDS. (THE GOVERNMENT'S LACK OF ENTHUSIASM FOR A GREAT DEBATE WAS VERY EVIDENT.) SIGNIFICANTLY, OFFICIALS IN MINISTRIES CLAIM THAT THE GOVERNMENT EXPRESSED NO POSITION ON THE CEILING. DELORS MADE CLEAR HIS PREFERENCE FOR A CHANGE OF ASSIETTE FROM VAT TO GDP, BUT AT THIS STAGE THE FRENCH ARE VERY WARY OF THIS BECAUSE ITS RE-DISTRIBUTIVE EFFECT AS BETWEEN STATES HAS NOT YET BEEN CALCULATED. IT HAS NOT BEEN REJECTED OUT OF HAND AND BOTH THE TRESOR AND THE QUAI ARE WILLING TO CONSIDER IT ON ITS TECHNICAL MERITS, PARTICULARLY IF IT WERE TO BE IMPLEMENTED PROGRESSIVELY OVER AN EXTENDED PERIOD. THE BUDGET DIRECTORATE WERE MOST CLEARLY OPPOSED TO IT ON THE GROUNDS THAT IT WAS SIMPLY A COMMISSION DEVICE TO INCREASE OWN RESOURCES BY A LARGE AMOUNT. ALL GOVERNMENT OFFICIALS WE SPOKE TO WOULD OPPOSE IT IF IT INCREASED THE EC BUDGET'S SHARE OF TOTAL COMMUNITY INCOME. (FRENCH MINISTERS CONTINUE TO INSIST THAT FRENCH POLICY TOWARDS THE COMMUNITY BUDGET MUST BE CONSISTENT WITH THE RESTRICTIVE POLICY TOWARDS THE NATIONAL BUDGET).

5. DELORS SET OUT HIS IDEAS FOR A NEW OWN RESOURCES, TO BRING COMMUNITY RECEIPTS UP TO 1.4 PER CENT OF ITS COMBINED GDP. THE GOVERNMENT DID NOT REFUSE TO CONSIDER BUT INSISTED THAT DISCUSSION MUST BE UNHURRIED.

6. OFFICIALS ARE CONCERNED TO BRING DNO UNDER CONTROL.

STRUCTURAL FUNDS

7. FRENCH MINISTERS DID ON THE OTHER HAND REJECT OUT OF HAND THE PROPOSAL TO DOUBLE STRUCTURAL FUNDS, ALTHOUGH THEY CONTINUE TO SUPPORT COMMISSION PROPOSALS FOR IMPROVING THEIR MANAGEMENT. THEY FAVOUR MORE SPENDING ON PROGRAMMES RATHER THAN PROJECTS, AND WILL GO ALONG WITH GREATER CONCENTRATION OF THE FUNDS ON LOW INCOME COUNTRIES PROVIDED THAT THE SPECIAL NEEDS OF SOME AREAS AND SECTORS OF THE HIGHER INCOME COUNTRIES ARE NOT DISQUALIFIED. CONCENTRATION MUST NOT BE ALLOWED TO REACH THE POINT WHERE A FUND BECOMES SIMPLY A MECHANISM FOR REDISTRIBUTION. THIS WOULD MAKE IT A FOCUS FOR CONTINUAL NORTH-SOUTH CONFRONTATION. THEY AGREE WITH DELORS THAT COHESION SHOULD BE PURSUED THROUGH USE OF ALL AVAILABLE INSTRUMENTS BUT THEY ARE VERY CAUTIOUS ON THE FINANCIAL IMPLICATIONS. PREDICTABLY, MITTERRAND SHOWED HIMSELF MORE SYMPATHETIC THAN GOVERNMENT MINISTERS TO DELORS' EMPHASIS ON THIS THEME.

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THE CAP

8. DELORS EXPLAINED COMMISSION THINKING ON CAP REFORM IN TERMS OF A CONTINUATION OF RESTRICTIVE PRICING POLICY AND STRICTER MARKET MANAGEMENT METHODS COMBINED WITH DIRECT INCOME AIDS TO SMALL FARMERS AND GREATER EMPHASIS ON STRUCTURAL MEASURES. TAKEN TOGETHER, THE PACKAGE OF AGRICULTURAL MEASURES SHOULD MEAN THAT THE FUNDING REQUIREMENT OF THE CAP WOULD RISE BETWEEN 1987 AND 1992 ONLY TO THE EXTENT NECESSARY TO TAKE ACCOUNT OF SPANISH AND PORTUGUESE ACCESSION; AND THAT IN RELATIVE TERMS THE SHARE OF THE EC BUDGET DEVOTED TO THE CAP SHOULD FALL BY 1992 TO 50 PER CENT. THESE FORECASTS ARE BEING TREATED WITH SCEPTICISM BY THE FRENCH, WHO POINT TO THE PROPOSED DOUBLING OF STRUCTURAL EXPENDITURE TO EXPLAIN HOW THE REDUCED SHARE OF CAP SPENDING IS 'ACHIEVED.'

9. THE GOVERNMENT'S REACTION TO THE PROPOSED DIRECT INCOME AIDS TO SMALL FARMERS WAS DEEPLY RESERVED AND EVEN GUIGOU POINTED OUT THAT DELORS WAS ISOLATED FROM HIS COMMISSIONERS ON THIS. CHIRAC AND HIS MINISTERS OBJECT FIRST THAT VARIATION OF FARM INCOMES ACROSS THE COMMUNITY WOULD MAKE THIS HIDEOUSLY COMPLICATED, AND SECOND THAT THIS SOCIAL SECURITISATION OF THE CAP WOULD BECOME A HUGE BURDEN ON THE BUDGET. MOREOVER, THEY ARE NOT CONVINCED THAT SMALL FARMERS AS A CATEGORY SHOULD RECEIVE SUCH SUPPORT FROM THE EC: THEY ARE NOT NECESSARILY THE MOST IN NEED OF HELP AND MANY WILL, WITHOUT HELP, SIMPLY DISAPPEAR FROM THE SECTOR. MITTERRAND, HOWEVER, TOOK A CERTAIN DISTANCE FROM THE GOVERNMENT ON THIS ISSUE, EXPRESSING SYMPATHY FOR THE CONCEPT OF 'RURALITY' ALONG THE (VAGUE) LINES OF HIS CHATHAM HOUSE ADDRESS. GUIGOU SAID HIS POSITION ON THIS WAS NEITHER CLEAR-CUT NOR DEEPLY ENTRENCHED.

10. ON PRICING POLICY AND MARKET MANAGEMENT, THE FRENCH ACKNOWLEDGE THAT THE MEASURES TAKEN ON BEEF AND MILK IN DECEMBER SHOW THEY WAY FORWARD. BUT CONSTANS (SGCI) EXPRESSED SOME CONCERN AT THE RELATIVE LACK OF EMPHASIS BY DELORS ON PRICING. ALL INTERLOCUTORS AGREED THAT THEIR PRIORITY IS TO TACKLE THE OILS AND FATS AND OLIVE OIL REGIMES WITH A VIEW TO CONTROLLING BURGEONING EXPENDITURE. ON CEREALS, THE POLICY LAID DOWN IN APRIL 1986 HAD TO BE REINFORCED BY STRICT PRICE SETTLEMENT IN 1987, THOUGH THE UNCERTAINTY HERE WAS THE ATTITUDE OF THE GERMANS. CONSTANS (SGCI) TOLD US THAT FRENCH ATTITUDES TO LAND DIVERSION AS AN ELEMENT IN PRODUCTION CONTROL WAS MORE FAVOURABLE NOW THAN HITHERTO: THEY WERE LIKELY TO SUGGEST THAT FURTHER WORK BE DONE ON THIS AT AN EARLY DATE.

11. THERE IS GENERAL DISQUIET HERE ABOUT THE EC SOCIO-STRUCTURAL PACKAGE NOW BEFORE THE AGRICULTURE COUNCIL. THE FRENCH SEE THEMSELVES AS ALONE IN OPPOSING IN PRINCIPLE ELEMENTS OF THE PACKAGE SUCH AS PRE-PENSION SCHEMES WHICH COULD PROVE ENORMOUSLY COSTLY TO THE CONTRIBUTING NORTHERN MEMBER STATES. THEY ARE LOOKING FOR UK SUPPORT ON THIS.

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12. NO FIRM POSITION HAS EMERGED ON FINANCING STOCK DISPOSAL PROGRAMMES. BUDGET OFFICIALS CONSIDER THAT FOR MEMBER STATES TO FINANCE THEM (E.G. IN THE DAIRY SECTOR) BY LOANS WHICH THE EC WOULD REPAY AT A LATER DATE. WOULD SET A BAD PRECEDENT FOR COMMUNITY CASH CRUNCHES IN GENERAL. NO CONSENSUS EMERGED FROM OUR CONTACTS AS TO ALTERNATIVE WAYS OF FINANCING DISPOSALS.

NEXT STEPS IN REVIEW

13. DELORS MENTIONED THREE DIFFERENT POSSIBILITIES FOR A FORUM IN WHICH TO EXAMINE THE PACKAGE WHICH THE COMMISSION HAD BUNDLED TOGETHER, FOREIGN AFFAIRS COUNCIL, A TOUR OF CAPITALS BY THE PRESIDENT OF THE COUNCIL, AND AN INFORMAL SUMMIT BRINGING TOGETHER HEADS OF STATE OR GOVERNMENT AND FOREIGN MINISTERS. HE DID NOT EXPRESS A PREFERENCE BETWEEN THEM.

FRENCH PRE-OCCUPATIONS WITH 1987 AND 1988 AS REPORTED ABOVE

14. FRENCH ARE ABOVE ALL CONCERNED IN THE SHORT TERM WITH ENSURING THE FINANCING OF THE CAP IN 1987 AND GETTING THROUGH 1988. DISCREET CONSIDERATION IS BEING GIVEN TO AN INTERIM SOLUTION OF WHICH RAISING THE VAT CEILING TO 1.6 PERCENT IN 1985 WOULD BE A PART. BOSSON'S DIRECTEUR DE CABINET HAS FLOATED WITH US ONE IDEA (GARSIDE'S TELELETTER TO RENWICK OF 5 DECEMBER) AND BOTH THE SGCI AND THE QUAI MENTIONED THE POSSIBLE NEED FOR AN INTERIM SOLUTION IN PASSING, THE QUAI SPECIFYING THAT THIS WOULD NEED TO RECONCILE THE FONTAINEBLEAU AGREEMENT WITH THE MEDIUM TERM PROSPECTS FOR COMMUNITY FINANCES.

15. FCO PLEASE ADVANCE:

RENWICK, WALL (FCO). WILLIAMSON, JAY (CABINET OFFICE). LAVELLE, EDWARDS (HMT). ANDREWS, HADLEY (MAFF).

FRETWELL

YYYY

PCLNAN 7275

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FRAME ECONOMIC

YOUR TELNO 16: EX NOVO REVIEW: VISIT OF DELORS TO THE NETHERLANDS:
27 JANUARY

SUMMARY

1. THE DUTCH CANNOT ACCEPT DELORS PROPOSAL FOR AN INCREASE IN OWN RESOURCES TO 1.4% OF GDP BUT WOULD AGREE TO AN INCREASE TO 1.6% OF VAT, SUBJECT TO THREE CONDITIONS

- (I) CONTROL OF CAP EXPENDITURE
- (II) REFORM OF THE STRUCTURAL FUNDS AND

3 (III) THE EVENTUAL DISAPPEARANCE OF THE CORRECTIVE MECHANISM FOR THE UK AND FRG. THEY WANT THE COMMISSION TO FOCUS MORE ATTENTION ON THE COMMUNITY'S SHORT TERM FINANCIAL PROBLEMS.

DETAIL

2. DELORS, ACCOMPANIED BY COMMISSIONERS ANDRIESEN, CHRISTOPHERSEN AND VARFIS AND SECRETARY GENERAL NOEL, VISITED THE HAGUE ON 27 JANUARY FOR TALKS WITH THE DUTCH GOVERNMENT. THE DUTCH SIDE WAS LED BY THE PRIME MINISTER, MR LUBBERS. THE MINISTER OF FOREIGN AFFAIRS, STATE SECRETARY FOR EUROPEAN AFFAIRS AND MINISTERS OF FINANCE, AGRICULTURE, ECONOMIC AFFAIRS, FOREIGN TRADE AND SOCIAL AFFAIRS WERE ALSO PRESENT, TOGETHER WITH SENIOR OFFICIALS. THE DUTCH HAD APPARENTLY ASKED IF ANDRIESEN COULD JOIN THE TALKS AND DELORS HAD CHOSEN TO BRING THE OTHER COMMISSIONERS TOO.

3. VAN SWINDEREN (DIRECTOR GENERAL FOR EC AFFAIRS , MFA) GAVE ME THE FOLLOWING ACCOUNT OF THE TALKS:

COMMUNITY FINANCING

4. VAN SWINDEREN COMMENTED THAT MUCH OF DELORS THINKING ON FUTURE FINANCING WAS STILL VAGUE AND THE DUTCH HAD GAINED THE CLEAR IMPRESSION THAT THE COMMISSION HAD NOT YET BEEN ABLE TO REACH AN AGREED POSITION AMONGST THEMSELVES. DELORS PROPOSED AN INCREASE IN THE OWN RESOURCES CEILING TO 1.4% OF GDP FOR THE PERIOD 1988 TO 1992. LUBBERS MADE IT CLEAR THAT THIS WAS MUCH TOO MUCH (THE DUTCH ESTIMATE THIS TO BE THE EQUIVALENT OF 2.2% OF VAT). CHRISTOPHERSEN TRIED TO CONVINCED THE DUTCH OF THE MERITS OF A SYSTEM BASED ON

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GDP

GDP, BUT THEY WERE NOT IMPRESSED (THEY CALCULATE THAT THEY - TOGETHER WITH THE DANES - WOULD HAVE TO PAY PARTICULARLY HEAVILY UNDER SUCH A SYSTEM: FOR THEM TO MOVE TO 1.4% OF GDP WOULD AMOUNT TO A DOUBLING OF THEIR BUDGETARY CONTRIBUTION). THE DUTCH SAID THEY COULD AGREE TO AN INCREASE TO 1.6% OF VAT FROM 1988, SUBJECT TO THREE CONDITIONS:

(A) THE CAP MUST BE REFORMED AND AGRICULTURAL EXPENDITURE BROUGHT UNDER CONTROL.

(B) THE STRUCTURAL FUNDS MUST BE REFORMED TO MAKE THEM MORE EFFECTIVE.

Wm
(C) THE SYSTEM OF BUDGETARY CORRECTIVE MECHANISMS FOR THE UK AND WEST GERMANY WOULD EVENTUALLY HAVE TO DISAPPEAR AS THE REFORMS IN (A) AND (B) REMOVED THE REASONS FOR THEM.

LUBBERS EMPHASIZED THE NEED FOR REASONABLE AND WELL THOUGHT OUT PROPOSALS ALONG THESE LINES IN ORDER TO MAKE THEM ACCEPTABLE TO PARLIAMENT AND PUBLIC OPINION.

5. THE DUTCH WERE ALSO CRITICAL OF THE COMMISSION FOR HAVING PAID TOO LITTLE ATTENTION TO THE COMMUNITY'S SHORT TERM FINANCING PROBLEM, WHICH THEY EXPECT TO REACH A CRISIS BY ABOUT SEPTEMBER. DELORS SAID THAT AT THAT POINT THE COMMISSION COULD COVER ANY DEFICIT BY SIMPLY MAKING ACROSS THE BOARD CUTS IN EXPENDITURE (SAY 20%). THE DUTCH EXPRESSED STRONG DOUBTS ABOUT SUCH A PROCEDURE IN FIELDS SUCH AS AGRICULTURE WHERE THE COMMUNITY HAD AN OBLIGATION TO MAKE CERTAIN PAYMENTS TO FARMERS. FAILURE TO MEET SUCH OBLIGATIONS MIGHT LEAD TO COURT ACTION. THE DUTCH URGED DELORS TO FIND A SOLUTION TO THE SHORT TERM FINANCING PROBLEM.

6. DELORS ASKED THE DUTCH TO SUGGEST WAYS IN WHICH THE ANNUAL BUDGETARY PROCEDURE COULD BE IMPROVED. THE PRESENT PROCEDURE LED ALMOST INEVITABLY TO CONFLICT BETWEEN THE COUNCIL AND PARLIAMENT AND WAS CAUSING INCREASING DIFFICULTIES FOR THE COUNCIL, PARTICULARLY AS THE SOUTHERN MEMBER STATES COULD FORM A BLOCKING MINORITY. THE DUTCH AGREED TO CONSIDER THIS.

AGRICULTURE

7. ANDRIESSEN ARGUED THAT AGRICULTURAL EXPENDITURE COULD BE BROUGHT UNDER CONTROL IN THE LONG TERM AND THAT AGRICULTURAL EXPENDITURE AS A PERCENTAGE OF THE TOTAL BUDGET COULD THEREFORE DECREASE. THE COMMISSION WOULD PRESS FOR MAJOR REDUCTIONS IN CEREAL PRICES, REFORM OF THE INTERVENTION MECHANISM AND REFORM OF MCAS. THE DUTCH SUPPORTED THESE OBJECTIVES, PARTICULARLY THE LAST. THEY CONSIDER THE 1984 DECISION ON MCAS TO HAVE BEEN A BAD ONE BECAUSE IT MEANT THAT AGRICULTURAL PRICES HAD TO RISE AFTER EACH EMS REALIGNMENT. THEY WOULD LIKE TO RETURN TO THE OLD SYSTEM OF POSITIVE AND NEGATIVE MCAS.

STRUCTURAL FUNDS

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8. VARFIS CALLED FOR A DOUBLING OF THE STRUCTURAL FUNDS. THE DUTCH REJECTED THIS AND ARGUED THAT BETTER USE SHOULD BE MADE OF THE EXISTING FUNDS; MORE RESOURCES SHOULD BE CONCENTRATED IN AREAS OF GREATEST NEED, PROJECTS SHOULD BE SELECTED WHICH WOULD MAKE A REAL CONTRIBUTION TO THE ECONOMIC DEVELOPMENT OF THE COUNTRY CONCERNED AND THE COUNTRY CONCERNED SHOULD MAKE A SIGNIFICANT INPUT TO SUCH PROJECTS. BETTER PUBLICITY FOR THE WAY THE FUNDS WERE USED WAS ALSO IMPORTANT. VARFIS DID NOT APPEAR TO HAVE ANY CLEAR IDEAS ABOUT HOW THE FUNDS COULD BE MADE MORE EFFECTIVE.

BUDGETARY DISCIPLINE

9. DELORS HAD NO PROPOSALS TO MAKE ABOUT BUDGETARY DISCIPLINE. BUT THE DUTCH LEFT HIM IN NO DOUBT ABOUT HOW IMPORTANT BUDGETARY DISCIPLINE WAS FOR THEM.

COMMENT

10. THE DUTCH SEEM BROADLY IN LINE WITH US ON CAP REFORM AND THE STRUCTURAL FUNDS, ALTHOUGH ON THE FORMER THEY MAY BE MORE WILLING TO ACCEPT ANDRIESSEN'S WORD THAT ALL THAT NEEDS TO BE DONE TO BRING SPENDING UNDER CONTROL IS BEING DONE. THE MAIN DIFFICULTY WILL OF COURSE BE DUTCH INSISTENCE IN THE EVENTUAL DISAPPEARANCE OF BUDGETARY CORRECTIONS; IT IS A MATTER TO WHICH THEY ATTACH FUNDAMENTAL IMPORTANCE AND WHICH LUBBERS STRESSED IN HIS FINAL SUMMING UP TO DELORS.

MARGETSON
HALDAN 2223

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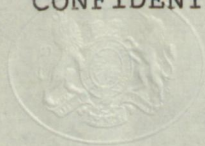
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PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary may refer to the outcome of the Federal German election in which the centre right coalition led by Chancellor Kohl was returned to power with a good working majority in the Bundestag, though that majority was reduced from 58 to 41 seats. The junior partner in the coalition, the FDP, did better than expected and will be trying - not necessarily successfully - to get one more Ministerial post. Although the Bavarian party, the CSU, did not lose much ground, Herr Strauss is being blamed for the Government's lower than expected vote and his position has been damaged. It seems likely that in most instances the present senior Ministers will continue in office, although Count Lambsdorff may again be in the field if, as expected, the case against him ends on 15 February.

2. The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 26-27 January. The main item was the next stage in the negotiations between the Community and the United States under Article XXIV.6 of the GATT on the effects of Spanish and Portuguese accession to the Community on United States exports to those markets, especially their exports of maize. After their negotiations in Washington on 23-24 January Commissioners Andriessen and de Clercq were able to report good progress in finding a solution before the end of the month, when the United States' unilateral measures and the Community's retaliation would otherwise come into effect. The Council's unity - which has been important in giving the Community a strong stance in negotiation - was maintained. All member states shared our view that, as the gap had significantly narrowed, the chance of settling the dispute must be grasped. The final package is



likely to consist of agreement on a quota for levy-reduced access to the Spanish market of 2.1 million tonnes of maize and 200,000 tonnes of sorghum from third countries, with the arrangements skewed in such a way as to favour United States' exports; the waiving of a requirement on Portugal arising out of the Accession Treaty to reserve 10-15 per cent of its grain imports for Community supplies - which might be worth about 300,000 tonnes if taken up by the United States; and a top-up of tariff reductions by the Community on a mixture of agricultural and industrial goods to a total value of 70-80 million dollars. This package, if agreed, would represent a big reduction of the United States claim for compensation but would still be a considerable concession by the Community. In the wider interest of our industrial exports and of checking protectionism, it is certainly worthwhile. But, like the French, British exporters will lose to the United States some share of the important Spanish and Portuguese markets for our feed grains. The Commission negotiators are having further contact with the United States and will report to a meeting of Permanent Representatives on 29 January whether the deal can be sealed.

3. At the Council there was also a brief, informal and inconclusive discussion of the chances of early agreement on the 1987 Community budget; and, associated with the Council, there was a meeting of the EC/Israel Co-operation Council.

4. There are no Councils next week: but on 5 February the President of the Commission and Commissioners Andriessen, Christophersen and Varfis will be visiting London as part of their tour of capitals prior to the Commission presenting its proposals to the Council for the ex-novo review of Community finances. You will be seeing Monsieur Delors after Cabinet that day.

RA

28 January 1987

ROBERT ARMSTRONG

CG:GPC

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

27 January 1987



Giles Shaw MP
The Minister of State for Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1

Dear Giles

CD 20/1

INTEGRATED OPERATIONS

Thank you for copying to me your letter of ~~22~~ ^{at 11 am} December to Lynda Chalker about the approach that should be taken to integrated operations in the United Kingdom.

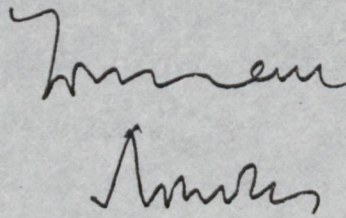
It is evident from the annex to your letter that a fair number of potential applicants can already be identified. My main concern is that Integrated Operations constitute uncharted territory and that it would not be responsible to contemplate a vast number of applications, until the pros and cons are clarified. We should therefore be cautious about raising false hopes and do what we can to reduce the risk of abortive work, by Government Departments and local authorities.

Your letter identifies three priorities - Belfast, Steel Restructuring Areas (sponsored by the Commission) and the Partnership Areas. These could give rise to around ten Integrated Operations in the United Kingdom, starting with the application from Birmingham due to go forward this week. Not all ten possibilities are likely to come forward however at the same time but I would certainly not favour adopting a "first come first served" policy either in relation to these areas or any others. But I think we might leave ourselves room to consider one or two applications that fall outside these categories, where the authorities have already made substantial progress in drawing up proposals and we are satisfied that they not only have a good programme but have the capacity to carry it out.

We should, however, make clear that we intend to concentrate our efforts on the three priority areas you have set out. This would reduce the risk of abortive work being undertaken in advance of our gaining a working knowledge of Integrated Operations procedures and funding levels. Also dealing with a great number of integrated Operations applications could seriously infringe our ability to handle National Programmes an project applications, thereby putting at risk the overall level of ERDF grant in the United Kingdom.

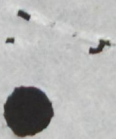
In the interim, it would be helpful if you could seek to establish with the Commission their view on their ability to handle a significant volume of Integrated Operations applications. I am sure I am not alone in having doubts on this score, particularly in the light of recent experience with National Programmes of Community Interest. It would also be useful to establish with the Commission the nature of the priority to be given to integrated operations and the likely level of funding available, as these will be major determinants of the applications we might wish to see go forward from the United Kingdom.

This letter is copied to other colleagues involved in this correspondence.


A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', written in a cursive style.

NICHOLAS RIDLEY

EURO POL : Budget P134



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Qz.05590


MR POWELL (10 DOWNING STREET)

European Community, ex-novo review of finances: press line

We are not instigating any comment at this stage by Departmental press officers on the ex-novo review, as the Commission papers do not yet seem to be in the public domain. You may be interested, however, to see the line which would be taken by Departments if there were press speculation on which we wanted to comment.

I am sending copies to Sir Robert Armstrong and Bernard Ingham.

Df Williamson

D F WILLIAMSON

23 January 1987

EUROPEAN COMMUNITY: EX NOVO REVIEW: PRESS LINE

1. The Fontainebleau Agreement requires the Commission to present to the Council a report setting out the state of play on:

- the result of the 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.

2. 1987 Budget

Of the potential deficit in 1987, 970 mecu can already be saved as a result of the Commission's proposal on stock disposals. Further savings will have to be made at the agricultural price fixing - in particular, but not exclusively, on cereals. The 1987 shortfall must be dealt with by savings. There is no case for additional financing.

3. Budget Imbalances

The Fontainebleau mechanism was designed to ensure that the United Kingdom should bear no more than an equitable share of the Community budget burden. The mechanism is enshrined in Community law through the Own Resources Decision which can only be changed by unanimity. At her press conference following the London European Council the Prime Minister made clear that we would agree to no arrangements for the United Kingdom that were not as good as Fontainebleau or better. The mechanism produced an abatement of the UK's budget contribution of £1250 million in 1986. Even after receiving its abatement, the UK remains a significant net contributor to the Community budget.

4. Overall Control of Community Expenditure

At a time when all Community governments are having to make difficult choices involving the curtailment of public expenditure, the Community cannot base its decisions on Community finance on the presumption that expenditure should continually be increased. The Community agreed several years ago, on the proposal of M. Delors, then Finance Minister of France, that expenditure must be contained within available resources. The Commission rightly draw attention

in their proposals to the need to control expenditure. But this has so far clearly not been achieved effectively and it will now be necessary to come forward with precise proposals to that end. The completion of major adaptations of the CAP, following the start made in the Agriculture Council in December will, as the Commission recognise, be the key element of these negotiations.

5. An increase in the 1.4% ceiling

The Fontainebleau Agreement 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". The question to be addressed is not when but whether any increase can be justified when half the Community budget is devoted to the storing and disposal of agricultural surpluses. It would not be sensible to provide yet more resources without reform of underlying policies.

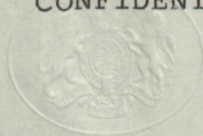
6. Review of the Structural Funds

The Single European Act called for proposals from the Commission to increase the efficiency and improve the coordination of the Structural Funds (Regional

Development Fund, Social Fund and Agricultural Guidance Fund). The Commission have identified four priority areas for action under the Funds:

- assistance for the Community's backward regions;
- conversion of declining industrial regions;
- combatting long-term unemployment;
- promoting the structural development of European agriculture.

We attach particular importance to ensuring that assistance is given to industrial areas in decline and to combatting long-term unemployment. We do not accept the case for a large increase in the overall resources allocated to the funds.



Ref. A087/167

PRIME MINISTER

Cabinet: Community Affairs

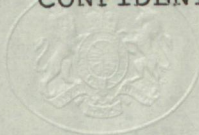
The Foreign and Commonwealth Secretary will report on the election of Sir Henry Plumb as President of the European Parliament on 20 January. Sir Henry was successful on the third ballot which was a direct contest between him and the Spanish Socialist candidate, Enrique Baron Crespo. By the time of the third ballot Sir Henry had achieved the almost solid backing of the centre right in the European Parliament but the majority was only five votes. This election, following on our successful Presidency, will be seen in the Community as a further assertion of Britain's intention to pull its full weight in influencing the development of the Community.

2. The Foreign and Commonwealth Secretary and the Secretary of State for Trade and Industry will report on the critical point being reached in the negotiations between the Community and the United States under Article XXIV.6 of the GATT on the effects of Spanish and Portuguese accession to the Community on United States exports to those markets. The issue comes before the Foreign Affairs Council on Monday next, 26 January. In preparation negotiations took place between Commission and United States officials on 18 January, at which progress was made on the legal framework for an agreement and in considering the possibility of concessions by the Community on a number of smaller points which could improve the possibility of an agreement. The key issue, the level of United States maize exports to the Community, was left for high level negotiation between the United States trade representative and Commissioners de Clercq and Andriessen in Washington on 23-24 January. The present assessment is that the changes of an agreement being



reached and endorsed at the Foreign Affairs Council are still no better than 50:50. We are working to improve these chances. While backing the Commission in its plans for a firm reaction to the United States' announced unilateral measures - which would almost certainly follow a failure to get an agreement - we are also pressing the Commission and similarly minded member states behind the scenes to keep open the possibility of finding ways out of the retaliatory cycle. We have suggested that the Community might make an offer that the dispute should at that stage be put to arbitration within the GATT, even if the United States' unilateral measures and the Community's response - which would be concentrated on United States exports to the Community of corn gluten feed - had come into operation.

3. The Chancellor of the Exchequer will report on the outcome of the Budget Council on 16-17 January at which the Belgian Presidency made an attempt to get agreement on the Community budget for 1987. The attempt broke down - a result which gives us no cause for concern. The Council could agree neither on the compromise set out in the Commission's rectifying letter nor the Belgian Presidency's compromise. The former was rejected, with France, the Federal Republic of Germany and the United Kingdom leading the opposition and voting against (there were 38 votes for and 38 votes against) because it proposed provision for non-obligatory expenditure (principally the structural funds) above the level of the maximum rate of increase which we wish to respect as an element in budget discipline. The latter was also rejected. The fact that this compromise did respect the maximum rate was objectionable to the southern member states and that would have been sufficient to defeat it. We also voted against because of the device of the negative payments reserve. Although the Minister of State, Treasury (Mr Brooke) had thought it right to warn you of the difficulties ahead, he and British officials were able to deploy our case quite skilfully both against exceeding the maximum rate and against the accounting devices, without becoming isolated. The Community remains on



provisional twelfths and we do not expect an immediate revival of the issue. The Budget Committee of the European Parliament, which endorses the Commission's position, has pressed for negotiations to resume during its next plenary session on 16-20 February.

4. The Minister of Agriculture, Fisheries and Food is likely to mention the agreement on food aid for cold weather victims which was reached at the Agriculture Council on 19-20 January. This aid will be distributed through charities: the Minister of State, Ministry of Agriculture, Fisheries and Food (Mr Gummer) is discussing with them the administrative arrangements to ensure that the food is distributed efficiently and effectively. These measures do not, of course, reduce the need for continuing pressure to check the creation of surpluses within the Community. Mr Jopling may also refer to the agreement in principle in the Agriculture Council to the elimination of a problem on monetary compensatory amounts (mcas) which was caused by the recent EMS realignment. One effect of the realignment was to introduce new French mcas on trade in pigmeat between France and Germany. The French wanted to avoid these: the Germans wanted to retain them as an advantage to their farmers and traders. The whole argument had become out of proportion to the real interests at stake. We were nearer to the French camp but our main concern was to make sure that, if the French obtained a change, we got the same on grounds of equity. It was finally agreed that negative mcas on pigmeat should be reduced by 0.5 per cent on 16 February and 1 per cent later. This will eliminate the French mca and gives us comparable treatment.

5. The only Council meeting next week is the Foreign Affairs Council on 26-27 January.

RA

21 January 1987

ROBERT ARMSTRONG

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*cc: [unclear]
[unclear] only*



Foreign and Commonwealth Office

London SW1A 2AH

20 January 1987

There is nothing in this which the Prime Minister does not already know. NBpm

Dear Charles,

European Community: Annual Review for 1986

*CDP
20/1*

/ The Prime Minister may wish to see the attached copy of Sir David Hannay's review of 1986.

For Britain, 1986 stood out as the year of our third Presidency. Sir David Hannay assesses it as the most successful of the three and seen as such by our partners. Mr Jopling's remarkable achievements in the Agricultural Council helped us to end the Presidency on a high note. Our initiative on immigration, drugs and terrorism was a major step forward for the Community. Thanks to our Presidency - and the Prime Minister's personal intervention with European Heads of Government - we succeeded in giving a major new impetus to completion of the internal market.

On the trade side, the highlight was the agreement in September at Punta del Este to launch a new round of multilateral trade negotiations. We were able to settle the steel and citrus disputes with the United States and, in the face of increasing protectionist pressures in Washington, are continuing our efforts to get a settlement of the dispute over the trade effects of enlargement. The Community must keep up the pressure on Japan, to show that the Article XXIII case on alcoholic drinks was not an isolated action, but the start of a sustained campaign. Progress in normalising relations with Turkey was a positive development, for which the UK worked hard in recognition of Turkey's return to democracy and progress on human rights. The Prime Minister's advice to Mr Ozal dissuaded the Turks from bringing forward an application to join the Community during our Presidency. But the Turkish Government continues to feel itself under domestic pressure to make such an application this year, despite advice from ourselves and other member states.

The considerable achievements of our Presidency owed a good deal to the establishment of an effective pattern of prior concertation with the French and Germans. The major issue this year will be the discussions that will now be

/engaged

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engaged on the ex novo review of Community financing. The Foreign Secretary agrees with Sir David Hannay that we should approach these as offering the opportunity to exploit what we achieved in December and secure the kind of reforms of the CAP for which we have been campaigning for years.

however,

A handwritten signature in blue ink, appearing to read 'L Parker', with a horizontal line underneath.

(L Parker)

Private Secretary

C D Powell ESq
10 Downing Street

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EUROPEAN COMMUNITY: ANNUAL REVIEW FOR 1986

Summary

1. A year without a clear theme or pattern (paragraphs 1 and 2).
2. After a disappointing start, the internal market programme came together at the eleventh hour and enabled the UK Presidency to chalk up 48 measures. A difficult act to follow (paragraphs 3 to 5).
3. An impressive price fixing under the Dutch followed by a spectacular run of CAP decisions in December. CAP reform now has a momentum, though some still hope to achieve it mainly at the expense of the large and efficient farmer (paragraphs 6 to 8).
4. A good year for enterprise and for employment and transport policy. We avoided total isolation on the environment (paragraph 9).
5. A successful year for multilateral trade negotiations, despite delays over the Mediterranean. In bilateral relations, damage limitation in 1986 and the risk of a crunch with the US and Japan in 1987. Steady progress towards bilateral relations with Eastern Europe. Moves towards a more normal relationship with Turkey herald a more difficult next phase (paragraphs 10-13).
6. The Spaniards have been awkward and the Portuguese rather helpless; but the main problems of digesting them still lie ahead (paragraph 14).

The UK Presidency

7. The most successful of the 3 UK Presidencies to date, helped by a more congenial Community agenda. Difficulties over R and D, student exchanges, aid for the Mediterranean and "comitology". But many solid achievements, helped in some areas by a big increase in majority voting. Our initiative on immigration, drugs and terrorism a major step forward for the Community (paragraphs 15-17).

Prospects

8. 1987 will be dominated by the budget: we will do well to focus on CAP reform and control of spending, to work with France and Germany and to avoid early polarisation over the corrective mechanism. Other major problems for 1987: the North/South split and the sharpening of institutional tension (paragraphs 18-21).

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FROM THE PERMANENT REPRESENTATIVE

OFFICE OF THE UNITED KINGDOM
PERMANENT REPRESENTATIVE
TO THE EUROPEAN COMMUNITIES
ROND-POINT ROBERT SCHUMAN 6
1040 BRUSSELS

TELEPHONE 230 62 05

31 December 1986

The Right Honourable
Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
LONDON SW1

Sir,

1. "This pudding has no theme", Churchill once observed. Well, 1986 in the European Community was a bit like that. A mass of business was transacted; some important decisions were taken, but no particular strand was predominant and there was no crisis, either real or even one imagined by the press. The clouds of the next budgetary and agricultural policy storm continued to mass on the horizon; they came closer and grew blacker; but they have not yet burst. That will be for 1987.

2. The second half of the year - for those of us here and for you, your colleagues and their officials who put so much effort into it - was dominated by the UK Presidency of which more later. But it too did not fit into a ready pattern.

The main developments of 1986

3. 1986 was the first year when the establishment of a true internal market by the end of 1992, now given treaty force by inclusion in the Single European Act, was really put to the test. For the first eleven months of the year that proved to be a disquieting and frustrating experience. Despite the genuine commitment of the Dutch and British presidencies and the full, if not always well-directed, support of the Commission, the inertia derived from the hundreds of different barriers to trade seemed to be the stronger force. The wheels of the Internal Market Council, when they did grip on something, found themselves immersed in glutinous, bureaucratic mud. The Dutch tried a head-on approach, scheduling too many ill-prepared councils. We tried a number of ideas - better preparation, establishment of a group of co-ordinators from capitals and finally the construction of a package, the blockbuster of a Prime Ministerial letter and ministerial visits to recalcitrant

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capitals .

4. In the end it worked. We got decisions on all thirteen of the items in the package. 48 internal market measures were agreed or adopted in the second half of the year compared with 21 in the first. (But beware of such figures: they take no account of qualitative distinctions, and do not tally with the list in Lord Cockfield's White Paper, which he is particularly prone to regarding as the tablets of Moses). In my view our most important achievement was to demonstrate for the first time that the complex issues of the internal market were indeed susceptible to the classical techniques of Community negotiation - painstaking preparation, determined Chairmanship, the package deal and the right political input at the right moment. They will be needed often in the future.

5. It will not be easy to keep up the momentum we have created. One factor should help a lot and that is the introduction in 1987 of majority voting in this field; it should make the putting together of viable packages a good deal easier. But plenty of other factors work the other way. The most difficult decisions lie ahead: on capital movements, on the liberalisation of the service industries, on fiscal matters. The new co-operation procedure with the European Parliament will complicate and delay as will the Commission's hang-ups over institutional procedures ("comitology" to be initiated). If we really want the internal market, we shall have to work for it as hard out of the Presidency as we did in it.

6. In the Community the Common Agricultural Policy seems always to be with us, over-producing and over-spending, as resistant to effective pruning as the hardiest shrub in the garden. In 1986 a number of factors drove even those most liable to respond with "Crisis? What crisis?" to face up to the need for reform. The continuing fall in the dollar and the additional costs arising from the pernicious system which links green rates to the strongest currency pushed the agriculture budget for this year and the next further into the red. It became ever clearer that the Community had reached the physical limits, and well exceeded the limits of tolerance of its main trading partners, so far as the disposal of stocks on world markets was concerned. But production in some sectors continued to rise; most worryingly one of those sectors was milk, where surplus disposal is most difficult and where the quota system, established with so much pain in 1984, was supposed to be holding the situation in check.

7. In a normal year the 1986 spring price fixing would have won high praise. It was achieved quickly. Most prices were frozen. Milk quotas were cut. A substantial reform of the



cereals regime was decided; one of beef promised. But by the summer holidays the need for further measures was evident. So, for the first time since the CAP was established, a major agricultural negotiation was conducted outside the framework of the annual price-fixing; and, against all the odds - not the least of which was the impending German election - it was brought to a successful conclusion. Surprisingly, but encouragingly, hardly anyone is suggesting that that is the end of the story. In 1987 the agri-monetary system, including the link to the strongest currency, is to be reviewed. Reform is also due in the oils and fats regime. More action will be needed on cereals. And in the context of the ex novo review, some means will have to be found to bring a degree of automaticity of response to over-production.

8. None of that will be easy to achieve and impending elections, particularly the French presidential election, will be complicating factors. Some of it will present us with difficulties. The Commission's welcome conversion to the need to weaken intervention mechanisms, to rein in prices and to transfer some of the costs of intervention and stocking back to member governments will probably continue to be linked to measures designed to temper the wind to the smaller and less efficient farmers. We shall have to fight our corner hard on anything that discriminates against our farmers and to ensure that, to the maximum degree possible, measures to support small farmers are funded by national budgets; but we shall need to avoid undermining efforts which are now at last beginning to move the CAP in the right direction.

9. 1986 was rather a good year for a number of our other objectives in the Community. We continued to make progress in our efforts over deregulation, with a new unit established within the Commission under the aegis of the more sensible of the Spanish Commissioners. A realistic approach to encouraging small and medium-sized businesses was agreed by the Industry Council in October, and a 1.5 billion ecu commercial rate loan facility for them was settled in November. The old "social engineering" approach to employment policy was further marginalised and the adoption in December of an action programme for employment growth, based largely on our own priorities, should help to ensure that it stays that way in the future, though many of our partners remain attached to the somewhat nebulous concepts of "social space" and the social dialogue. On environmental policy our announcement of measures to limit power station emissions enabled us to manoeuvre our way out of the increasingly difficult corner into which we were being backed, and should put us in a more comfortable position for next year's negotiations on large combustion plants. In the field of transport policy some decisive



progress was made on the liberalisation of road transport and the establishment of a Community shipping policy. And even in the aviation field, while it was disappointing that a combination of the presidencies of the two most liberal minded member states failed to make a breakthrough, we are a lot closer to our goal than we were when the year began.

10. For external trade policy it was a year of sharp contrasts. Multilaterally it was largely a success story. One major negotiation, for the renewal of the Multi-Fibre Agreement on textiles, together with 29 bilateral agreements, was brought to a satisfactory conclusion. More importantly a new and ambitious round of trade negotiations was launched at Punta del Este in September despite a difficult birth and many predictions of failure. The Community played no small part in this success.

11. But bilaterally the story was more one of damage limitation than of positive success. A seemingly endless series of disputes with the United States, over steel, citrus, pasta, customs fees and many other things was kept under control, with the honours, or dishonours, just about even. As the year ends, the most difficult problem, the negotiation of compensation for Spanish and Portuguese accession, hangs in the balance. It would be a brave man who would give it more than a 50-50 chance of solution without there first being some tit-for-tat retaliation. So 1987 looks like being even more trying on this front than 1986 has been, with a new Congress in Washington a lot more likely to stir it up than to cool it. With Japan, it looks as though the Community's patience may at last snap if some effective measures are not taken early in the New Year to remove the discrimination against Community exports to Japan of wines and spirits. But such predictions have proved wide of the mark before. With Canada the year ends with relations slightly worse than when it started, with Australia slightly better; in both cases CAP reform will be the crucial ingredient for the future. A satisfactory two-year deal was clinched for New Zealand's butter exports, thanks more to Greenpeace than to negotiation in Brussels. This issue will be even more difficult to handle next time round.

12. Closer to home, both within Europe and immediately around it, the picture is similarly mixed. With the EFTA countries, the links grow steadily tighter, such problems as there are tend to be played in a very low key and the significance and attractions to both sides of a wider internal market covering the whole of Western Europe become ever clearer; our own Presidency initiative to intensify the relationship was very welcome. With Eastern Europe, the Community's long term objective of dealing bilaterally with each of the individual countries as well as multilaterally



with Comecon made substantial progress. While Gorbachev's decision to deal, and to allow the Eastern Europeans to deal, directly with the Community as such and with the Twelve was certainly not an altruistic one, it is nevertheless welcome. At the end of the year negotiations with Romania and Czechoslovakia are on the stocks and with Hungary, Poland and possibly others in prospect.

13. In the Mediterranean region irritation rather won the day over satisfaction. Complications arising from Spanish accession led to long delays in negotiating adaptation protocols; relations with Morocco, where the Morocco/Spain fisheries agreement comes to the fore in 1987, look particularly likely to go off the rails. As to Turkey, that country's gradual restoration of democracy and human rights revealed fully for the first time in 1986 what an appallingly intractable problem managing its relationship with a Community including Greece was going to be. We ourselves made a substantial contribution to the management by careful handling of the September Association Council and of the potentially explosive movement of labour issue in November. But it is not surprising that the Turks take a bleak view of the prospects for the Association. What is less explicable is why they take a less bleak view of the prospects for an application for membership, which they are now telling all and sundry is likely in 1987. There seems little alternative to a policy of quiet dissuasion before the event and, if that fails, of damage limitation after it.

14. One major development of 1986 was the accession of Spain and Portugal and their incorporation into the daily working of the Community. The Spaniards proved awkward on a number of issues but their effort was often ill-focussed and achieved more irritation than results. The Portuguese remained all over the place but continued to benefit from willingness by others to compensate for their helplessness. The best guess must remain that we have not yet felt the full effects of the traditional post-accession spasms of indigestion.

The UK Presidency

15. Having been closely concerned with all three UK Presidencies, I would have no hesitation in asserting that this was the most successful of the three and seen as such by our partners. The first Presidency was long on technique but short on substance; the second was overshadowed by the struggle for a lasting solution for our budget problem, which pitted us against all the other member states. This time a number of the issues of greatest concern to us were already high on the Community's agreed agenda. Moreover we got off to a good start by securing adoption of the 1986



budget within seven days. We were also seen to be working hard and effectively for Community objectives where there was no special UK angle, for example over the new regime for shipbuilding aids and over fisheries. And while British ministers have in the past said often enough that we favoured more majority voting, we certainly surprised and pleased many by clocking up a record of 50 or so such decisions during our Presidency, continuing a clear trend that has set in since Spanish and Portuguese accession. So when we used our Presidency role to give even greater priority to the internal market, CAP reform, transport, employment growth, a new food aid regulation based firmly on development criteria, we were cutting with the grain of Community policy and achieved significant progress.

16. Perhaps the most striking example of this, albeit one which, like European Political Co-operation, lies a bit outside the scope of this review, was the initiative we took to step up co-operation over terrorism, drugs and immigration. By linking this firmly to the Political Declaration annexed to the Single European Act and to the Community objective of freedom of movement for persons, we were able not only to advance our own thesis that achievement of free movement must depend on strengthening Europe's external defences but also to draw the sting of the criticism we have received in the past as unduly favouring inter-governmental forms of co-operation. Sound foundations have been laid for further co-operation in these areas which most European citizens probably regard as a good deal more relevant to their daily preoccupations than much of what goes on in Brussels.

17. Of course we did not come through the Presidency without any scratches on the paintwork. On the Erasmus programme for student mobility, on the five year framework programme for research and development, on the Mediterranean Financial protocols and on "comitology" we found ourselves very much at one end of the Community spectrum and, in one or two cases, pretty exposed. The best any Presidency can hope to do in such circumstances is to mask the problems and that we did. But the problems do not go away. They will return to plague us soon enough in 1987.

The prospects for 1987

18. It requires no blinding foresight to predict that the coming year will be dominated by yet another major negotiation over the Community's finances, how much money it should have and what it should spend it on. The negotiation is likely to be long, divisive and complicated. Since the Community is virtually certain to run into serious financial difficulties next autumn, some hard short term decisions will then be needed. It is not easy at this stage to



predict the extent to which our own budget problem will re-emerge as a central issue of the negotiation. It must surely be in our interest to try to concentrate the early stages on issues such as CAP reform and the proper control of public expenditure in the Community, where we can find allies, and to avoid premature polarisation over the issue of national contributions which is likely to divide us from them. Throughout the negotiation we will need to work particularly closely with France and Germany if we are to achieve an acceptable outcome.

19. Another issue which will certainly bulk large next year is the North/South divide in the Community. The southern syndicate, with Ireland a self-elected country member, is already in operation. In 1987 it will demand more resource transfers and will sing the cohesion chorus fortissimo. I am inclined to doubt whether this is quite such a serious problem as some make out. It is true that the southerners make up a blocking minority, but we have shown that it can be broken up. In any case what they want, more money, requires either a majority in favour or, in the case of additional resources, unanimity. So they are not that well placed to impose their will on the northerners.

20. Finally I fear that the next year will see sharpened tensions between the institutions. The Council and the Parliament are almost certain to find themselves pitted against each other in the negotiation over resources, particularly if the need to commit the Parliament to budgetary discipline comes to the fore. The Commission, with its over-ambitious proposals for future financing, with too many members chasing too little work and with its spending programmes under pressure, will have a rough ride. It will be inclined to blame the member states and to make common cause with the Parliament.

21. All in all I suspect we shall look back to 1986, for all its hard graft, as a period of consolidation and relative tranquillity.

22. I am copying this despatch to Her Majesty's Ambassadors in Community posts, at Washington, Tokyo and Ankara; to Her Majesty's High Commissioners at Ottawa and Canberra; to the United Kingdom Permanent Representatives to NATO, the OECD, the Council of Europe, the United Nations at New York and Geneva, and to the Governor of the Bank of England.

I have the honour to be, Sir
Your obedient Servant

David Hannay

D H A Hannay

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EUROPEAN COUNCILS

26/27 June
The Hague

Compromise on South Africa, involving a Presidency mission with the prospect of restrictive measures in the absence of a response. Welcome for UK/Italian/Irish paper on labour market flexibility. Emphasis on liberalisation of capital movements and measures to help small and medium sized enterprises. Impetus given to work on rights of residence, recognition of diplomas, student mobility and health. Commission's post-Chernobyl proposals received politely but not endorsed.

5/6 December
London

Agreement on satisfactory Presidency conclusions on:

- business and jobs (focussing on the internal market, SMEs and the employment growth strategy);
- safeguarding the open society (co-operation on immigration, asylum, terrorism, extradition and visa policy);
- co-operation on cancer and AIDS.

A brief procedural discussion on the handling of budget reform in 1987: no conclusions on agriculture. Statement on Afghanistan but not on East/West relations.

INSTITUTIONAL QUESTIONS

17 and 28 February

Signature of the Single European Act

3 March

Commission proposal on "comitology" (later amended on 25 November)

12 November Non-paper on comitology circulated following long discussions between Presidency, Commission and Council Secretariat

19 November Ratification of Single European Act by UK

10 December Presidency compromise on comitology

16 December First discussion of comitology at FAC confirmed Presidency paper as basis for future work

EUROPEAN PARLIAMENT AND ECONOMIC AND SOCIAL COMMITTEE

13-17 January 60 Spanish and 24 Portuguese Members took their seats.

7-11 July Foreign Secretary outlined the approach and priorities of the UK Presidency.

Dutch Prime Minister reported on the conclusions of The Hague European Council.

21-23 October Full renewal of Economic and Social Committee membership. Foreign Secretary's message of welcome read out by Mr Elliott, UK Deputy Permanent Representative.

8-12 December The Prime Minister reported on the London European Council.

Foreign Secretary and Mrs Chalker reported on the UK Presidency.

BUDGET

6 January

Payment of 1,000 mecu abatement for UK in respect of 1985 completed.

17 March

Court of Justice ruled in favour of UK's request for interim measures on 1986 budget, restricting expenditure to provisional twelfths until budget dispute settled.

3 July

Court of Justice favoured Council interpretation that no budget is legal until agreed by both branches of budgetary authority. Budget unlawfully adopted by EP struck down.

7-8 July

Budget Council established a new draft budget for 1986.

9 July

Budget Council (in Strasbourg) agreed a revised 1986 draft budget.

10 July

European Parliament adopted revised 1986 budget at 1.4% ceiling and agreement on 1986 budget.

3 September

Commission proposed a preliminary draft amending budget for 1986 to cover revenue deficit.

8-9 September

Budget Council established 1987 draft budget within the Reference Framework figures.

10-13 November

European Parliament modified 1987 draft budget, taking DNO over the maximum rate.

26 November

Council agreed regulation on 5-yearly verification of weightings.

26-27 November

Budget Council unanimously agreed revised draft budget for 1987 within maximum rate for DNO.

10 December

Budget Council (in Strasbourg) failed to find a common basis for agreement on 1987 budget with EP Budgets Committee.

11 December

European Parliament voted amendments to 1987 draft budget above maximum rate. President of Budget Council announced no agreement and President Pflimlin refused to sign budget.

ECOFIN

20 January

Negotiating mandate on commercial interest reference rates (CIRRS) adopted.

4-6 April

EMS realignment at informal Ecofin: revaluation of mark, guilder, krone, Belgian and Luxembourg francs, devaluation of French franc.

28 April

1987 Reference Framework fixed.

16 June

Ecofin discussion of Ad Hoc Group's report on removal of fiscal barriers. Council noted Commission's intention to present, by 1 April 1987, detailed proposals on VAT and excise duty rate structures.

7 July

Ecofin amended 1986 Reference Framework to take account of adverse developments on FEOGA Guarantee spending; and agreed that 1987 Reference Framework will be amended to take account of eventual

agreement on 1986 budget.

2 August

Devaluation of Irish punt.

17 November

Ecofin agreed budgetary discipline conclusions on R & D Framework programme and fisheries structures programme; adopted the Capital Movements Directive; and agreed 1.5 becu NIC IV financing for SMEs.

4 December

ECJ judgement confirmed that member states are not entitled to insist on establishment for those doing insurance business, but suggested that they are entitled to impose their own authorisation requirements.

8 December

Ecofin approved release of second tranche of loan to Greece; Adopted Bank Accounts Directive; and agreed 2-year extension and 2 becu reduction in size of Medium Term Financial Assistance facility.

Commission declaration that channel Fixed Link and its competitors should receive equal fiscal treatment.

INTERNAL MARKET

18 June

Rolling Action Programme for July 1986/June 1987 issued by Dutch and future UK and Belgian Presidencies.

23 June

Fourth Internal Market Council of Dutch Presidency. Brought total of internal market items adopted under Dutch to 21.

24 July

First IMC of UK Presidency. Adoption of four items, including

Freedom of Establishment for GPs.

7 October

Second IMC of UK Presidency.
Agreement on Directive on Noise of Domestic Appliances.

3 November

Third IMC of UK Presidency.
Agreement on Directive on Commercial Agents and Resolution on Frontier Signs.

19 November

Message from Prime Minister to other Heads of Government urging agreement on a political package of 13 internal market items. Followed up by tour of certain EC capitals by Mr Clark and Lord Lucas.

1 December

Fourth IMC of UK Presidency.
Agreement on 10 items (including Counterfeit Regulation, Directive on Legal Protection of Micro-Circuits and 5 items in Pharmaceutical package).

22 December

Agreement on 3 remaining items from the political package, including public purchasing (amendment of Supplies Directive). Tally of internal market items adopted or agreed in the UK Presidency reached 48.

DEREGULATION

26 February

Commission adopted principle that all proposals should be accompanied by an assessment of their impact on business.

1 June

Task Force for Small and Medium Enterprises (SMEs) established.

20 October

Industry Council adopted Resolution on SMEs and statement on deregulation.

RESEARCH/TECHNOLOGY

24 March

Commission orientation document on 1987/91 Framework Programme suggested financial envelope of 10.35 becu.

10 June

Research Council adopted environment and raw materials programmes.

5 August

Commission submitted formal proposal for Framework Programme, with financial envelope of 7.735 becu.

21 October

Extension of EUROTRA programme agreed.

9 December

Research Council held inconclusive discussion of the overall finance for the Framework Programme.

19 December

UK Presidency announced postponement of 22 December Research Council.

IT/TELECOMMUNICATIONS

24 July

IMC adopted Directive on Mutual Recognition of Telecommunications Terminal Equipment.

3 November

IMC adopted Directive on Direct Broadcasting by Satellite Standards.

22 December

Adoption of Decision on IT and Telecommunications Standardisation and Recommendation on Integrated Services Digital Network.

STATE AIDS AND COMPETITION POLICY

11 April

Commission published framework for state aid for research and development.

23 April

Commission imposed record fines on polypropylene producers for operating a cartel.

16 July

Commission did not object to Italian aid for Iveco.

17 December

Commission opened Article 93 procedure on UK notification on Rover Group bus and trucks businesses; and took a negative view on French state aid to Boussac-St. Frères.

INDUSTRY

Steel

3 March

Industry Council agreed to small increase in Spanish steel deliveries to the Ten and fixed limits for Portuguese deliveries. Commission subsequently authorised Spanish safeguard action on imports of 3 (later 5) categories of steel from the Ten.

20 October

Industry Council agreed firm statement on state aids to the steel industry.

18 November

Industry Council agreed liberalisation of galvanised sheet from quota system.

16 December

Foreign Affairs Council declined to agree EEC-ECSC budget transfers to finance special steel and coal social measures.

Shipbuilding

9 June

Industry Council endorsed new Commission approach to shipbuilding aid.

22 December

Industry Council approved the Sixth Directive, with a production aid ceiling of 28%.

ENERGY

30 June

Agreement on ECSC Decision on state aids for the coal industry.

16 September

Adoption of Energy Objectives for 1995.

26 November

Energy Council agreed on statement on energy efficiency, resolution on new and renewable energy sources and conclusions on rational use of energy in transport.

18 December

Agreement on tolerance levels for implementing Directives on Energy Labelling.

POST CHERNOBYL

12 May

Foreign Affairs Council agreed Regulation banning imports of certain foodstuffs from Eastern Europe, and Council statement on intra-Community trade.

30 May

Import ban replaced by Regulation setting radiation tolerance levels for imports of foodstuffs from all sources.

13 June

Commission adopted framework communication on the consequences of the Chernobyl accident.

20 August

Commission adopted communication on measures to implement Euratom Chapter III.

30 September

Regulation on radiation tolerance levels prolonged by a further 5 months.

24 November)
26 November)

Low key debates on nuclear issues at Environment and Energy Councils.

3 December

Commission adopted proposals for more permanent rules on radiation tolerance levels in foodstuffs and further prolongation of post-Chernobyl measures.

AGRICULTURE: CAP

19 February

Agreement to a wide ranging package of measures covering agricultural aspects of Spain and Portugal's accession in preparation for the application of the CAP to them from 1 March.

25 March

Agreement on reform of the starch regime and introduction of production refunds on sugar for the chemical industry.

25 April

Price fixing settlement.
3% cut in milk quotas and overall price freeze with significant effective price reductions in some sectors including cereals where a coresponsibility levy was introduced.

25 June

Agreement to revised calculation of pigmeat mcas following their partial suspension in the price fixing.

8 July

Agreement that supply prices to EC refiners of raw sugar from the COMs should be equalised with supply prices of ACP sugar.

15 July

Agreement on a Community wine register as a control measure to help reduce the costs of the regime.

30 September

Launch of the UK's ideas on cereals land diversion at the Informal Agriculture Ministers meeting.

14 October

Agreement on reformed import levies and sluicgate prices for the eggs and poultry sector.

13 November

Agreement to ban the use in food manufacture of unhatched incubator eggs.

16 December

Agriculture Council agreed a 9.5% cut in milk production over two years (including the 3% agreed in

April), and a 13% cut in the intervention buying-in price for beef, with beef premia to compensate farmers. Ireland temporarily invoked the Luxembourg compromise. Green rate devaluations for the UK, France, Greece, Spain and Portugal following one agreed for Ireland in September. Positive orientation for reforms of structural policy to encourage reductions in the production of surplus crops.

AGRICULTURE: INTERNAL MARKET ISSUES

- 10 March UK announced decision to challenge in ECJ Council's agreement by QM on a ban on the use of hormone growth promoters in EC livestock production.
- 22 April Commission presented proposals for four "framework" Directives, heralding its "new approach" to food law harmonisation.
- 28 May UK applied to ECJ to review legality of Council's adoption by QM of Directive on battery hens.
- 21 July Adoption of a Directive on animal feedingstuffs, setting limits on the presence of aflatoxin; and of a Directive phasing out the use of ethylene oxide in the treatment of food.
- 24 July Adoption of two Directives setting maximum residue levels for pesticides in cereals and food of animal origin.
- 15/16 September Agreement on a Directive setting up a Community system for monitoring chemical residues in meat.

17/18 September

Agreement reached on changes to the Fresh Meat Directive, intended to relax meat inspection procedures in the EC and for importing third countries - notably the USA.

FORESTRY

7 January

Commission issued consultation document on a future EC forestry policy; supplemented on 31 January by a detailed memorandum.

17/18 November

Adoption of two Regulations on the protection of forests from fire and atmospheric pollution.

FISHERIES

24 February

Agreement with Madagascar concluded.

22 May

3-year EC agreement with Guinea-Bissau concluded.

25 June

Fisheries Council agreed a package of reduced-tariff import quotas for white fish; and EC withdrawal from NAFO joint enforcement scheme and EC/Canada scientific observer programme.

21 July

Agreement on regulation revising conservation measures in Antarctic waters.

24 July

Agreement on autonomous EC TACs for NAFO zone and on TAC and quotas for herring in Skagerrak and Kattegat.

29 July

Unilateral closure by Norway of cod fishery in Svalbard zone.

12 August

EC vessels (mainly Spanish) withdrew from Svalbard, thus averting a confrontation.

22/23 September

Political agreement reached on wide-ranging package of conservation measures for EC waters.

1 October

EC/Senegal fisheries agreement concluded.

5 November

Political agreement reached on a Regulation tightening up fisheries enforcement rules.

11 November

EC/Gambia fisheries agreement concluded.

28 November

Agreement reached with Norway on 1987 Joint Stocks, including for the first time a long-term formula for allocating joint herring stocks.

3/4 December

Political agreement reached on new 10-year structures policy for fishing and aquaculture sectors, with EC funding of 800 mecu for first 5 years.

17/18 December

Agreement on Guide Prices for 1987 and on TACs/quotas for 1987.

STRUCTURAL FUNDS

April

Commission announced 1986 Social Fund allocations. UK received £260 million.

21 April

First tripartite Commission/Council/Parliament consultation on implementation of ERDF Regulation.

23 July

Commission Communication on measures to assist steel restructuring areas.

20 August

First Integrated Mediterranean Programme - for Crete - adopted by Commission.

24 October

Council adopted framework Regulations for first "Community Programmes" under ERDF Regulation - STAR (telecommunications) and VALOREN (indigenous energy resources). Northern Ireland included in both.

26 and 27 November

ERDF Committee adopted favourable opinion on UK ERDF 'National Programmes of Community Interest' for Mid-Glamorgan and Tees Corridor and non-quota programmes for fisheries and steel areas and for Northern Ireland.

RIGHTS OF ESTABLISHMENT

15 September

Council adopted Directive on Specific Training for General Medical Practice.

20 October

UK forced to amend regulations on specific training for general practitioners in response to threat of European Court Proceedings.

SOCIAL AFFAIRS

10/11 March

Informal meeting of Ministers with responsibility for equal opportunities between the sexes.

28 May

Employment Ministers for UK, Ireland and Italy presented to Council joint memorandum on employment growth.

5 June

Social Affairs Council adopted a Directive to establish equal opportunities in occupational pension schemes, Recommendation on employment of the disabled and Resolution on long-term unemployment.

22/23 September

Informal meeting of Employment Ministers in Edinburgh gave broad agreement to joint memorandum on employment growth and to preparation of an action programme on employment growth.

November

Presidency secured helpful conclusions on employment growth from Standing Employment Committee despite strong opposition of European Trade Union Council.

11 December

Social Affairs Council adopted employment action programme. Adoption of Directive to establish equal opportunities in the areas of self-employment and setting up businesses.

ENVIRONMENT/CONSUMERS

6 March

Directives agreed to improve framework for protection of water from dangerous substances, and to safeguard third countries against export of dangerous waste. UK isolated on draft procedural

conclusions on large combustion plant.

12 June

Agreement on Directive improving existing safeguards against major industrial accidents, Directive on use of sewage sludge in agriculture adopted and rules for the protection of animals used in experiments.

24 November

Agreements reached on Directives for the protection of the environment against asbestos, on the reduction of motor cycle noise and for the safe handling and disposal of waste oils. New policy guideline agreed on protection of the ozone layer. UK Presidency paper on large combustion plants welcomed by many delegations and Commission, but no agreed conclusions.

1 December

Directive on consumer credit agreed.

EDUCATION

5 March

Commission submitted "YES for Europe" proposals for promotion of youth exchanges in the Community.

1 July

UK forced to amend Education Awards Regulations to avoid threat of European Court proceedings.

24 July

COMETT Programme for Co-operation between Universities and Business adopted.

28 November

Commission withdrew proposed ERASMUS Programme on account of

French, German and UK opposition to financial commitment.

5/6 December

European Council called for early decision on ERASMUS.

15 December

FAC remitted ERASMUS to Belgian Presidency.

HEALTH

29 May

Health Ministers adopted Programme of Action on Cancer Prevention and Toxicology and Resolutions on the introduction of a European Community Emergency Health Card and on Aluminium Toxicity in Renal Dialysis.

28 November

Commission Communication on prevention, treatment and rehabilitation of drug addicts.

5/6 December

European Council gave prominence to action against cancer (with 1989 designated Cancer Information Year) and AIDS.

10 December

Commission launched full-scale 'Europe Against Cancer' programme

TRANSPORT

8 January

Informal Meeting of Transport Ministers in The Hague reached a measure of agreement on principles for liberalising the road haulage market.

18 June Transport Council broke down acrimoniously on shipping.

19 June Stormy meeting of Transport Council on inland transport with UK narrowly saved from being out-voted on vehicle weights.

30 June Transport Council agreed 11.5 tonn drive axle for heavy lorries with unlimited derogation for UK; 40% increase in road haulage quota to 1992; and conclusions on market access, fares and capacity in civil aviation.

10/11 November Major disagreement in Transport council on air fares, but large majority for liberalisation of capacity and market access.

15/16 December Transport Council agreed shipping package with exception of regulation of cabotage; a limited increase in road haulage quotas for 1987; and 1985 infrastructure regulation. Some progress on air fares.

EC/US

(i) Semi-Finished Steel

27 January FAC agreed retaliation package against US unilateral restriction on EC exports.

9 June Industry Council decided to restart negotiations.

24 June Ad referendum agreement between Commission and US (fully protecting

BSC's special deal with
Tuscaloosa).

- 9 July Industry Council agreed on internal
burden-sharing.
- 6 September US signed agreement after lengthy
delay because of linkage with
citrus/pasta.
- 15 September Agreement entered into force.

(ii) GATT Article XXIV.6 negotiations on Spanish and
Portuguese Accession

- Early February US fact-finding mission.
- February/April Intensive correspondence and
discussions between US and
Commission. US threatened
retaliation.
- 21 April Foreign Affairs Council agreed
mandate for XXIV.6 negotiations,
and strategy of 'equivalent
response' to any US measures.
- 15 May US took non-restrictive measures in
response to Portuguese measures on
cereals and oil seeds.
- 30 May COREPER agreed equivalent response
- ex post surveillance of certain
US exports.
- 16 June FAC confirmed ex post surveillance
measures and agreed two-prong
approach on the Spanish volet:
retaliation (on corn gluten feed,
wheat and rice) in the event of US
unilateral measures; and
willingness to negotiate.

1 July

Commission and US agreed interim solution, (access for specified quantities of US corn, sorghum and cereal substitutes under a reduced levy) pending definitive solution by 31 December.

30 July

Commission made new offer of tariff-free quotas on corn gluten feed and soya at very high levels.

31 October

Commission offered reversion to EC10 tariff across the board.

11-14 December

Intensive negotiations in Brussels revealed wide gap between Commission offer and US demands. Commission proposed an extra month to complete negotiations.

15 December

FAC confirmed this proposal, and Community's continued willingness to negotiate, and reaffirmed determination to respond to any US retaliation.

30 December

US announce outlines of a retaliation package against 400 million dollars of EC trade, to come into effect no later than 30 January.

(iii) Citrus/Pasta

21 July

FAC agreed two-prong approach: equivalent response to any US retaliation plus willingness to negotiate.

10 August

Ad referendum agreement - involving immediate abandonment of retaliation and counter-retaliation measures of November 1985.

27 October

FAC approved deal after blockage by Spain, Italy and Greece.

EC/JAPAN

23 January

Complicated deal on Japanese footwear quotas, and EC compensation under GATT Article XXVIII for tariff increase on video-tape recorders.

7 February

Commission paper on EC/Japan relations.

10 March

FAC agreed comprehensive declaration on relations with Japan - watered down in several areas (financial services, investment, export promotion) in face of UK reservations over competence.

21 July

FAC statement on need for urgent action on alcoholic drink. Commission invited to identify further sectors for action.

27 October

FAC launched GATT Article XXIII action on alcoholic drinks.

24 December

Japan announced proposals for reform of tax regime on alcoholic drinks, falling short of EC demands. Commission announced that GATT action would continue.

NEW GATT ROUND

April/May

Commission first draft of strategy paper.

12 May

First general FAC debate.

16 June

Revised strategy paper welcomed, but not endorsed line by line, by FAC.

15-20 September

GATT Ministerial meeting, Punta del Este, resulting in declaration launching the new Round.

SOUTH AFRICA

26/27 June

European Council asked the Foreign Secretary to visit Southern Africa in an effort to establish the conditions for an inter-racial dialogue.

15/16 September

FAC agreed ban on import of iron and steel and gold coins from South Africa and on new direct investment there.

27 October

Implementing procedures agreed for bans on gold coins (regulation based on the Treaty as a whole) and investment (inter-governmental agreement in the Council framework).

TEXTILES

18 February

FAC agreed main elements of mandate for negotiations to extend the MFA.

May-December

29 Agreements initialled with third countries.

21-31 July

Substantive negotiations leading to agreement on new MFA extension protocol.

25 November

FAC endorsed results of negotiations and decided that Community should adhere to Extension Protocol.

EASTERN EUROPE

22 May

Soviet Foreign Minister Sheverdnadze wrote to Commissioner de Clercq - first of several official Soviet acts of recognition of the Community during 1986.

24 September

Commission exploratory talks with OMEA in Geneva.

24 November

FAC adopted negotiating directive for trade agreement with Czechoslovakia.

15 December

FAC adopted negotiating directives for Trade and Economic Co-operation Agreement with Romania.

MEDITERRANEAN

12 February

Supplementary EC/Turkey Financial Protocol to take account of the First Enlargement unblocked after Denmark lifted opposition.

17 February

FAC agreed to gradual normalisation of EC/Turkey relations with a view to an Association Council in the early autumn.

18 February

EC/Egypt Co-operation Council.

22 April

Spain blocked revised negotiating mandate for Mediterranean Third countries making linkage with Canary Islands, fisheries, financial co-operation and agricultural exports from mainland Spain.

13 May

EC/Malta Association Council.

22 July

EC/Yugoslavia Co-operation Council.

16 September

EC/Turkey Association Council.

16 October

Revised negotiating mandate with Mediterranean Third countries agreed together with texts on Canary Islands and agricultural exports from mainland Spain.

19 November

Commission proposals for overall increase in Mediterranean Financial Protocols.

24 November

COREPER agreed common Community position on movement of workers from Turkey.

16 December

EC/Cyprus Association Council.

EFTA

17/18 February

Council adopted Adaptation Protocol package to take account of Spanish and Portuguese Accession.

14 July

Formal signing ceremony for Adaptation Protocol package.

15 September

FAC adopted conclusions on follow-up to Luxembourg Declaration

of April 1984.

December

Negotiations on extension of Single Administrative Document to EFTA concluded.

OTHER EXTERNAL TRADE ISSUES

20/21 March

EC/ASEAN Joint Commission in Brussels.

21 April

FAC agreed VRA on manioc imports for Thailand.

21 July

FAC agreed New Zealand butter quotas for 1987 and 1988.

30 September

Community and all Member States signed 1986 International Cocoa agreement.

20/21 October

EC/ASEAN Foreign Ministers' meeting in Jakarta.

24 November

FAC agreed 1987 GSP, including, for the first time, exclusion of particularly competitive products, and a new regime for Gulf petrochemicals.

DEVELOPMENT AND ACP MATTERS

21 January

EDF Committee approved 100 mecu programme for urgent rehabilitation in African countries affected by drought.

28 February

Second Lomé Convention expired. Interim measures adopted by Joint ACP/EC Committee of Ambassadors to cover interim period until entry into force of Lomé III.

- 1 March
Commission re-introduced rigid system of national quotas for consultancy contracts financed from EDF in place of partial quota system.
- 4 March
Special ACP/EC Council of Ministers failed to resolve dispute on sugar price.
- 17 April
Development Council agreed EC position for UN Special Session on Africa.
- 24-26 April
ACP/EC Council of Ministers in Barbados agreed on sugar price. Transitional arrangements for association of Spain and Portugal pending negotiation of protocol of accession agreed.
- 1 May
Entry into force of Lomé III.
- 16 May
UK opened action in ECJ against Commission on EDF consultancy quotas.
- June
Council adopted regulation setting out basis for continued association of overseas countries and territories with the Community, including provision for allocating aid funds among French, Netherlands and UK territories.
- 11 November
Development Council agreed common position on new food aid regulation. Spain blocked regulation establishing Compex.
- 15/16 December
Successful conciliation with EP led to adoption of food aid regulation with agreement to review institutional arrangements after

one year.

18 December

Extension of transitional measures
for EEC/ACP accession protocol for
Spain and Portugal agreed.



Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
10 Downing Street
LONDON SW1

ccpp
Done/ea
20/1
Please call
Mr. Judge this
in all night.

CD
20/1
20 January 1987

Dear Charles

BUDGET OF THE EUROPEAN COMMUNITY 1987: ARTICLE 10(2) ADVANCE

I would be grateful if you could let me have any comments on the attached arranged PQ by 4.00pm today. If I have not heard from you by then, I will instruct our Parliamentary Section to send the answer over to the House.

Yours

Simon Judge.

S P JUDGE
Private Secretary

CCPC



FROM: Minister of State

DATE: 20 January 1987

PRIME MINISTER

BUDGET OF THE EUROPEAN COMMUNITIES 1987: ARTICLE 10(2) ADVANCE

In my minute of ~~16~~ ^{at trap PT31} April 1986 I said that I would inform you about Commission requests to bring forward payments of non-VAT own resources under Article 10(2) of regulation 2891/77 where new issues were involved. We have now received a request from the Commission for the advance of February's payment to January. This request reflects the temporary cash flow difficulties associated with the provisional twelfths regime under which the Community finances must operate in the absence of an agreed Budget for 1987. The latest request is for the advance of an amount due to be paid on 20 February to 20 January. We estimate that the February payment would be about £140 million. However, given the difficulty of accurately forecasting this amount, we propose as usual to round this down to £138 million to avoid the risk of over-payment.

2. The European Court's ruling of 18 December, which made it clear that such requests are an obligation upon Member States, means that we no longer have to seek Parliament's specific approval to a Supply estimate. Payment of this request, and further ones, can now be made direct from the Consolidated Fund under the terms of Section 2(3) of the European Communities Act 1972. I informed Parliament of the European Court of Justice ruling and the change in payments procedures in my Parliamentary Answer of 19 December, a copy of which is attached. In that reply I undertook to continue to inform Parliament about each further payment. I propose accordingly to answer the attached arranged Parliamentary Question today.

3. I am copying this to Geoffrey Howe and Sir Robert Armstrong.

P.B.

PETER BROOKE

EC (Own Resources)

X Mr. Nicholas Baker asked the Chancellor of the Exchequer if he will make a statement on the recent judgment by the European Court of Justice concerning advance payments of traditional own resources to the European Community.

Mr. Brooke: The European Court of Justice gave a ruling yesterday in case 93/85 brought by the European Commission against the United Kingdom. The case concerned non-payment by the United Kingdom of an interest rate penalty claimed by the Commission when we delayed complying with a Commission request for an advance payment of levies and duties to the Community in May 1983.

The background to this delay was that the Government took the view that there was no clear legal obligation to make this advance payment and that Parliament's approval was therefore required through the Supply procedure: this approval could not, however, be obtained until Parliament had returned after the 9 June 1983 election. The Government's later decision not to pay the interest penalty was based on the same ground that there was no clear legal obligation to comply with requests for advance payments. The amount of interest claimed by the Commission was some £2 million.

The court's judgment finds that member states are legally obliged to meet requests for advance payments and that the Commission was therefore justified in charging the United Kingdom an interest penalty because of the delay in our payment.

The Government naturally accept the court's judgment, which clarifies the position. There are three consequences to which I should draw the House's attention.

First, the court's conclusion that member states are legally obliged to meet justified requests for advances means that such advances come within the scope of section 2(3) of the European Communities Act, 1972 and will therefore fall to be paid in future direct from the

Consolidated Fund, in accordance with the direct charging provisions of that Act, rather than from Supply Estimates. The Government will, however, continue to ensure that the House is informed whenever such advances are made.

Secondly, it follows that no further drawings will be made on the current year's Estimate of £930 million for advance payment of levies and duties, approved by the House in July, beyond the £431 million which has been drawn already.

Thirdly, the interest rate penalty now confirmed by the court will be paid direct from the Consolidated Fund, again in accordance with section 2(3) of the European Communities Act, 1972, as soon as practicable.

I am arranging for copies of the court's judgement to be placed in the Library.

19 DECEMBER 1986

Col 746

DRAFT PQQUESTION

.....To ask Mr Chancellor of the Exchequer, if he will make a statement about the early payment of non-value added tax own resources to the European Communities in January.

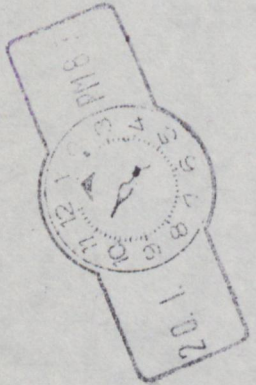
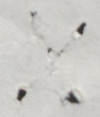
✓ PB 20/

DRAFT REPLY

In accordance with Article 10(2) of Council Regulation 2891/77, the Commission has requested member states to advance from February the payment of own resources other than VAT in respect of agricultural, sugar and isoglucose levies and customs duties collected by the Government on its behalf.

The Government will accordingly make an advance payment today of some £138 million, in accordance with the European Court of Justice's ruling on 18 December that these requests impose an obligation on member states to comply with them. As I informed the House on 19 December (Official Report Col. 746), the payment will be made from the Consolidated Fund under the terms of Section 2(3) of the European Communities Act, 1972. The payment of levies and duties on 20 February will be reduced by the amount of the advance. There will therefore be no net addition to forecast public expenditure for 1986-87.

EURO POL: Budget PT34





FROM: Minister of State

DATE: 20 January 1987

PRIME MINISTER

COMMUNITY BUDGET, 1987

The Budget Council failed on Friday night to reach agreement on the Belgian Presidency's compromise proposals for the 1987 Community budget. The Council remains formally committed, for the time being at least, to respecting the "maximum rate" for both commitments and payments, without the aid of any dubious devices. This is a good outcome from the UK's point of view. The arranged Parliamentary answer attached gives a factual report.

2. As we foresaw, the other northern Member States were prepared to embrace a negative payments reserve, troublesome though the precedent would be, and endorse the Presidency's compromise proposals. But the southern Member States rejected them on the grounds that (a) they wanted the maximum rate exceeded, and (b) the Parliament was unlikely to accept a budget which respected the maximum rate, especially if presented on a "take it or leave it" basis. The latter judgement may well have been correct. The southern Member States themselves dislike the northern Member States' attachment to the maximum rate, which they see as obstructing the Commission's ambitions for doubling the structural funds in the medium term.

3. Since Italy, Spain and Greece by themselves form a blocking minority, the UK's opposition to the Presidency compromise was not critical in preventing agreement.

4. The Parliament's Plenary this week will doubtless fire some criticisms at the Council. The Belgian Presidency is now in a difficult position, partly of its own making. It is not yet clear when they will make a further bid to promote a settlement.

(Prime Minister informed orally)
CDP
20/1

5. We have not, I fear, heard the last of proposals to introduce a negative payments reserve. I warned the Council on Friday about the consequences which would be likely to follow if our own legal advisers in London shared the view of the Council Legal Services on the legality of such a reserve. The Law Officers are being asked for guidance on this matter.

6. I am copying this minute to Geoffrey Howe, the Law Officers and Sir Robert Armstrong.

P.B.

PETER BROOKE

MR To ask Mr Chancellor of the Exchequer, if he will make a statement on the outcome of the latest meeting of the European Community Budget Council.

MR PETER BROOKE

The Budget Council met in Brussels on 16 January. I represented the United Kingdom.

The Council considered compromise proposals put forward in a Rectifying Letter by the Commission for resolving the differences between the Council and the European Parliament over the 1987 Community budget. The Commission had proposed, among other things, that the maximum rate of increase in non-obligatory expenditure should be exceeded by 62 mecu (£39 million*) for commitment appropriations but should be respected for payment appropriations. The Commission proposed that this should be achieved without cutting back the European Parliament's second reading proposals on substantive budget lines, by making provision for negative reserves of 124 mecu (£78 million) for commitment appropriations and 89 mecu (£56 million) for payment appropriations.

The United Kingdom opposed these proposals and the Council did not agree to them, or to certain variant proposals which were also discussed. The Council's position therefore remains as set out in the Council's second reading budget of 27 November, about which I reported to the House on 2 December (Official Report for 2 December, Cols 598-9).

*All conversions in this answer are made at the 1987 Community Budget exchange rate of 1.5939 ecu to the £.

FCO

MR RENWICK
MR BRAITHWAITE

RESIDENT CLERK
HD/ECD(1) (3)
HD/NEWS DEPT
HD/ERD
HD/
HD/
HD/

PLUS FCO

Mr Bloomfield ECD

<p><u>CABINET OFFICE</u> MR D WILLIAMSON MR JE HOLROYD MR MERCER MR M H JAY MR PRATT</p>	<p><u>DTI</u></p>	<p><u>HM CUSTOMS & EXC</u> MR F KENT</p>
<p><u>HM TREASURY</u> PS/MINISTER SIR GEOFFREY LITTLE MR J E MORTIMER MR O B CRABBE MR R E LAVELLE MR EDWARDS MR BONNEY MR DONNELLY</p>	<p><u>H A P P</u> PERMANENT SECRETARY MR HADLEY MR PERRINS</p>	<p>MR PRATT TSY SOLS MR POWELL PS/NO 10 DOWNING ST MR WHELDON ATTORNEY GENERAL'S OFFICE</p>

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FRAME ECONOMIC

BUDGET COUNCIL: 16 JANUARY 1987
1987 BUDGET.

SUMMARY.

1. NO AGREEMENT. BLOCKING MINORITIES AGAINST RECTIFYING LETTER AND PRESIDENCY COMPROMISE. COUNCIL'S POSITION THUS REMAINS AS IN DECEMBER, WITH NO AGREEMENT TO INCREASE MAXIMUM RATE AND NO ENDORSEMENT OF NEGATIVE RESERVES. TALK OF FURTHER COUNCIL IN LIGHT OF EP REACTIONS, BUT NO DATE FIXED.

2. MR BROOKE SUCCEEDED IN AVOIDING THE UK'S BEING ISOLATED AT ANY TIME. THE NEAREST THE COUNCIL CAME TO AGREEMENT WAS ON THE BASIS OF A SOLUTION WHICH WOULD HAVE BEEN ACCEPTABLE TO THE UK.

DETAIL.

3. VERHOFSTADT (PRESIDENT) SAID THE CALLING OF A COUNCIL WAS JUSTIFIED NOT ONLY BECAUSE NO AGREEMENT COULD BE REACHED AT OFFICIAL LEVEL BUT BECAUSE IT DEMONSTRATED TO THE EP HOW URGENTLY THE COUNCIL WANTED TO END THE PRESENT DEADLOCK. AGREEMENT IN JANUARY WAS NECESSARY TO ENSURE THE NORMAL FUNCTIONING OF THE COMMUNITY AND ENABLE THE FUTURE FINANCING DISCUSSIONS TO TAKE PLACE AGAINST A STABLE BACKGROUND. HE DESCRIBED AT LENGTH RECENT DEVELOPMENTS: DELORS'S 17 DECEMBER INITIATIVE, THE POSITIVE RESPONSES OF THE THEN PRESIDENCY AND PFLIMLIN, THE 9 JANUARY TRILOGUE, THE FORMAL RECTIFYING LETTER AND THE LATEST PRESIDENCY COMPROMISE. IF HIS COMPROMISE COULD BE AGREED HE WOULD DEFEND IT IN STRASBOURG NEXT

IMMEDIATE

A very good result. We stay on provisional twelfths. con.

RECTIFYING LETTER AND THE LATEST PRESIDENCY COMPROMISE. IF HIS COMPROMISE COULD BE AGREED HE WOULD DEFEND IT IN STRASBOURG NEXT WEEK. HIS CONTACTS WITH THE PARLIAMENT SUGGESTED IT HAD A FAIR CHANCE OF BEING APPROVED, THOUGH THE EP ATTACHED IMPORTANCE TO FLEXIBILITY IN THE PROCEDURE FOR EXECUTING NEGATIVE RESERVES.

4. CHRISTOPHERSEN SAID THE RECTIFYING LETTER WAS NOT A POLICY PREFERENCE OF THE COMMISSION, SIMPLY THEIR ATTEMPT TO MEDIATE. THE COMMISSION'S PROPOSALS ON AGRICULTURE WERE CLOSER TO THE COUNCIL'S POSITION THAN THE EP'S SINCE THE EP WANTED AN UNDERTAKING BY THE COUNCIL TO FUND THE DEFICIT. IF THE PRESIDENCY COMPROMISE HAD MORE CHANCE OF BEING AGREED THEN HE WISHED IT WELL SINCE AN URGENT DECISION WAS NEEDED.

5. VERHOFSTADT THEN QUICKLY ESTABLISHED THAT NONE OF THE DELEGATIONS WHICH HAD OPPOSED THE COMMISSION'S RECTIFYING LETTER IN COREPER HAD CHANGED THEIR POSITIONS. HE THEN ASKED DELEGATIONS TO FOCUS ON HIS COMPROMISE.

6. MR BROOKE AGREED THAT IT HAD BEEN RIGHT TO SUMMON A COUNCIL GIVEN THE DIFFICULT ISSUES OF PRINCIPLE INVOLVED. HE COULD NOT ACCEPT THE COMMISSION'S RECTIFYING LETTER. AS FOR THE PRESIDENCY'S PROPOSAL, HE COULD ACCEPT WHAT WAS BEING PROPOSED FOR FEOGA GUARANTEE AND CLASSIFICATION, THOUGH HE UNDERSTOOD IT TO MEAN THE COUNCIL'S CLASSIFICATION WOULD STAND UNTIL THERE WAS AGREEMENT TO CHANGE IT. THIS SHOULD BE RECOGNISED BY ALL THE INSTITUTIONS SO THAT THERE COULD BE NO RISK OF EXCEEDING THE MAXIMUM RATE. ON NON-OBLIGATORY EXPENDITURE, MR BROOKE SAID THAT THE UK COULD NOT SUPPORT EITHER AN INCREASE IN THE MAXIMUM RATE OR A NEGATIVE PAYMENTS RESERVE. HE COULD ACCEPT A NEGATIVE RESERVE FOR COMMITMENTS BUT THE FIGURE OF 186 MECU WAS TOO HIGH. THE UK'S DOUBTS ABOUT A NEGATIVE PAYMENTS RESERVE WERE BASED ON THREE CONDITIONS. FIRST, THE PARLIAMENT WERE NOT BEING ASKED TO REDUCE THEIR PROPOSALS FOR ANY SUBSTANTIVE EXPENDITURE LINE. THEY CLAIMED THERE WAS GREAT DIFFICULTY IN UNDOING WHAT WAS ALREADY VOTED. BUT THEY WERE LIKELY TO ARGUE THIS EVERY YEAR SO IT WAS IMPORTANT NOT TO ACCEPT A NEGATIVE RESERVE IF THE COUNCIL WANTED TO INFLUENCE EP BEHAVIOUR IN FRANCE.

7. SECOND, THE COMMUNITY'S PRESENT BUDGETARY SITUATION WAS SO SERIOUS THAT IT COULD NOT AFFORD TO DECIDE NOW TO SPEND ON OTHER PROGRAMMES ANY SHORTFALLS WHICH MIGHT OCCUR ON PARTICULAR BUDGET LINES; THESE WOULD BE NEEDED FOR FINANCING THE DEFICIT CARRIED FORWARD FROM 1986 AND OTHER NEEDS. THE UK'S THIRD CONCERN WAS THE LEGALITY OF A NEGATIVE PAYMENTS RESERVE. THE COUNCIL LEGAL SERVICE HAD EXPRESSED SEVERE DOUBTS WHETHER THIS COULD BE RECONCILED WITH THE TREATY REQUIREMENT THAT REVENUE AND EXPENDITURE MUST BALANCE. THE PARLIAMENT WOULD BE UNDER NO OBLIGATION TO REDUCE ANY SUBSTANTIVE LINE SO AS TO EXTINGUISH THE NEGATIVE RESERVE. STATEMENTS OF INTENTION TO DO SO WERE NOT LEGAL GUARANTEES. MOREOVER THE UK HAD DOMESTIC POLITICAL DIFFICULTIES IN SUCH A PROPOSAL. IF THE GOVERNMENT'S OWN LEGAL ADVISERS CONFIRMED THE COUNCIL LEGAL SERVICE'S VIEWS, THE GOVERNMENT WOULD PROBABLY HAVE TO SEEK SPECIFIC APPROVAL BY THE WESTMINSTER PARLIAMENT FOR CONTRIBUTIONS TO A BUDGET INCLUDING A NEGATIVE PAYMENTS RESERVE. THE GOVERNMENT WOULD ALSO BE LIKELY TO BE OBLIGED TO TEST THE LEGALITY OF SUCH A RESERVE BEFORE THE EUROPEAN COURT OF JUSTICE, MUCH AS WE WOULD PREFER TO AVOID

RESERVE AS WELL AS TO RAISING THE MAXIMUM RATE.
JUPPE (FRANCE) CONFIRMED THEIR OPPOSITION TO THE RECTIFYING LETTER. ANNEX I OF THE RECTIFYING LETTER PRESUMED THERE WAS AGREEMENT ON THE METHOD OF FINANCING SUPPLEMENTARY STOCK DISPOSALS. THIS WAS NOT THE CASE. HE WAS NOT ENTHUSIASTIC ABOUT NEGATIVE RESERVES BUT IF THEY HELPED GET AGREEMENT WITH THE PARLIAMENT HE COULD GO ALONG WITH THEM. HE WOULD HAVE LIKED TO BE MORE ASSURED THAT THE EP COULD ALSO ACCEPT THE PRESIDENCY COMPROMISE. HE SUGGESTED THAT THE PRESIDENCY MIGHT BE MANDATED TO DISCUSS THIS WITH THE EP AND THAT IF AGREEMENT COULD BE REACHED THE COUNCIL COULD FORMALLY GIVE ITS AGREEMENT AS AN A POINT AT A FORTHCOMING COUNCIL.

8. PAPANTONIOU (GREECE) OBJECTED TO NEGATIVE RESERVES. THEY EFFECTIVELY TRANSFERRED POWER FROM THE BUDGET AUTHORITY TO THE COMMISSION. THE TREATY PROVIDED FOR EXCEEDING THE MAXIMUM RATE. BUT ON AN EXCEPTIONAL BASIS HE COULD ACCEPT THE RECTIFYING LETTER WHICH HE UNDERSTOOD THE EP COULD ALSO ACCEPT, PROVIDED THAT IT COULD BE AGREED THAT NO CREDITS WHICH COULD BE CARRIED FORWARD TO 1988 WOULD BE USED TO EXTINGUISH THE NEGATIVE RESERVES. HE COULD NOT, HOWEVER, ACCEPT THE PRESIDENCY COMPROMISE WHICH WOULD NOT BE ENDORSED BY THE EP.

9. TIETMEYER (GERMANY) PLEADED FOR A QUICK MEETING AND ASKED FOR THE COUNCIL TO GO INTO IMMEDIATE RESTRICTED SESSION. VERHOFSTADT AGREED. TIETMEYER SAID HE WAS NOT IN A POSITION TO AGREE MORE NATIONAL FINANCE OR AN INCREASE IN THE MAXIMUM RATE. HE SHARED MR BROOKE'S CONCERNS ABOUT A NEGATIVE PAYMENTS RESERVE, BUT HE WANTED TO BE SURE THERE WOULD BE NO LEGAL CHALLENGE TO THE BUDGET AND WAS THEREFORE CONCERNED BY MR BROOKE'S STATEMENT. DESPITE ALL THIS, HE CONSIDERED THAT THE PRESIDENCY COMPROMISE PROVIDED A LIKELY BASIS FOR A SOLUTION PROVIDED IT WAS UNDERSTOOD THAT THERE WOULD BE NO FURTHER CONCESSIONS TO THE PARLIAMENT: IT HAD TO BE TAKE IT OR LEAVE IT.

10. VERHOFSTADT ASSURED TIETMEYER HE WOULD NOT CALL A COUNCIL IN STRASBOURG. GORDON SMITH (COUNCIL LEGAL SERVICE) CONFIRMED THE LEGAL SERVICE'S DOUBTS ABOUT WHETHER A NEGATIVE PAYMENTS RESEPVE WAS IN CONFORMITY TO ARTICLE 199. IF ALL THE INSTITUTIONS WERE IN AGREEMENT, THE LEGAL SERVICE HAD SEEN NO APPRECIABLE RISK OF AN ACTION BEFORE THE EUROPEAN COURT. BUT THE COURT'S JUDGEMENT ON THE 1986 BUDGET DEMONSTRATED THAT IN PRINCIPLE A MEMBER STATE COULD, REPEAT COULD, BRING SUCH AN ACTION. CHRISTOPHERSEN SAID THE COMMISSION HAD NO DOUBT WHATSOEVER THAT NEGATIVE PAYMENTS RESERVE WERE LEGAL. NEGATIVE APPROPRIATIONS EXISTED IN THE FEOGA SECTION. PAPANTONIOU SAID IN THE LIGHT OF THESE REMARKS HE COULD GO ALONG WITH NEGATIVE RESERVES IF THEY COULD BE LIMITED TO THOSE AMOUNTS WHICH COULD NOT BE TRANSFERRED TO A LATER YEAR.

11. JUNCKER (LUXEMBOURG) SAID HE COULD ACCEPT THE COMPROMISE PROVIDED THE EP COULD. THE EXCEPTIONAL NATURE OF THE NEGATIVE RESERVES SHOULD BE CONFIRMED BY THE COUNCIL. TYGESSSEN (DENMARK) AND VAN DE LINDEN (NETHERLANDS) COULD ALSO ACCEPT THE PRESIDENCY COMPROMISE PROVIDED THIS WAS THE LAST WORD. FRANCANZANI (ITALY) COULD ACCEPT THE RECTIFYING LETTER, WHICH HE THOUGHT SHOULD OBTAIN AGREEMENT WITH THE EP, BUT NOT THE PRESIDENCY COMPROMISE. MENESSES (PORTUGAL) ARGUED FOR AN INCREASE IN THE ...

COULD ACCEPT THE RECTIFYING LETTER, WHICH HE THOUGHT SHOULD OBTAIN AGREEMENT WITH THE EP, BUT NOT THE PRESIDENCY COMPROMISE. MENESSES (PORTUGAL) ARGUED FOR AN INCREASE IN THE MAXIMUM RATE THOUGH HE WOULD ASSIST IN THE FORMATION OF A QUALIFIED MAJORITY. BORRELL (SPAIN) ADVOCATED GIVING THE PRESIDENCY FLEXIBILITY TO NEGOTIATE WITH THE EP. HE COULD NOT SUPPORT THE PRESIDENCY COMPROMISE BECAUSE THE EP WOULD NOT ENDORSE IT. COENE (BELGIUM) COULD SUPPORT THE PRESIDENCY PROPOSAL.

12. VERHOFSTADT SUGGESTED THE COMMISSION MIGHT ALLAY DELEGATIONS' CONCERNS ABOUT THE OPERATION FOR A NEGATIVE RESERVE BY A DECLARATION. CHRISTOPHERSEN AGREED TO CONSIDER THIS. AT THIS POINT THE COUNCIL WENT INTO STILL MORE RESTRICTED SESSION WITH MINISTER PLUS DEPUTY PERMANENT REPRESENTATIVE.

13. IN FURTHER DISCUSSION, MR BROOKE REITERATED OUR OBJECTIONS TO THE PRESIDENCY'S PROPOSAL. THE OTHER NORTHERN MEMBER STATES ALL CONFIRMED THEY COULD ACCEPT IT PROVIDED THIS WAS THE COUNCIL'S LAST WORD. SPAIN, ITALY AND GREECE JOINED THE UK IN OPPOSING THE COMPROMISE, THE THREE OF THEM ARGUING THAT IT WOULD NOT BE APPROVED BY THE EP. PAPANTONIOU MADE IT CLEAR HE WAS CONCERNED ABOUT THE POSSIBLE EFFECT OF NEGATIVE RESERVES ON IMPS. FRANCANZANI PROPOSED A JOINT BUDGET/FOREIGN AFFAIRS COUNCIL TO RESOLVE THE PROBLEM. BORREL SUGGESTED THE PRESIDENCY GO TO STRASBOURG WITH A RANGE OF OPTIONS INCLUDING THE POSSIBILITY OF INCREASING THE MAXIMUM RATE.

14. TIETMEYER UNDERSTOOD THE UK'S CONCERNS BUT NOT HOW WE COULD CHAMPION A NEGATIVE COMMITMENTS RESERVE LAST JULY YET OPPOSE NEGATIVE RESERVES NOW. THIS WAS LIKELY TO BE THE LAST YEAR UNDER THE EXISTING FINANCING REGIME AND 1986 AND 1987 COULD BE REGARDED AS ONE-OFF EXCEPTIONS. MR BROOKE SAID WE DID NOT OBJECT TO NEGATIVE COMMITMENT RESERVES PROVIDED THE AMOUNTS INVOLVED WERE REASONABLE. THE LEGALITY OF A NEGATIVE PAYMENTS RESERVE WAS HOWEVER MUCH MORE IN QUESTION. VERHOFSTADT THEN ADJOURNED THE MEETING FOR OVER THREE HOURS TO HOLD BILATERALS WITH THE THREE SOUTHERN MEMBER STATES IN THE BLOCKING MINORITY.

15. WHEN THE MEETING RESUMED, VERHOFSTADT SAID SEVERAL DELEGATIONS WERE CONCERNED THAT THE 1987 BUDGET DECISION WOULD PREEMPT THE FORTHCOMING DEBATE ON THE FINANCING OF THE COMMUNITY PARTICULARLY ON THE QUESTION OF WHETHER THE MAXIMUM RATE COULD BE EXCEEDED. HE THEREFORE PROPOSED THAT IN ADDITION TO THE EXISTING COMPROMISE (INCLUDING 4 DRAFTING AMENDMENTS CIRCULATED EARLIER IN THE EVENING) THE COUNCIL NOW INCORPORATE A DECLARATION WHICH WOULD MAKE CLEAR THAT THE 1987 BUDGET DID NOT PREJUDGE DELEGATIONS' POSITIONS IN THE FORTHCOMING DEBATE. THE UK, GREECE, ITALY AND SPAIN HOWEVER CONTINUED THEIR OPPOSITION TO THE PRESIDENCY COMPROMISE. AT THIS POINT THE COUNCIL WENT INTO A MINISTERS ONLY SESSION.

16. A FINAL TWO AND A HALF HOURS OF DISCUSSION FAILED TO RESOLVE THE DEADLOCK. THE NEAREST THE COUNCIL CAME TO A SOLUTION WAS WHEN AN IDEA BY MR BROOKE THAT THE PRESIDENCY HAVE FLEXIBILITY TO ACCEPT A NEGATIVE COMMITMENTS RESERVE OF UP TO 186 MECU, BUT WITH NO NEGATIVE PAYMENTS RESERVE AND NO INCREASE IN THE MAXIMUM RATE, WAS PUT TO THE VOTE. ITALY, SPAIN AND GREECE FORMED A BLOCKING MINORITY AGAINST THIS.

VOTE. ITALY, SPAIN AND GREECE FORMED A BLOCKING MINORITY AGAINST THIS.

17. AFTER FURTHER DISCUSSION, THE PRESIDENCY COMPROMISE WAS THEN PUT TO A FORMAL VOTE. THIS RESULTED IN 38 VOTES IN FAVOUR WITH 38 AGAINST. PORTUGAL JOINED THE UK, ITALY, SPAIN AND GREECE IN VOTING AGAINST. VERHOFSTADT CONCLUDED THAT HE WOULD GO TO STRASBOURG TO EXPLAIN THE COUNCIL'S POSITION WHICH REMAINED THE DECISIONS TAKEN AT THE SECOND READING IN NOVEMBER. ANOTHER COUNCIL WOULD BE NECESSARY BUT NO INDICATION WAS GIVEN OF WHEN THIS WOULD BE. THE COUNCIL ENDED AT 0205 AM.

ELLIOTT

YYYY

ADVANCE

RENWICK FCO

WALL FCO

BLOOMFIELD FCO

WILLIAMSON CAB

JAY CAB

MERCER CAB

PRATT CAB

WINTER ODA

HADLEY MAFF

PERRINS MAFF

PPS TSY

PS/MST TSY

LAVELLE TSY

EDWARDS TSY

CRABBIE TSY

BONNEY TSY

DONNELLY TSY

PRATT TSY SOL DEPT

POWELL NO 10

WHELDON ATT. GEN. OFFICE

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SECRETARY OF STATE
FOR
NORTHERN IRELAND

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

Giles Shaw Esq
Minister of State
Department of Trade & Industry
1-19 Victoria Street
LONDON
SW1H 0ET

16. January 1987

Dear Minister,

EC INTEGRATED OPERATIONS

Thank you for copying to me your letter of 22 December to Lynda Chalker which summarised the present position of Integrated Operations in the UK.

As far as Belfast is concerned I can confirm that officials here are continuing to work towards the preparation of an integrated application for Community aid which will combine ERDF, ESF and, where possible, EIB sources of EC aid. This application will be in line with public expenditure priorities for the Belfast Urban Area.

While I am generally content with line you propose, I would urge caution on being over-positive in our response to the Commission on this matter. Our own experience with integrated operations in Belfast over the last 6 or 7 years is that they can create a certain amount of additional administrative work and raise local expectations without realising tangible benefits in terms of additional resources.

Finally, you may be aware that the European Commission is currently considering its response to the Maher Report which recommends an Integrated Development Programme for the rural areas of Northern Ireland. I am at present considering our own response on this issue and the matter will shortly be taken up by officials.

I am copying this letter to Members of OD(E) and E(A), and to Malcolm Rifkind, Nicholas Edwards, Peter Walker, David Young, Michael Jopling, Rhodes Boyson, Kenneth Baker, and Sir Robert Armstrong.

Yours sincerely,

J. J. Watkinson.

(Private Secretary)

for

TK

(Approved by the Secretary of State & signed in his absence)

EURO POL : Budget PT34





10 DOWNING STREET
LONDON SW1A 2AA

Pile *ff*
bcc Alex Allan HMT
P.C.

16 January 1987

From the Private Secretary

Dear Simon,

COMMUNITY BUDGET, 1987

The Prime Minister has considered the Minister of State's minute of 16 January about the situation likely to face us in the Budget Council today on the Community budget for 1987.

The Prime Minister regards it as very unsatisfactory that the other Member States who had formerly joined us in opposing any increase in the "maximum rate" should now be ready to settle for a compromise. She agrees with Mr. Brooke that we must oppose both an increase in the maximum rate and a negative payments reserve. We should make every effort to pull back the Germans and French from accepting either device. But we should vote on our own if necessary against any compromise which includes either.

Assuming that we are out-voted, the Prime Minister's preference would be to go down on the negative payments reserve. She takes the view that it is better to demonstrate that we are ready to go to the European Court if necessary to block unjustified increases in Community expenditure. She notes that we might in these circumstances have to go to Parliament for a supplementary estimate which would rouse strong opposition, not least from the Government's own supporters. But she thinks that this would be a useful demonstration to other Community member states of the very great difficulties of getting Parliament's approval for any additional funds.

On these grounds, the Prime Minister would therefore prefer to see us out-voted on the issue of a negative payments reserve than on an increase in the maximum rate. But she recognises, of course, that the choice will not in the end be ours.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office), Michael Saunders (Law Officers' Department) and David Williamson (Cabinet Office).

Yours sincerely,
Charles Powell
C D POWELL

Simon Judge, Esq.,
Minister of State's Office,
H. M. Treasury

ff

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ccpl



FROM: Minister of State

DATE: 16 January 1987

PRIME MINISTER

COMMUNITY BUDGET, 1987

The Belgian Presidency has called a Budget Council at short notice for this afternoon in a bid to reach agreement on a Community budget for 1987. You will wish to know how matters stand.

2. Briefly, the Presidency have put forward a compromise proposal under which the "maximum rate" of increase in non-obligatory expenditure, and budget discipline, would be formally respected, but only by means of "negative reserves" of 186 mecu for commitments and 89 mecu for payments. The idea is that there would be a political agreement to reduce commitment and payment appropriations by these amounts during the year. While there is little doubt that there will be shortfalls in certain budget lines which would make this technically possible, the overall budgetary position is such that any such shortfalls on the payments side are desperately needed to help deal with the 1986 overrun.

3. Our latest information is that, contrary to their earlier positions, France, Germany, the Netherlands, Belgium and Denmark have crumbled and are all now prepared to vote for a compromise on these lines, though France and the Netherlands at least (and probably the southern Member States and Ireland as well) would probably prefer to exceed the maximum rate for payments by 89 mecu rather than include a negative payments reserve of that sum.

4. While the UK can, I believe, go along with the principle of a negative commitments reserve, which we accepted for the 1986 budget, the figure of 186 mecu is uncomfortably large and would fuel the pressures on own resources in later years.

5. The negative payments reserve is an altogether more serious

matter. Not only would it be highly irresponsible to add to the pressures on expenditure in a year of unprecedented financial problems by resolving in advance to spend any likely shortfalls in the ways proposed rather than use them to deal with the problems of financing the deficit carried forward from 1986. Moreover, the Council Legal Services have made clear that there must be grave doubts as to the legality of a negative payments reserve given the Treaty requirement that revenue and expenditure must balance.

6. In these circumstances, I am clear that we should oppose both an increase in the maximum rate and a negative payments reserve and to vote, on our own if necessary, against any compromise which includes either.

7. If, despite our opposition, the Council does decide on a negative payments reserve, then, subject to formal advice from the Law Officers, we would be obliged to seek a supplementary estimate from Parliament to cover the difference between our contribution to the budget as adopted and a provisional twelfths budget. At the same time, we should make it clear that we would be taking legal action to contest the budget before the European Court. The budget will be immune from challenge under the Treaty unless it is challenged within two months of adoption.

8. The conclusion I would draw is that, while making clear our own firm position that there should be no increase in the maximum rate and no negative payments reserve, we should do what we can to persuade others in the Council at the very least to eschew the device of what we believe to be an illegal negative payments reserve, even though a straightforward increase in the maximum rate would mean an increase of around $1\frac{1}{2}$ mecu a month in the rate of monthly contributions by the UK over the next few months. We should leave the Council in no doubt that we are minded to ask the Court to pronounce on the legality of a negative payments reserve, should they decide to take that route. Our arguments are unlikely to carry much weight, but they may

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carry some; and we need to give advance warning to other Member States of these unpalatable consequences which would be likely to follow from a negative payments reserve.

9. I am copying this minute to Geoffrey Howe, the Law Officers and Sir Robert Armstrong.

Deborah Francis.

p.p. **PETER BROOKE**

(Approved by the Minister
of State and signed in
his absence)

PRIME MINISTER

EEC BUDGET COUNCIL

The Belgians have called a Budget Council for tomorrow. At this stage, I know no more than that, but Peter Brook will be sending across a minute about it first thing tomorrow morning.

mt

Mark Saver

pp. D R NORGROVE
15 January 1987



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Qz.05577

MR POWELL (10 DOWNING STREET)

European Community: budget for 1987

The Minister of State, Treasury, will be minuting the Prime Minister about the main issue for the Budget Council tomorrow. Whatever happens, the Community's 1987 budget will respect the 1.4 per cent VAT ceiling. The question at issue is the amount of money to be made available for non-obligatory expenditure (ie not agricultural support but the regional, social funds etc) and, in particular, whether the increase should exceed the maximum rate (+8.1 per cent) for this type of expenditure. It would be perfectly legal for the Council and the European Parliament to agree together to exceed this maximum rate (provided, of course, that they respect the 1.4 per cent VAT ceiling overall) but we, the French and Germans have opposed it because it is part of budget discipline for the Council not to exceed it.

The proposals under discussion in the Budget Council are likely to be:

(i) to maintain the maximum rate but to do this by the device of setting a budget slightly above it and inserting a negative payments reserve ie a sort of as yet unallocated reduction. Other member states consider that this would be legal. The Council Legal Service and, more importantly, United Kingdom lawyers have grave doubts, because article 199 of the Treaty of Rome requires the budgetary authority to set a budget which balances revenue and expenditure and this would not happen unless and until the negative reserve were put into effect. As a result of our legal advice, still to be confirmed by the Law Officers, it is expected that we could not pay the whole of our budget share from the Consolidated Fund and would need to go



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to Parliament for a supplementary estimate (probably about £50 million, the difference between provisional twelfths and the 1987 budget). This would be very controversial, not least with the Government's own supporters. Parliament would no doubt look to us to challenge the budget in the European Court of Justice. We believe that, in the light of the position taken by other member states and the fact that the Council and European Parliament would have agreed on a budget, we should probably lose in the Court, thus legitimising this device of a negative payments reserve for the future;

(ii) to remove the negative payments reserve but to exceed the maximum rate increase for non-obligatory expenditure by a very small amount, by agreement between the Council and the European Parliament. We could, of course, register our view by voting against this. The United Kingdom share of the excess might be about 16 million ecu, to which the Fontainebleau two-thirds abatement would of course apply.

We have fought determinedly - not least the Cabinet Office - against any non-obligatory expenditure above the maximum rate. If we can get a budget which avoids this and also avoids a negative payments reserve, we must go for it. But in a choice of evils it would probably be better to be voted down on a very small increase above the maximum rate than to become involved in a course of action on a negative payments reserve which could lead to serious difficulty in Parliament and a strong risk that in the end the negative payments reserve would be legitimised for the future.

I am sending a copy to Sir Robert Armstrong.

D F WILLIAMSON

15 January 1987

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Qz.05576

Prime Minister
CDP

MR POWELL (10 Downing Street)

Cabinet: 1987 Community budget

Our latest estimate is that we shall be successful in holding the French and Germans to rejecting the proposal for a budget above the maximum rate. This is, of course, our principal objective. There is a further COREPER this afternoon and probably a Budget Council tomorrow.

The Chancellor of the Exchequer may suggest at Cabinet that we should now go to the Law Officers for an Opinion on the legality of the proposed negative payments reserve. We are mounting a strong lobby with similarly minded member states in order to try to head off the idea of a negative payments reserve at a COREPER meeting this afternoon, because we think that it is a bad proposal on financial policy grounds. If it is included in the budget we may certainly need to go to the Law Officers but we would not wish at Cabinet to draw the conclusion that this proposal is necessarily illegal or would invalidate the budget, since the inter-departmental meeting of lawyers is not being held until later today.

I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

15 January 1987

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Ref. A087/128

PRIME MINISTER

Cabinet: Community Affairs

The Secretary of State for Trade and Industry will refer to the negotiations between the Community and the United States under Article XXIV.6 GATT on the effects of Spanish and Portuguese accession to the Community on United States' exports to those markets. The Foreign and Commonwealth Secretary will also wish to report on his recent talks on this point with Mr Schultz. The Community maintains that the United States have a credit because of the substantial reduction in Spanish and Portuguese barriers to industrial exports. It recognises, however, that the United States does need to be compensated for the effect on maize and sorghum and has indicated that it would be ready to offer a reduced levy quota. The disagreement now is primarily about the size of this reduced levy quota. The United Kingdom does have a direct trading as well as a wider trade policy interest in this question: we are a major supplier of feed grain (1.3 million tonnes so far in this cereal year) to Spain in direct competition with the United States. An interim settlement which the United Kingdom Presidency promoted in July gave the United States temporary access for a specified quantity (234,000 tonnes a month) of corn and related products but both sides undertook to find a definitive solution to the dispute by the end of December. With our support an extension of the deadline to end-January has been agreed. The dispute is potentially very damaging and we want a settlement, if possible, during January. The United States have announced that if there is no settlement by the deadline, they will apply unilateral measures from that date against certain Community exports (estimated trade coverage: about \$400 million per year). The major burden (50 per cent) of these measures would fall on



France, but 17 per cent of the burden would fall on United Kingdom exports, primarily of gin. The Community, as agreed at the Foreign Affairs Council in June and endorsed in December, has made it clear that, if the United States does implement unilateral action against Community exports, this will be met by immediate counter-measures which would be concentrated on United States' exports to the Community of corn gluten feed. If this were to block off corn gluten feed supplies, there would be a substantial saving to the Community budget (estimated by the Ministry of Agriculture, Fisheries and Food at 450 million ecu a year). The Community is, however, still seeking to reach a negotiated settlement. There will be further negotiations between the Commission and the United States at official level on 18 January, and a meeting between the United States Trade Representative and Commissioners de Clercq and Andriessen in Washington on 23-24 January, aimed at reaching a settlement which could be endorsed at the Foreign Affairs Council on 26-27 January. The key issue will be the scale of the reduced levy quota for United States States maize but the United States will shortly present request for lesser concessions on a few industrial products which might form part of a compromise package. There is a real risk that, if a settlement is not reached this month, the United States and the Community will embark on an escalating round of tit-for-tat retaliation which would be bad for the open trading system and for the forthcoming GATT round of trade negotiations.

2. The Chancellor of the Exchequer may report on the 1987 Community budget. As there was no agreement between the Council and the European Parliament, the Community is now on the regime known as provisional twelfths. The Commission and the Belgian Presidency are anxious to secure early agreement on the budget and the Committee of Permanent Representatives (COREPER) will consider a proposal from the Commission this week. The package would respect the maximum rate for payments by the complicated and rather dubious means of a negative payments



reserve. It would exceed the maximum rate for commitments by 62 mecu (about £45 million). The United Kingdom will argue for strict adherence to the maximum rate and will make clear that a negative reserve for payments is objectionable in policy terms and of dubious legality. Provided that the French and Germans stand firm, the package will be corrected so as to be acceptable or it will not be approved.

3. An Agriculture Council is scheduled for 19 January but may be cancelled as the Commission has not yet formulated its 1987 price proposals.

RA

ROBERT ARMSTRONG

14 January 1987

EURO POL Budget.

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EC FINANCE: EX NOVO REVIEW

1. DELORS VISITED ROME ON 10 JANUARY AND SAW PRIME MINISTER CRAXI, MINISTER OF FOREIGN AFFAIRS ANDREOTTI, MINISTER OF AGRICULTURE PANDOLFI AND MINISTER FOR EC POLICY COORDINATION FABRI. HE DID NOT SEE TREASURY MINISTERS.

2. PRESS REPORTS REFLECT A COMMUNIQUE FROM THE PRIME MINISTER'S OFFICE. THEY CONTAIN LITTLE ADDITIONAL COMMENT. MOST PAPERS COVER THE NEGOTIATIONS ON EMS REALIGNMENT IN THE SAME PIECE.

3. DELORS EXPLAINED HIS VISIT AS THE FIRST STOP ON A TOUR OF EC CAPITALS TO ILLUSTRATE THE COMMISSION'S ANALYSIS OF 3MUMURGENT PROBLEMS FACING THE COMMUNITY AND TO HEAR MEMBER STATES' VIEWS. THE PROBLEMS WERE THE STRUCTURE AND FINANCING OF THE COMMUNITY BUDGET; THE CAP; THE STRUCTURAL FUNDS.

IN REPLY CRAXI ACCEPTED THE NEED FOR AN INCREASE IN COMMUNITY RESOURCES; SUPPORTED CAP REFORM SO LONG AS IT DID NOT REQUIRE INDISCRIMINATE SACRIFICES BY THOSE FARMERS WHO HAD NOT CONTRIBUTED TO THE PRESENT STOCKPILES; URGED MORE MONEY FOR STRUCTURAL FUNDS TO REDUCE DISPARITIES WITHIN THE COMMUNITY. HE ALSO DEPLORED THE RELUCTANCE WITH WHICH THE COMMUNITY APPROACHED REAL EUROPEAN UNION SEEING ITS CURRENT PROBLEMS AS SYMPTOMATIC OF THE LACK OF GENUINE ECONOMIC INTEGRATION.

4. THE ONLY PAPER TO CARRY SUBSTANTIVE COMMENT, IL SOLE - 24 ORE DESCRIBES THE COMMISSION'S IDEAS AS VAGUE AND BELIEVES MEMBERS OF THE COMMISSION ARE AS DIVIDED AS MEMBER STATES OVER THE FUTURE FINANCING OF THE COMMUNITY. IT IS SIGNIFICANT, THE PAPER SAYS, THAT DELORS SHOULD BEGIN HIS VISIT IN ROME. HERE AT LEAST HE CAN BE SURE OF A DECLARATION OF FULL SUPPORT, EVEN IF ITALY'S AVOWED EUROPEAN CRUSADE IS NOT ALWAYS MATCHED BY HER PERFORMANCE.

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COMMENT

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COMMENT:

5. WE SHRPV REPORT FURTHER ANY READ OUT WE CAN GET FROM INTERESTED MINISTRIES. GORIA'S ABSENIE (IN HIS HOME TOWN) FROM THN METINGS WITH DELORS SEEMS TO INDICATE THAT THE ITALIAN GOVERNMENT SEE THE EX NOVP REVIEW AS CHEIFLY A POLIEICAL MVTTER. AS ITALY IS A NET BENEFICIARY, THE SIZE OF THE ITRLIAN CONTRIBUTION IS NOT A DOMESTICALLY CONTROVERSIAL ISSUE.

BRIDGES

YYBUY

FCO PASS SAVING TO: ATHENS BONN BRUSSELS EMBASSY COPENHAGEN
FCO PASS SAVING TO: DUBLIN LUXEMBOURG PARIS THE HAGUE MADRID LISBON

RFHPAAW4#10

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Qz.05551

cc: [unclear]
Prime Minister (2)

MS
MGA 31/12

MR POWELL (10 Downing Street)

The Single European Act

Contrary to their earlier notification to the Community the Greeks have now ratified the Single European Act. The Republic of Ireland, however, has run into legal difficulties because of an injunction taken out by a Member of its Parliament. It will not, therefore, be possible for the Republic of Ireland to ratify within the timescale foreseen at the European Council.

I am sending copies to Colin Budd and Sir Robert Armstrong.

CONQUEROR

D F Williamson

D F WILLIAMSON

31 December 1986

CDI - A see

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MINISTRY OF AGRICULTURE
FISHERIES AND FOOD

We spoke about the attached
letter and I explained that Mr
Powell had agreed
that Mr Jopling
should reply to
M. Guerneur.

WITH THE COMPLIMENTS
OF
THE PRIVATE SECRETARY

his name

WHITEHALL PLACE
LONDON, SW1

CDP
7/11

M Guy Guerneur
European Parliament
97/1113 Rue Belliard
1040 BRUSSELS
Belgium

30 December 1986

I am writing to follow up two points you made when we met on 2 December. You were particularly concerned about a reduction which the Budget Council had made in the 1987 budget for fisheries structures and, more generally, about consultation with the European Parliament.

You also wrote to the Prime Minister about the first point and I hope that you will be able to accept this letter as a reply on behalf of the Prime Minister as well.

On your first point about the budget, I am sure that you will now be aware that the Budget Council of 26/27 November agreed to what the Parliament was seeking on fisheries structures. This involved the reinstatement of the total provision originally proposed by the Commission, although with a different classification of the expenditure: part obligatory and part non-obligatory.

This decision helped to clear the way for our own consideration in the Fisheries Council of the structures regulations on 3/4 December, when we reached agreement in principle on a slightly revised proposal for a new regulation. One of the reasons why this was an "agreement in principle" rather than a formal decision was because the European Parliament had not delivered its opinion, and the proposal was not finally adopted until the Fisheries Council of 17/18 December by which time of course this had become available. I think this serves to emphasise the point I made when we met about the importance which the Council attaches to Parliament's opinion.

MICHAEL JOPLING

GRS 40

UNCLASSIFIED
FM PARIS
TO PRIORITY F C O
TELNO 1361
OF 301729Z DECEMBER 86
INFO ROUTINE EUROPEAN COMMUNITY POSTS

SINGLE EUROPEAN ACT

1. THE FRENCH LEGISLATION WAS APPROVED BY THE SENATE ON 10 DECEMBER
AN SUBSEQUENTLY SIGNED BY PRESIDENT MITTERRAND. ACCORDING TO THE
QUAI THE INSTRUMENT OF RATIFICATION WAS SENT TO ROME ON 29
DECEMBER.

FRETWELL

YYYY

PCLNAN 6861

FRAME INSTITUTIONAL
ECOC(I)



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Qz.05533

MR POWELL (10 Downing Street)

cc/cg
②
Rice Minister
CDN
23/12

The Single European Act

The Prime Minister will recall that at the European Council on 5-6 December, after she had referred to the ratification of the Single European Act, the conclusions stated that:

"The Heads of State and Government noted that those Member States which have not already done so aim to ratify the Single European Act in time for it to enter into force on 1 January 1987."

The United Kingdom had, of course, been among the first to ratify the Single European Act before the European Council. Greece has now announced that they will not be in a position to ratify by the end of the year. They will ratify in January and it is likely that the Single European Act will come into force on 1 February 1987. This is another example of the United Kingdom being ahead of other member states when practical action to implement commitments is required.

I am sending copies to Colin Budd (FCO) and to Sir Robert Armstrong.

D F WILLIAMSON

23 December 1986

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mt
R. A. A. A.
CDD
23/12

MR POWELL (10 Downing Street)

European Community: Progress towards completion of
the internal market

The Industry Council yesterday took some further decisions on measures necessary for the completion of the internal market. The Prime Minister should know that we have now completed agreement on all 13 items in the political package on which she wrote to other heads of government before the European Council. The United Kingdom Presidency's total tally for internal market measures is now 47, with a 48th to be adopted by written procedure. This is by far the best performance of any Presidency.

I am sending copies to Colin Budd (FCO), Timothy Walker (DTI) and Sir Robert Armstrong.

D F WILLIAMSON

23 December 1986.



nbpm

u PIS 325
PIS Mr Lee
PIS Secretary
Mr Dowe
Mr Robinson
Mr Lewis
Mr Wain

FCS/86/313

PAYMASTER GENERAL

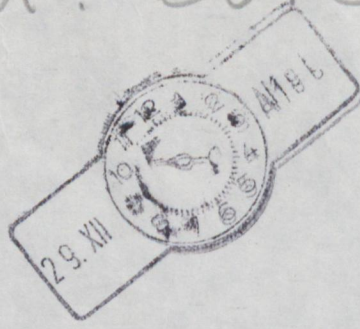
Employment Initiative

1. Thank you for your letter of 16 December reporting the adoption of our Action Programme on Employment Growth. Congratulations on this considerable achievement, which is an important success of our Presidency. You and your officials, and David Hannay and his team, handled it with exemplary skill. Your idea of bringing in the Italians and Irish right from the start was a very good one and you did a first rate job in neutralising opposition and maximising support. The result is a substantial success in changing the agenda of the Social Affairs Council and getting the Community's efforts channelled in a much more practical direction.

2. I am copying this minute to the Prime Minister, the members of OD(E) and to Sir Robert Armstrong and Sir David Hannay.

(GEOFFREY HOWE)

Budget: Euro POC.A34



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OF 221840Z DECEMBER 86
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FRAME ECONOMIC
MY TELNO 4647 AND 4665
EX NOVO REVIEW

SUMMARY

1. COMMISSION CONSIDER COMMUNITY FINANCES, CAP AND STRUCTURAL FUNDS. SUMMARY PAPER TO BE PREPARED FOR 8 JANUARY AND LIKELY TO BE MADE PUBLIC. LIKELY TO CONCENTRATE ON CASE FOR NEW OWN RESOURCES. COMMISSION CAN BE EXPECTED TO BE PUBLICLY CRITICAL OF FONTAINEBLEAU ABATEMENT SYSTEM.

DETAIL

2. THE COMMISSION SPENT MUCH OF YESTERDAY AND TODAY DISCUSSING THE EX NOVO REVIEW ON THE BASIS OF THREE PAPERS ON COMMUNITY FINANCE, THE CAP AND THE STRUCTURAL FUNDS, PREPARED RESPECTIVELY BY CHRISTOPHERSEN, ANDRIESSEN AND VARFIS. COPIES OF PAPERS, WHICH COVER MUCH OF THE SAME GROUND AS DELORS AT THE COREPER BRAINSTORMING (SECOND TUR) BY BAG TO EDWARDS (TREASURY) AND WALL (FCO): SUMMARISIED IN LETTER WESTCOTT - EDWARDS.

3. WE UNDERSTAND THAT THE COMMISSION ENDORSED MOST OF THE ANALYSIS IN THE THREE PAPERS. A SUMMARY PAPER OF 7 OR 8 PAGES WILL NOW BE PRODUCED BY CHRISTOPHERSEN, FOR CONSIDERATION BY THE COMMISSION ON 8 JANUARY AND FOR USE BY DELORS ON HIS TOUR OF CAPITALS. THE CHRISTOPHERSEN CABINET SAY THAT 80 PERCENT OF IT WILL BE ABOUT THE COMMUNITY BUDGET AND THAT THE CENTRAL THEME WILL BE THE NEED FOR OWN RESOURCES EQUIVALENT TO 1.4 PERCENT OF GDP: THROUGH THE PAPER, WHICH WILL PROBABLY BE SENT TO THE COUNCIL, IS UNLIKELY TO CONTAIN PROPOSALS ON EXACTLY HOW THE SYSTEM SHOULD BE CHANGED.

4. IT SEEMS THAT THE FONTAINEBLEAU MECHANISM WILL GET A LESS UNCRITICAL RIDE FROM THE COMMISSION THAN WAS SUGGESTED BY DELORS' SILENCE ON BUDGETARY IMBALANCES AT THE BRAINSTORMING (MY SECOND TUR). THE PAPER BEFORE THE COMMISSION DID NOT IN THE EVENT CONTAIN THE PASSAGE IN THE FINAL DRAFT WHICH SUGGESTED THAT THE FONTAINEBLEAU MECHANISM MIGHT BE REPLACED BY CONTRIBUTIONS TO THE COMMUNITY BASED ON THE DIFFERENCE BETWEEN GDP AND MEMBER STATES' NATIONAL VAT BASIS (PARAGRAPH 6 OF FIRST TUR). BUT THIS IDEA IS STILL VERY MUCH ALIVE IN THE CHRISTOPHERSEN CABINET: THE VERSION OF THE PAPER THAT DID GO TO THE COMMISSION IS DECIDEDLY HOSTILE TO THE MECHANISM: AND COCKFIELD AND CLINTON DAVIS FOUGHT A LONELY BATTLE IN THE COMMISSION AGAINST THE MANY CRITICS OF THE VAT ABATEMENT.

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5. WE HAVE REMINDED THE CHRISTOPHERSEN CABINET BOTH OF THE APPARENT IMPOSSIBILITY OF COMPENSATING FOR IMBALANCES GENERALLY ON THE EXPENDITURE SIDE OF THE BUDGET BY MINOR ADJUSTMENTS ON THE REVENUE SIDE, AND OF THE POLITICAL FACTS OF LIFE ABOUT FONTAINEBLEAU: THE ANSWER WAS THAT THE COMMISSION IS OBLIGED TO PROPOSE WHAT IT THINKS CORRECT. THE ODDS MUST THUS BE THAT ON OR AROUND 8 JANUARY WE SHALL FIND IT BEING SAID PUBLICLY AND IN THE PRESS THAT THE COMMISSION HAS COME OUT AGAINST THE UK ABATEMENT SYSTEM.

HANNAY

YYYY
ADVANCE
RENWICK FCO
WALL FCO
BLOOMFIELD FCO
WILLIAMSON CAB
JAY CAB
HADLEY MAFF
LAVELLE TSY
EDWARDS TSY
MORTIMER TSY
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DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister of State for Industry

GILES SHAW MP

Mrs Lynda Chalker MP
Minister for State
Foreign and Commonwealth Office
Downing Street
London
SW1

CDP
22/12

22 December 1986

Lynda

EC INTEGRATED APPROACHES

at flap

You will recall that Peter Morrison wrote to you on 21 April 1986 about the integrated approach and about our general reaction to the Commissions' initiative for steel restructuring areas. There was general agreement that we should react positively, subject to maintaining the policy on additionality, and Peter Morrison wrote again on 31 July with particular comments about steel areas in the light of this. Also in July the Commission published two relevant documents - one about steel restructuring areas and one about integrated approaches in general. Officials had a meeting in September in Brussels and the Commission then clarified some aspects of the two documents. There have since been consultations between Departments in EQO, and we now need to consider what we do next.

Firstly the Northern Ireland authorities are working on a new programme application in respect of Belfast which has already been accepted as an integrated operations area. Secondly the Commission are predisposed towards applying the integrated approach in the areas listed in Annex 1 to their Communication on steel restructuring areas. The UK areas are listed in the annex to this letter, and include Strathclyde in Scotland, parts of the North East of England, parts of Wales, and the county of South Yorkshire plus Scunthorpe Travel to Work Area. Commissioner Pfeiffer has recently written to Paul Channon about this and I think that we

TUEBOJ



should respond positively to what is in effect an invitation to submit programmes for funding. Thirdly, we should exploit the existing arrangements for inner city partnership areas and support our own development priorities by pressing for integrated approaches there. The Commission are sympathetic to this, and I understand that the Departments of the Environment and Employment are close to submitting an application in respect of the partnership area of Birmingham, with the Social Fund component having been submitted already.

The preparation of integrated approaches is likely to place considerable burdens on the administrative resources of central, local and other public authorities. We should therefore deal with other candidates broadly on a first come first served basis, subject to availability of administrative resources, but taking into account any indication from the Commission whether they would welcome an application. We should of course be prepared to indicate to the Commission the status afforded to the areas in question under domestic policies, in particular development area or inner city partnership area, although other factors may also have to be taken into account. This approach would apply to the areas where there have been Commission financed studies with a view to integrated operations.

On this basis, annex A to this letter lists the UK areas where there is sufficient reason on the above grounds for us to seek to forward integrated approaches. In addition I think that we should give a fair wind to an integrated approach application which would include the development areas in Cornwall but which might well extend more widely.

It is clear that a committee including representatives of local government authorities and other bodies will be required in respect of each integrated operation to prepare the application, and to meet Commission rules for implementation and monitoring. The rule in England should be that a senior official in the appropriate regional office of the most appropriate Department should take responsibility, which is what happens already for the committees required for management of ERDF National Programmes of Community Interest.

Finally I would like to comment on John MacGregor's letter of 30 April to Peter Morrison, where he said that we must be most careful to prevent the Commission from using the integrated approach as a means of exerting pressure on us. I agree that we must seek to minimise this problem, but it is not within our power to prevent them from doing so; their approach to these operations is not likely to be identical to ours, and they will naturally do their



best to persuade us to structure operations in the way most acceptable to them. I agree, however, that we must do our best to minimise their opportunities to force us to devote resources to operations we would not normally wish to support. The best way of doing this will clearly be to draw up our applications in the first place so as to accord as closely as possible with our own public expenditure priorities.

It is likely that the Commission will seek to ensure that assistance to small firms forms part of the integrated approach programmes. In the case of steel areas certainly, and perhaps also in that of shipbuilding areas, there will be pressures for us to cover this by continuing the old ERDF non-quota measures such as the Business Improvement Services package of assistance in England. In the case of other areas the pressures are likely to be more for local authority measures of the same kind under Article 15 of the current ERDF main regulations. I hope that we can soon settle the public expenditure treatment of Article 15 receipts, so that the local authorities concerned will be able to include these measures in the integrated approach programmes. On BIS, I cannot undertake that in the event my Departmental priorities would leave room for a further initiative financed from existing DTI resources so as to permit the continuation in some form of BIS type measures in England. It would of course be for Malcolm Rifkind and Nicholas Edwards to consider the situation in respect of Scotland and Wales. The Article 15 and BIS questions are bound to arise, but despite the uncertainties about how we can cope with them, I believe we should continue with our policy of reacting positively to the Commission's proposals and trying to use them to our benefit. The Commission's own proposals and activities have raised a high level of expectation in the various UK regions concerned, and a high level of political interest. Many local authorities have already put in much work and are waiting impatiently for the lead now required from the Government. We would not be on defensible ground if we were to provoke a major row around the country by refusing to continue our exploration of integrated approaches on the ground that at the end of the day the Commission may not give their approval unless the operation include measures to help small firms. Moreover it would be embarrassing to say in public that offsetting savings are required for the ERDF component of expenditure as the Government is party to the joint declaration with the European Parliament and Commission that "ERDF aid will, in general, be an additional overall source of finance for the beneficiary regions or areas", and such savings were not, of course, required in the case of the ERDF non-quota regulations under which BIS is currently operated in steel areas.



Thus even if there is no certainty about how we can cope with the likely problems of BIS/Article 15, I am sure that we should go ahead so that at least we can establish the extent of any problems before taking final decisions on particular programmes. We shall in any case probably be faced early in 1987 with Commission proposals for a community programme for steel areas under which the same problems will arise.

I should welcome the agreement of colleagues to what I now propose. I am copying this to recipients of the earlier correspondence.

Giles Shaw

GILES SHAW

TUEBOJ

AREA	WHAT CATEGORY			COMMENTS
	COMMISSION STEEL PROPOSALS	INNER CITY PARTNERSHIP AREA	STUDY AREA	
<u>Scotland</u>				
Strathclyde	Yes		Yes	
<u>England</u>				
Durham)	Yes			
Cleveland)	Yes			Includes Middlesbrough (Urban Programme Authority)
South Yorkshire)	Yes			Includes Sheffield (Urban Programme Authority)
Scunthorpe TTWA)	Yes			Part of wider Humberside study
Bradford			Yes	Awaiting Commission comments on final study report
Humberside (other * than Scunthorpe)			Yes	Includes Kingston upon Hull (Urban Programme authority)
<u>Inner Cities</u>				
Birmingham		Yes		
Manchester/Salford		Yes		
Liverpool (Merseyside)		Yes	Yes	Study made of Merseyside which includes Liverpool; also includes Urban Programme Authorities of Wirral & Knowsley
Newcastle/Gateshead (Tyne and Wear/ SE Northumberland)		Yes		The Commission have indicated that they might accept an integrated approach for not just Newcastle/Gateshead but the whole of Tyne and Wear,* possibly also with S E Northumberland
<u>Wales</u>				
Wrexham and Shotton TWAs)	Yes		Yes	Part of a wider NE Wales (Clwyd*) study
Gwent/South Glamorgan West Glamorgan/)	Yes			Included in Welsh Office pilot study of S. Wales
Llanelli TTWA (Dyfed))				Included in Welsh Office pilot study of S. Wales
Mid Glamorgan*				NOTE We hope that the Commission will consider an IO for the whole of Industrial South Wales (including Mid Glamorgan and not just the steel areas)
Gwynedd/Dyfed/Powys			Yes	Final study report expected in November 1986
<u>N Ireland</u>				
Belfast				Already an IO on one-off basis but new programme will need to be approved by Commission

* Included in Commission draft proposals for steel areas but excluded from final proposals.

Euro Pol: Budget PT31.



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FCS/86/313

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22/12/86

PAYMASTER GENERAL

Employment Initiative

at hap

1. Thank you for your letter of 16 December reporting the adoption of our Action Programme on Employment Growth. Congratulations on this considerable achievement, which is an important success of our Presidency. You and your officials, and David Hannay and his team, handled it with exemplary skill. Your idea of bringing in the Italians and Irish right from the start was a very good one and you did a first rate job in neutralising opposition and maximising support. The result is a substantial success in changing the agenda of the Social Affairs Council and getting the Community's efforts channelled in a much more practical direction.

2. I am copying this minute to the Prime Minister, the members of OD(E) and to Sir Robert Armstrong and Sir David Hannay.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

22 December 1986

EURO POL Budget PT34



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INFO SAVING BRUSSELS

FRAME ECONOMIC

DRAFT VAT DIRECTIVE ON SMALL AND MEDIUM SIZED ENTERPRISES (SME)
MEETING OF FINANCIAL QUESTIONS GROUP : 18 DECEMBER 1986

SUMMARY

1. DESPITE CLEAR CONCLUSIONS OF THE LONDON EUROPEAN COUNCIL SUPPORTING THE PRINCIPLES OF THE COMMISSION'S PROPOSAL, SEVERAL MEMBER STATES, BUT PARTICULARLY FRANCE, RESIST MAJOR ELEMENTS OF THE DRAFT DIRECTIVE. SUPPORT GROWS FOR COMPULSORY EXEMPTION LIMIT (10,000 ECU). SUPPORT MAINTAINED FOR THE PRINCIPLE OF AN OPTIONAL EXEMPTION LIMIT, BUT NOT FOR THE PROPOSED LEVEL (35,000 ECU). ONLY UK AND IRELAND SUPPORT PRINCIPLE OF AUTOMATIC REVALORISATION OF OPTIONAL EXEMPTION LIMIT.

DETAIL

2. PRESIDENCY OPENED THE MEETING BY REMINDING DELEGATIONS OF THE CONCLUSION OF THE LONDON EUROPEAN COUNCIL ENDORSING THE PRINCIPLES OF THE COMMISSION'S PROPOSAL ON REDUCING THE FISCAL BURDENS FOR SMES. THIS WAS CIRCULATED, AND THE PRESIDENCY INSISTED THAT THE PRINCIPLES OF THE DIRECTIVE WERE NOW AGREED. FRANCE AND THE NETHERLANDS WERE VERY RELUCTANT TO ACCEPT THE IMPLICATIONS OF THIS CONCLUSION, AND CONTINUED THROUGHOUT THE MEETING TO RAISE DIFFICULTIES. BELGIUM, GERMANY, ITALY AND DENMARK STILL HAD NOT COMPLETED THEIR CONSULTATIONS WITH TRADE INTERESTS, AND WERE NOT PREPARED TO TAKE A DEFINITE POSITION ON THE MAJOR ELEMENTS OF THE DIRECTIVE.

COMPULSORY EXEMPTION LIMIT (10,000 ECU)

3. NO DELEGATION SPOKE AGAINST THE PRINCIPLE OF A COMPULSORY EXEMPTION LIMIT, ALTHOUGH THE POSSIBILITY OF A LOWER LEVEL FOR SERVICES COMPARED WITH GOODS REMAINS TO BE DISCUSSED. OTHERWISE, THE PROPOSED LIMIT WAS REASONABLY WELL RECEIVED.

4. ONLY FRANCE, BELGIUM AND THE NETHERLANDS ARGUED IN FAVOUR OF BASING THE EXEMPTION LIMIT ON GROSS PROFIT MARGINS RATHER THAN ON TURNOVER. THE NETHERLANDS, SUPPORTED BY FRANCE, ARGUED STRONGLY TO RETAIN THEIR EXISTING SYSTEM WHEREBY RELIEF IS GRANTED ON THE BASIS OF THE ANNUAL NET AMOUNT OF VAT DUE ON SUPPLIES BY TRADERS. OTHER DELEGATIONS WERE NOT IMPRESSED. THE UK, IRELAND, GERMANY AND LUXEMBOURG ARGUED THAT THE DUTCH SYSTEM REQUIRED ALL TRADERS TO BE INCLUDED IN THE TAX SYSTEM AND DID NOT PRODUCE ANY REDUCTION IN FISCAL BURDENS, AS DEMANDED BY HEADS OF GOVERNMENT.

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OPTIONAL EXEMPTION LIMIT (35,000 ECU)

5. THE MAIN CONCERN CENTRED ON THE POSSIBILITY OF DISTORTION OF CROSS-BORDER TRADE IF ADJACENT MEMBER STATES OPERATED DIFFERENT EXEMPTION TURNOVER LEVELS. IT WAS ARGUED THAT AN OPTION WAS ALSO CONTRARY TO THE OBJECTIVE OF FISCAL HARMONISATION. ONLY THE UK AND IRELAND SUPPORTED A LIMIT OF 35,000 ECU. OTHER DELEGATIONS, WHILE NOT NECESSARILY REJECTING THE IDEA OF AN OPTIONAL LIMIT, FELT IT SHOULD BE MUCH LOWER, PARTICULARLY TO AVOID PRESSURE FROM TRADERS ON NATIONAL ADMINISTRATIONS TO PERMIT THE OPTIONAL MAXIMUM EXEMPTION. SPAIN SUGGESTED A FIGURE OF 20,000 ECU. GREECE REMAINED TOTALLY OPPOSED TO ANY OPTIONAL EXEMPTION LIMIT.

MAINTENANCE OF EXEMPTION LIMITS IN REAL TERMS (REVALORISATION)

6. FRANCE LED AN ATTACK ON THE PROPOSED ANNUAL AUTOMATIC REVALORISATION OF THE COMPULSORY AND OPTIONAL EXEMPTION LIMITS AND OF THE SIMPLIFIED SCHEME LIMIT (150,000 ECU). THE PRESIDENCY SUGGESTED THAT THE COMPULSORY EXEMPTION LIMIT (10,000 ECU) COULD BE EXCLUDED FROM THE REVALORISATION PROVISION, THUS AVOIDING ANY DIFFICULTIES WHICH COULD OCCUR IF THE EXEMPTION LIMIT DIVERGED FROM THE OWN RESOURCES LIMIT. THIS WAS INITIALLY SUPPORTED BY DENMARK, IRELAND AND THE UK.

7. FRANCE MADE A COUNTER-PROPOSAL EXCLUDING ALL REVALORISATION, AND LEAVING IT TO THE COMMISSION TO PROPOSE PERIODIC REVISIONS OF THE EXEMPTION AND SIMPLIFIED SCHEME LIMITS. (REALIGNMENT OF EXEMPTION LEVELS IN TERMS OF NATIONAL CURRENCIES COMPARED WITH THE ECU WOULD STILL BE PERMITTED). ALL DELEGATIONS EXCEPT THE UK AND IRELAND SUPPORTED THE FRENCH SUGGESTION, AND THE COMMISSION AGREED TO REFLECT.

COMMENT

8. THE BELGIAN PRESIDENCY WILL TAKE UP DISCUSSIONS ON THE DRAFT DIRECTIVE ON 29/30 JANUARY 1987. THE UK'S MAJOR DIFFICULTIES WILL BE IN ENSURING AN OPTIONAL EXEMPTION LIMIT OF AT LEAST 35,000 ECU AND IN SECURING A REVALORISATION SYSTEM FOR THE OPTIONAL LIMIT AND THE

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HANNAY

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ADVANCE

WALL FCO

BLOOMFIELD FCO

RICHARDSON ECD(P) FCO

JAY CAB

CRASKE C/E

TREVETT C/E

SINCLAIR TSY

EMMOTT D/EM

I JONES D/EM

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ccg 2

Prime Minister

CDP

17/mi

MR POWELL (10 Downing Street)

EUROPEAN COURT OF JUSTICE JUDGMENT: CASE NO 93/85
(ADVANCES OF OWN RESOURCES)

You will wish to be aware of the expected judgment in case 93/85 which is to be delivered tomorrow morning.

The case is a direct action brought by the Commission against the United Kingdom under Article 169 of the EEC Treaty. The Commission is claiming £2 million interest as a result of our refusal to pay an advance of own resources at the time requested in 1983. The Government decided not to pay because it considered that Parliamentary approval was needed and Parliament was not in session because of the 1983 election. Payment was made as soon as Parliament returned. Our defence was that the notification by the Commission requesting the own resources advance was merely an invitation and did not constitute an obligation.

If the European Court of Justice follows its Advocate-General's line the judgment will be that the United Kingdom will have to pay the £2 million interest charge. A consequence of such a judgment would be that requests for advances of own resources should in future be treated as legally binding. Until now the Government has considered such requests as optional and has sought Parliamentary approval on each occasion. As a result of the judgment these payments could in future be made direct from the Consolidated Fund. Since these requests do not alter the total British contribution, only its timing, but can give rise to some parliamentary controversy, the legal ruling of the European Court of Justice might be helpful in any future case.



Line to take (if raised)

i. The Government welcomes the Court's clarification of the wording of this regulation. It will of course obey the ruling of the Court.

ii. While any uncertainty did exist it was clearly correct not to seek to bypass Parliament by paying funds without its approval. Government is satisfied that in the circumstances it chose the prudent course in 1983.

iii. The Court's ruling does not increase the resources available to the Community. It is merely a question of the timing of payments to the Commission of own resources which have already been collected, in circumstances where the Commission's cash flow needs require this.

iv. The Court's ruling has no consequences for the Government's position on the forthcoming discussions on future financing of the Community.

I am sending copies to Colin Budd (FCO), Alex Allan (Treasury), Steven Wood (Lord Privy Seal's Office) and to Sir Robert Armstrong.

D F WILLIAMSON

17 December 1986



Ref. A086/3531

PRIME MINISTER

Cabinet: Community Affairs

This has been a good week for Britain in the Community, with a very significant agreement on reform of the operation of the common agricultural policy for milk and beef; adoption by the Social Affairs Council of the programme for jobs; agreement on three main elements of the shipping policy and some progress on aviation; and a generally successful Foreign Affairs Council.

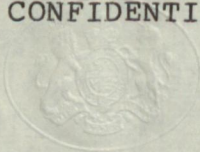
2. The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 15-16 December and, in the absence of the Minister of Agriculture, Fisheries and Food (chairing a Fisheries Council) will report also on the marathon Agriculture Council on 13-16 December. In the Foreign Affairs Council the new food aid regulation, which we have supported and which puts the stress on development rather than surplus disposal, emerged in all substantive respects unchanged from a conciliation meeting with the European Parliament and will now come into effect. The Council agreed an amendment to its rules of procedure when voting is to take place and handed on to the Belgian Presidency in good order our presidency draft concerning the types of committee which should in future be adopted in implementing regulations and directives: we have been very keen to keep the discussion on the basis of our text rather than on some less acceptable ideas of the Commission. The Council had a report on the negotiation between the Community and the United States under Article XXIV.6 of the GATT over the effects of Spanish and Portuguese accession on certain United States agricultural exports. The Community maintains that the overall result will be favourable to the United States because of the opening up of the protected Spanish and Portuguese industrial



markets but is prepared to consider some concessions to the United States on agricultural products. US demands, however, are excessive. A deadline for the conclusion of negotiations of 31 December 1986 has been set. The prospect of success is not good. The Community has proposed to the United States another month for negotiations to continue. We are in favour of this and the Foreign and Commonwealth Secretary has written personally to Mr Schultz. The United States have not yet responded and may prepare a package of unilateral measures against Community exports which could include our exports of gin. If, despite further talks, that stage was reached, the Community would be ready to retaliate on United States exports of corn gluten feed, rice and wheat. On behalf of the Community the Foreign and Commonwealth Secretary was also authorized to make representations to Canada about a range of protectionist measures (including on English language books) of concern to the Community. The Council agreed a mandate for negotiations with Romania over a trade and economic co-operation agreement; and also turned itself into an Association Council with Cyprus. The Foreign and Commonwealth Secretary also held private discussions with the President of the Commission, Monsieur Delors, about the results of our Presidency.

3. The Foreign and Commonwealth Secretary will report that the Agriculture Council on 13-16 December was a marathon of marathons, in which Mr Jopling refused to give up the search for agreement and finally achieved a major package of reforms by wearing down the opposition. This is of great value in itself and validates our approach of avoiding a high profile discussion of agriculture in the European Council. The main elements of the package are:

- a. 9½ per cent reduction in milk quotas by a mixture of straight cut and temporary suspension, 6 per cent (including 2 per cent already planned) on 1 April 1987, 2½ per cent (including 1 per cent already planned) on



1 April 1988 and 1 per cent by administrative action. The budgetary saving cannot be assessed exactly but will clearly be substantial as the surplus stocks are cleared away. The order of magnitude can be seen from the fact that the quota cuts will bring the level of milk production below that of 1981 when the milk regime cost about 2,800 million ecu (about £2,000 million) less than this year;

b. compensation on a mixed Community/national basis to those producers affected by the quota reductions; this could cost about 730 million ecu (about £525 million) a year at the maximum but, while the improved compensation under the existing scheme runs for 7 years, the higher level of compensation for suspensions of quota is guaranteed only for 2 years;

c. suspension of intervention for skimmed milk powder during the winter (1 September-28 February) each year. In addition, there may be further modification of skimmed milk powder intervention in the summer together with a modification of permanent intervention for butter, subject to criteria to be decided by the Council;

d. a vigorous destocking programme.

Taking account of all the elements, the Minister of Agriculture, Fisheries and Food is suggesting a saving of about £1,200 million on the Community budget over the next three years.

e. a substantial reduction in the impact of the beef intervention system from April 1987 by delaying the introduction of intervention until the Community average price falls below 91 per cent of the intervention price and the national average market price is also below 87 per cent of the intervention price;



f. to offset (in part only) the cuts in beef intervention the United Kingdom has been able to retain its beef variable premium paid on all eligible animals; while for other member states where no similar premium has been paid a temporary premium of about £16 a head on mature male animals up to a limit of 50 per farm will be introduced (the temporary premium for the Irish Republic will be at a lower rate to take account of the fact that our variable premium is paid on Irish animals imported into the United Kingdom);

g. France and the United Kingdom gained agreement to the green currency changes they had been seeking - for the United Kingdom a devaluation in the green rate of 6 points on beef and 3.2 points on sheepmeat. These adjustments will help with the presentation of the reforms agreed in the Council and will also reduce causes for complaint by United Kingdom producers and traders over beef imports from the Irish Republic;

h. agreement on policy guidelines for a package of socio-structural measures to be agreed early in 1987 which will include elements of our ideas for diverting land from the production of surplus products.

4. The Secretary of State for Transport will report on the meeting of the Transport Council on 15-16 December. The main outcome was agreement on a set of measures designed to open up trade and shipping within the Community. Though the issue of cabotage - the right of a member state to restrict to national carriers cargoes carried between its own ports - was not yet solved, it was agreed that by the end of 1989 Community registered vessels will be able to offer services freely between member states; by the end 1991 they will be able to operate with equal freedom between member states and third countries; and by January 1993 exclusive arrangements for cargo-sharing between

member states and outside countries will be abolished. On road haulage the Council agreed to increase in 1987 the number of permits available in each member state for their own transport companies to operate freely across Community frontiers by 15 per cent, with agreement in principle of all but Germany to go to 40 per cent in due course. On air transport although new formal agreements were not reached Mr Moore was able to conclude that progress had been made on route sharing and cheaper fares.

5. The Paymaster General may confirm that at the Social Affairs Council on 11 December the resolution on the action programme for employment growth which we had promoted was adopted.

6. There is a Fisheries Council, chaired by the Minister of Agriculture, Fisheries and Food, in session on 17-18 December. We expect to cancel the Research Council on 22 December. If so, the Industry Council on the same day will be the final Council of our Presidency.

RA

ROBERT ARMSTRONG

17 December 1986

PRIME MINISTER

There are two particular items which I suggest you mention to Cabinet:

- (i) Presentation during the Recess on which Bernard has done a note at Flag A. I suggest that you raise this item at the end of Cabinet.
- (ii) the lessons from the European Regional Development Fund problem on which Sir Robert Armstrong has done a speaking note at Flag B. I suggest you deal with this item under Home Affairs since the lessons are of application to Government business generally, not just Community business.

N.L.W.

NLW

17 December 1986

CONFIDENTIAL



Prime Minutes

*You wanted to report
this to Cabinet, rather
than Minute Minutes.
Speaking note is attached*

Ref. A086/3488

MR WICKS

United Kingdom Regional Development Programme

N.L.W.

Thank you for your minute of 4 ^{attach} December.

17-12

2. I should of course be perfectly content for the Prime Minister to report the result of my inquiry and the conclusions which she has drawn to the Cabinet as a follow up to the discussion on 23 October, and that I should then write to Permanent Secretaries drawing their attention to the conclusions.

3. I am also content to alter the emphasis of paragraph 3 of the draft minute (which would now be a speaking note) attached to my minute of 11 November (Ref A086/3236), though I should like to make some drafting changes.

--- 4. I attach the draft speaking note herewith. If the Prime Minister would like to speak to that note at the meeting of Cabinet on Thursday 18 December, I will follow it up with a letter to Permanent Secretaries as proposed.

RA

ROBERT ARMSTRONG

16 December 1986

CONFIDENTIAL

SPEAKING NOTE FOR THE PRIME MINISTER

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

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

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

(i) Material being prepared for publication should be scrutinised for its political sensitivity, as well as for accuracy, comprehensiveness and clarity, bearing in mind the likely reception of the material by all the audiences that will read it - Parliamentary, press, international etc - and not just by the audience to which it is primarily directed.

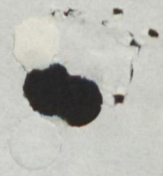
(ii) Responsibility for the final clearance of material for publication should not be devolved below a certain level, typically Grade 5. An official to whom such material is submitted for clearance should consider whether

the content and sensitivity of the material requires it to be cleared by a Minister. Sometimes the responsible official will conclude that it is not such as to require Ministerial clearance and will feel able to authorise the publication of the material. In case of doubt, the official should seek a Minister's view, drawing the Minister's attention to anything which seems likely to be politically sensitive and difficult.

This guidance applies both to material produced by a Department which it publishes itself and to material produced for incorporation in a publication by another Department. Departments publishing the material, however, carry the final responsibility for the material published.

4. If my colleagues agree, I shall ask the Secretary of the Cabinet to make sure that the attention of all Departments is drawn to these conclusions.

5. There is a further and deeper question as to whether it was necessary or justifiable to commit so much time and effort to the preparation of this programme for submission to the European Commission. I have asked the Secretary of the Cabinet to consider whether the case for support from the Regional Development Fund really required such a massive and time consuming bureaucratic exercise here and, if appropriate, to arrange for the necessary contacts with the European ^{Commission} ~~Council~~ to scale down their demands.



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CW/A27



Department of Employment
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Switchboard 01-213 3000

CCPC
✓

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

CDP
17/12

16 December 1986

Dear Sir,

I thought that I should let you know that our Action programme on employment growth was indeed adopted at the Labour and Social Affairs Council on 11 December, in line with the conclusions reached at the European Council. I attach a copy of the resolution in its final form. You will see that the final version was in fact strengthened at the Council by making clear that the first Commission proposals to put it into effect must be brought forward under the Belgian Presidency. Certain British newspaper reports claiming that the programme had been watered down were quite inaccurate and I think were inspired by briefing from disgruntled middle-ranking Commission officials.

I think we can regard it as a considerable achievement of the UK Presidency that we have turned the agenda of this particular Council away from its previous preoccupation with "social" proposals like Vredeling and parental leave which would have imposed costs and restraints on employment. The Council has agreed to address the real issues of promoting new enterprise and employment growth in Europe. The Commission are now committed to bringing forward proposals in line with our four main priorities - small firms, a more efficient labour market, training and help for the long term unemployed - and to reporting progress to the Council and to the European Parliament at six-monthly intervals. The first proposals will be produced before the next Council and I am delighted to say that both the Belgian and Dutch Ministers agreed to take the programme forward in their Presidencies.

That we are able to secure this outcome was in no small measure due to your own efforts and to those of your officials and of UKREP, for which we are extremely grateful.

I am copying this letter to the Prime Minister and to the members of OD(E), Sir Robert Armstrong and Sir David Hannay.

[Handwritten signature]

KENNETH CLARKE

COUNCIL RESOLUTION OF 11 DECEMBER 1986

On an action programme on employment growth.

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

- Having regard to the Treaty establishing the European Economic Community and to the Single European Act
- Having regard to previous resolutions of the Council concerning youth employment, long-term unemployment, labour market policies, local employment initiatives, vocational training, the introduction of new technologies and equal treatment between men and women
- Having regard to the conclusions of the European Council in the Hague on 26-27 June 1986 and in London on 5-6 December 1986.
- Having regard to the conclusions of the European Council in The Hague on 26/27 June
- Having regard to the document "Employment Growth into the 1990s - A Strategy for the Labour Market" submitted on 28 May 1986 by the Ministers for Employment representing Ireland, Italy and the United Kingdom
- Having regard to the opinions of the European Parliament on the labour market and employment, and to discussions in the Standing Employment Committee, in particular those which took place on 24 April and 7 November 1986,
- Acknowledging that the primary responsibility for measures to tackle unemployment rests with the Member States

- Acknowledging that increased employment must come about mainly through economic growth
- Acknowledging the role of measures to improve the functioning of the labour market within the Community's strategy of co-operative economic growth and within the overall economic policies of Member States,
 - Acknowledging that a strategy to improve the labour market should not put at risk basic rights in the areas of social security, social protection and conditions of work,
 - Acknowledging that such a strategy should take full account of the views of the social partners, and of conclusions reached in the context of the social dialogue,
 - Acknowledging that such a strategy should also distinguish between those areas where the Community has responsibility and those within the responsibility of the Member States,
 - Acknowledging that the European Social Fund, in the use of its available resources and in its priorities, must play an increased role in the Community's efforts to fight unemployment,
- I TAKES FULL ACCOUNT of the Community's strategy of co-operative economic growth as endorsed in Decision 85/619/CEE of 20 December 1985⁽¹⁾ [and in the result of the ECO/FIN Council of 8 December 1986]⁽²⁾ Council and in particular of the need to maintain soundly based economic growth and to work towards a sustained reduction in unemployment.
- II EXPRESSES THE COMMITMENT to concentrate its work and to develop further the cooperation between Member States in the areas of promoting new business and employment growth; more efficient labour markets; better training for young people and adults; and more help for long-term unemployed people; and further expresses the commitment, in full agreement with the Commission, to take the decisions and measures necessary to achieve the following:

(1) OJ no L377, 31.12.1985, p.1

(2) Text to be finalised later

1 Promoting new business and employment growth

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

(a) the rapid implementation of the Commission's action programme concerning small and medium sized enterprises⁽¹⁾ as endorsed in the conclusions of the Council of 20 October 1986, including:

- the undertaking of greater efforts to publicize Community Programmes of benefit to SMEs
- the identification and promotion of means whereby large companies and the private sector in general can assist the creation and growth of SMEs, in particular through training and specialist advice
- an examination of how Member States might best be assisted in providing small firms with support services including services from the appropriate labour market authorities; initial low cost workspace and accommodation; and advice on the introduction of new technology

(b) a reduction in the administrative constraints on the creation and expansion of enterprises, including support for the efforts being made within the Member States to encourage the setting up and expansion of SMEs and one person businesses in particular through

(1) Doc 8992/86 ECO 83

- simplified guidance for SMEs and the self employed
 - a campaign to reduce unnecessary administrative constraints, whose aims should include making Community legislation more easily understood
 - measures to increase the number of persons, particularly young people and the unemployed, going into self-employment
 - a review of existing instruments at all levels to identify whether changes are necessary to remove unnecessary or unintended obstacles to the number of persons taking up self-employment
- (c) encouragement of the growth of cooperatives and local employment initiatives (taking full account of the Council resolution of 7 June 1984⁽¹⁾ especially with respect to:
- identification of legislative or other barriers within Member States which put cooperatives at a disadvantage compared with other forms of business
 - Community-level support for the provision of training for those who assist in the establishment of or run cooperatives and local employment initiatives
 - efforts to provide on-the-spot advice and counselling to co-operatives and SMEs.

2 More efficient labour markets

The need to ensure more adaptable patterns of work, while not putting at risk basic rights in the areas of social security, social protection and conditions of work, and the need to increase the access to the labour market of all those seeking a job imply a need for greater adaptability in the labour market, in cooperation with the social partners according to the practices in force in the Member States, both internal and external to the enterprise. This also recognises a need to make it easier for workers affected by the decline of traditional industries, or the restructuring of other industries, to get back in to work

(1) OJ no C161, 21.6 1984, p.1

To this end the Council wishes to bring about

- (a) the encouragement of initiatives at local level which, while taking account of national and regional characteristics, aim to involve local interests in the development and implementation of employment and training policies in their locality
- (b) steps to make it easier for workers to move to available jobs and to respond to changes in the demand for labour, including those connected with the decline and restructuring of traditional industries, through:
 - encouraging Member States so far as possible to remove obstacles to mobility within their own countries including through the provision of rapid and effective placement services
 - the provision of improved information and advice about employment opportunities at all skills levels, and about pensions (including the identification of possible means of improving their portability), social security and other relevant rights and arrangements throughout the Community, so as to remove obstacles to movement between Member States, using as appropriate the SEDOC system
- (c) greater mutual recognition by Member States of vocational qualifications by means of:
 - the accelerated implementation of Community decisions on the comparability of vocational training qualifications
 - the identification of and action on further areas where the absence of mutually recognised qualifications or comparability between qualifications is a serious impediment to free movement of labour
- (d) the removal of obstacles to the development of new forms of work on the periphery of traditional sectors of employment, in the sector of personal services and in activities which fulfil a public need with the aim of meeting the changing requirements of Society.

- (e) the removal of obstacles to the development of part-time and temporary work, fixed term contracts and job sharing whilst preserving due regard for the need for social and employment protections
- (f) an increase in the equality of access to, and opportunity within, the labour market for women by:
- the implementation of the Community's medium term programme 1986-1990
 - support for efforts within Member States to encourage women to set up their own businesses
 - the promotion of training for occupations where women are under-represented (notably those connected with new technology)
 - a re-examination of the need for certain types of restrictive legislation affecting women's employment, as for example that relating to night work in industry
- (g) an increase through the taking of similar measures in the equality of access to, and opportunity within, the labour market for disabled people, migrant workers including those returning to their original Member States, and residents of disadvantaged areas within cities.

3 Training

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

- (a) more effective vocational programmes of education and training for young people through the taking of measures by Member States to encourage:
- links between schools and the world of work
 - the greater involvement of industry and commerce in the design and delivery of vocational education and training
 - up to two years' vocational education and training (including, where appropriate, training at the work place under a training contract and not excluding other training arrangements of longer duration) for school leavers, leading to recognised vocational qualifications
 - special provision for the disadvantaged and disabled
- (b) an increase in the prospects of recruitment and stable employment for those young people leaving programmes of education and training
- (c) an increase in the levels of training and retraining opportunities available to adults through the taking of measures to:
- promote amongst both employers and employees a greater awareness of the importance of training both in encouraging economic growth and in meeting the personal and professional aspirations of individuals
 - encourage employers to invest more in training in industry
 - aid the development of more responsive training systems, including the use of new technologies
- (d) the establishment of a series of Community actions designed to examine ways of:
- overcoming restrictions on access to training, particularly where training for certain jobs is not widely available to some sectors of the population

- identifying the developing training needs of enterprises, particularly at local level as part of the Commission's continuing work in the field of training and in the development of local employment initiatives
- providing more flexible and cost effective forms of training, particularly through the use of new technologies.

4 Long term unemployed

The continued growth of long-term unemployment in the Community reflects both high unemployment in general and the way in which it affects disproportionately certain areas and certain groups in the labour market, particularly those who, by virtue of other disadvantages, have difficulty in securing and maintaining employment. Effective action to combat this problem requires active intervention to help the long-term unemployed by Government, wherever possible with the support of the social partners, as already agreed within the Council resolution of 19 December 1984⁽¹⁾. In view of the continued rise in long-term unemployment since that date, however, the Council considers that further action is urgently needed in respect of

- (a) the promotion and encouragement of schemes in Member States which will be of benefit to the long term unemployed including schemes of or including training, job counselling and guidance, and which will increase the proportion of employment service resources devoted to the long-term unemployed.
- (b) the adoption of a Community approach, taking account of the experience and individual circumstances of Member States, with regard to recruitment aids for the long-term unemployed
- (c) the identification of other means of helping more long-term unemployed people (including those under the age of 25) into jobs following discussions of the means of doing so with the social partners

(1) OJ no C2, 4.1. 1985, p3

- (d) agreement on Community-wide comparable statistical data on the duration of unemployment
- (e) an examination of the impact on the long-term unemployed of social security systems within Member States.

III Social Dialogue

The Council recalls Article 22 of the Single European Act which requires the Commission to endeavour to develop the dialogue between management and labour at European level and welcomes those agreements already reached.

The Council supports the efforts which the Commission has undertaken to carry out this remit and expresses the hope that the dialogue will continue and will lead to conclusions being reached between the social partners which will give added impetus to the programme set out in this resolution.

IV Economic and Social Cohesion

The Council recalls Article 130A of the Single European Act and endorses the importance of the achievement of economic and social cohesion aimed at reducing disparities between the various regions and the backwardness of the least favoured regions. In this context, the Council recalls the conclusions of the most recent European Councils held in The Hague and London.

V Implementation of the Programme

1. THE COUNCIL, acknowledging the important role of the Commission in implementing this programme, INVITES the Commission to submit to it before the next meeting of the Council (Labour and Social Affairs) the first proposals for the implementation by the Community or, where appropriate, Member States of the programme set out above, and otherwise to promote employment.
2. THE COUNCIL FURTHER INVITES the Commission to assist in the rapid dissemination of information throughout the Community on new initiatives taken in the areas covered by the Programme building as far as possible on the existing structures and information systems, and in particular MISEP and ELISE.

3. THE COUNCIL INVITES the Commission in preparing such proposals to take account both of the views and the responsibilities of the social partners, and of such agreed conclusions as they may reach or have reached in the framework of the social dialogue; and of the best practices in the Member States.
4. THE COUNCIL UNDERTAKES to act on such proposals as soon as possible once it has been informed officially of the Opinions given by the Parliament and by the Economic and Social Committee on the proposal or communication in question, and with the maximum endeavour to reach agreement. The Council in particular invites the Commission to submit to it before the next meeting of the Council (Labour and Social Affairs) proposals and communications concerning youth and adult training and long-term unemployment.
5. In this context THE COUNCIL RECALLS its conclusions of 13 June 1985 which, among other things, called upon the Commission to examine the possibility of promoting coordinated action to develop experimental or exemplary Community and/or national projects aimed at creating new job opportunities and undertakings, particularly as regards the long-term unemployed and the young, and requests the Commission to report on the results of the examinations called for in these conclusions before the next meeting of the Council (Labour and Social Affairs).
6. THE COUNCIL FURTHER RECALLS the request made to the Commission by the European Council on 26/27 June to analyse the phenomena of the underground economy so as to assist employment policies, and looks forward to receiving the results of the Commission's analysis.
7. THE COUNCIL INVITES the Commission to furnish the Council, the European Parliament and the Economic and Social Committee once every six months, with a written summary report on progress made in implementing the Programme and on future developments.
8. THE COUNCIL REQUESTS the Commission, within the available resources, to take into account the possibilities of helping the implementation of this Programme in its decisions on the various Community financial instruments, and in particular to bring forward as early as possible its proposals for the review of the European Social Fund.

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TELNO 4518
OF 150830Z DECEMBER 86
INFO IMMEDIATE EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

1987 BUDGET AND EX NOVO

1. CHRISTOPHERSEN SPOKE TO ME ABOUT BOTH OF THESE SUBJECTS OVER THE WEEKEND.

1987 BUDGET

2. CHRISTOPHERSEN HAS NOT YET GIVEN UP ALL HOPE OF A FURTHER MOVE BY THE UK PRESIDENCY BEFORE THE END OF THE YEAR. HE ACCEPTED THAT, IF THE AGRICULTURE COUNCIL PRODUCED NO RESULTS, NOTHING COULD USEFULLY BE DONE. BUT IF THE COUNCIL DID GET A RESULT THEN IT WOULD BE POSSIBLE TO PUT IN THE BUDGET A FIGURE FOR AGRICULTURAL SAVINGS AND, ON THAT BASIS, REVERSION TO THE PARLIAMENT JUST MIGHT PRODUCE A RESULT. CHRISTOPHERSEN SAID HE WAS VERY NERVOUS ABOUT VERHOFSTADT. HE KNEW NOTHING ABOUT THE BUDGET AND SEEMED TO THINK EVERYTHING COULD BE ARRANGED AS IN A BELGIAN GOVERNMENT COALITION NEGOTIATION: WITH A COMPROMISE A LA BELGE. HE WAS LIKELY TO BE DISILLUSIONED PRETTY QUICKLY.

EX NOVO

3. CHRISTOPHERSEN WAS DISMAYED BY DELORS'S DECISION TO TOUR CAPITALS. CHRISTOPHERSEN HAD BEEN JUST ABOUT READY TO GO WITH HIS THREE PAPERS. NOW WHAT WAS TO BE DONE AT THE COMMISSION MEETING ON 21/22 DECEMBER? HE SEEMED TO BE DRIFTING TOWARDS AN APPROACH BY WHICH THE COMMISSION WOULD CIRCULATE ITS ANALYSIS IN ADVANCE OF THE TOUR OF CAPITALS BUT KEEP ITS PROPOSALS IN ITS POCKET. I SAID THE IMPORTANT THING, HAVING SET UP THE TOUR OF CAPITALS, WAS TO PUT IT TO GOOD USE. GOVERNMENTS WHICH HAD BEEN TOLD THEY WOULD BE CONSULTED WOULD NOT APPRECIATE BEING PRESENTED WITH A FAIT ACCOMPLI. THE PRIME MINISTER CERTAINLY EXPECTED TO BE ABLE TO DISCUSS THE QUESTIONS, NOT JUST BE TOLD WHAT THE COMMISSION INTENDED TO PROPOSE.

4. WE UNDERSTAND FROM CHRIS. OPHERSEN'S CABINET THAT HE HAS BEEN EMPOWERED TO CONVENE A TRILOGUE MEETING IF HE THINKS IT MIGHT BE PRODUCTIVE. IF THE AGRICULTURE COUNCIL IS SUCCESSFUL, HE PROBABLY WILL WANT TO CONVENE A MEETING.

HANNAY

YYYY
ADVANCE
RENWICK FCO
WALL FCO
BLOOMFIELD FCO
WILLIAMSON CAB
JAY CAB
PS/CHANCELLOR TSY
PS/MST TSY
LAVELLE TSY
EDWARDS TSY
BONNEY TSY
DONNELLY TSY
MAIN
FRAME ECONOMIC

UCLNAN 5925

FRAME ECONOMIC
(CD 1)



JA

cc DTI
FCO
CO

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

15 December 1986

Dear Mr. Kasla,

I am grateful for your support in our efforts to speed up progress in the internal market which has been a major objective of the United Kingdom Presidency.

Progress has been slower than we would have wished but the Internal Market Council, which you particularly mention, has achieved substantial results.

As you may know I wrote to other Community Heads of Government before the 1 December Internal Market Council to ask for their support in seeking agreement on a package of 13 measures which in the Presidency's view were ready for decisions. I am pleased to say that the Council managed to agree 9 proposals in the package. These included substantial measures on controlling counterfeit goods, on good laboratory practice, on procedures for placing new pharmaceutical products on the market and on legal protection of microcircuit designs. At the European Council last week Heads of Government called for decisions to be taken on the remaining four measures before the end of the Presidency. This would bring to very nearly 20 the number of measures agreed by the Internal Market Council during the United Kingdom Presidency, a considerable achievement compared with the previous rate of progress.

EC

At the European Council Heads of Government also called for decisions to be taken in other Councils, where progress has been slower, notably Agriculture, (on food law and plant and veterinary health measures), and the Transport Council (on major packages on liberalising air and shipping services). I can assure you that the United Kingdom Presidency will be doing all that it can to secure results by the end of the year, and to ensure that progress continues in 1987.

I am writing in the same terms to other members of the Internal Market Support Committee who signed the telex to me.

Yours sincerely

Raymond Shalton

Dr. Karlheinz Kaske.



JA

cc DTI
FCO
CO

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

15 December 1986

Dear Mr. Nicolai,

I am grateful for your support in our efforts to speed up progress in the internal market which has been a major objective of the United Kingdom Presidency.

Progress has been slower than we would have wished but the Internal Market Council, which you particularly mention, has achieved substantial results.

As you may know I wrote to other Community Heads of Government before the 1 December Internal Market Council to ask for their support in seeking agreement on a package of 13 measures which in the Presidency's view were ready for decisions. I am pleased to say that the Council managed to agree 9 proposals in the package. These included substantial measures on controlling counterfeit goods, on good laboratory practice, on procedures for placing new pharmaceutical products on the market and on legal protection of microcircuit designs. At the European Council last week Heads of Government called for decisions to be taken on the remaining four measures before the end of the Presidency. This would bring to very nearly 20 the number of measures agreed by the Internal Market Council during the United Kingdom Presidency, a considerable achievement compared with the previous rate of progress.

At the European Council Heads of Government also called for decisions to be taken in other Councils, where progress has been slower, notably Agriculture, (on food law and plant and veterinary health measures), and the Transport Council (on major packages on liberalising air and shipping services). I can assure you that the United Kingdom Presidency will be doing all that it can to secure results by the end of the year, and to ensure that progress continues in 1987.

I am writing in the same terms to other members of the Internal Market Support Committee who signed the telex to me.

Yours sincerely
Margaret Thatcher

Mr. Curt Nicolin.



JA

CCDTI
FCO
CO

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

15 December 1986

Dear Mr. Shubry.

I am grateful for your support in our efforts to speed up progress in the internal market which has been a major objective of the United Kingdom Presidency.

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ECU

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Yours sincerely

Raymond Maitland

Mr. Patrick Sheehy.



JA

cc DTI
FCO
CO

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

15 December 1986

Dear Mr. Agnelli,

I am grateful for your support in our efforts to speed up progress in the internal market which has been a major objective of the United Kingdom Presidency.

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I am writing in the same terms to other members of the Internal Market Support Committee who signed the telex to me.

Yours sincerely
Raymond Barber

Mr. Umberto Agnelli.



10 DOWNING STREET
LONDON SW1A 2AA

JA
cc DTI
FCO
CO

THE PRIME MINISTER

15 December 1986

Dear Mr. Decker.

I am grateful for your support in our efforts to speed up progress in the internal market which has been a major objective of the United Kingdom Presidency.

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EA

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I am writing in the same terms to other members of the Internal Market Support Committee who signed the telex to me.

Yours sincerely
Margaret Thatcher

Dr. Wisse Dekker.



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

15 December 1986

Dear Viscount Davignon.

I am grateful for your support in our efforts to speed up progress in the internal market which has been a major objective of the United Kingdom Presidency.

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li

JTA

*cc DTI
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cc

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I am writing in the same terms to other members of the Internal Market Support Committee who signed the telex to me.

Y
Louis Sirey
Raymond Halber

Viscount Etienne Davignon.

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cc/pe
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FROM: Minister of State

DATE: 15 December 1986

ms

Prime Minister

CDP
15/xii

PRIME MINISTER

COMMUNITY BUDGET FOR 1987

As you will be aware, the Budget Council and the European Parliament were not able to reach agreement last week on a Community budget for 1987. The Council insisted on respecting the budget discipline/maximum rate limits on non-obligatory expenditure; the Parliament could not accept this. The Community will have therefore to operate under the provisional twelfths regime from 1 January. The arranged Parliamentary Answer attached fills in some of the detail.

2. From the Presidency point of view, this was naturally a disappointing outcome. I think however that no reasonable person could lay the blame at our door. Once the Socialists and Christian Democrats had decided that other things were more important to them politically than a budget settlement, and that they had no stomach for a budget which respected budget discipline, disagreement was a foregone conclusion. The EDGs took a much more moderate stance but lacked the voting power.

3. From the Council's point of view, I believe that, paradoxically, the substantial excesses over the maximum rate which the Parliament voted are helpful: they weaken the Parliament's credibility and make the Council's stand seem the more necessary. In addition, one practical effect of the provisional twelfths regime will be to delay the launching of new programmes of particular interest to the European Parliament - the new fisheries structures programme in Spain and some new R&D programmes. To some extent, therefore, the Parliament will be perceived as having shot itself in the foot.

4. From a UK point of view, we can I think take considerable satisfaction from the fact that France, Germany, the Netherlands, Belgium, Denmark and Luxembourg all joined us in continuing to

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ist on adherence to budget discipline and the maximum rate, and that the southern Member States and Ireland were unable to frustrate the will of the majority.

5. We expect the provisional twelfths regime to be a nuisance but in no sense a disaster. The detailed application of the regime will have to be worked out over the next few weeks. Our firm understanding is, however, that we shall make the same VAT contributions, month by month, and benefit from the same VAT abatements, as in the current year. While the regime lasts we expect to be better off than we would have been with an agreed budget, though this favourable effect will be unwound on adoption of a 1987 budget.

6. I may possibly see President Pflimlin and President Delors again this week to discuss the way ahead. If so, I will of course take the opportunity to keep the Belgian Presidency-to-be in touch. It seems clear, however, that there can be no magic solutions in the short term. The only solution which the Council could accept would be for the Parliament to reduce its demands to budget discipline/maximum rate levels, and there is clearly no possibility that the Parliament will do this except with a considerable amount of camouflage. No such camouflage is likely to be available until the Commission presents proposals to cover the deficit carried forward from the current year. The Commission will hardly be in a position to do this before June, and I would therefore judge that, provided that the Council stands firm on budget discipline, we are more likely than not to continue on provisional twelfths until June or July. By that time, of course, we are likely in addition to have a looming crisis on agricultural expenditure, and the future financing review should be well under way.

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

P.B.

PETER BROOKE

MR

To ask Mr Chancellor of the Exchequer if he will make a statement on the recent meeting of the European Community Budget Council and the latest stages of the 1987 budget procedure.

MR PETER BROOKE

The Budget Council met in Strasbourg on the evening of 10 December in an attempt to reach agreement with the Parliament on the Community budget for 1987. I was in the chair.

In response to the Council's second reading budget proposals, which respected the budget discipline limits for agricultural and non-obligatory expenditure, the European Parliament's Budgets Committee had recommended increases in expenditure which would have taken the budget beyond the budget discipline limit on non-obligatory expenditure by some 293 mecu (£183.8 million*) on commitment appropriations and some 93 mecu (£58.3 million) on payment appropriations. The Council's budget discipline agreement requires that the maximum rate of increase in non-obligatory expenditure laid down in the Treaty, 8.1 per cent for 1987, be respected.

The Council made clear to the Parliament's representatives that, while it was prepared to go a long way towards meeting the Parliament's priorities within the budget discipline/maximum rate totals, it was not willing to increase non-obligatory expenditure in total beyond the maximum rate levels. The Council pointed out that the deficit which was expected to be carried forward from the current year was likely to use up all the remaining resources within the 1.4 per cent VAT ceiling and that there was therefore no money to finance further increases in expenditure. Belgium, Denmark, France, Germany, Luxembourg and the Netherlands joined the United Kingdom in insisting that the budget discipline limits must be respected.

The Parliament's representatives made clear that they could not agree that the increase in non-obligatory expenditure should be limited to the 8.1 per cent maximum rate. Hence no agreement was reached between the Council and the Parliament's representatives.

The Parliament's Plenary then voted on 11 December for amendments to non-obligatory expenditure whose effect would be to raise both commitment and payment appropriations above the maximum rate of increase, by 185.5 mecu (some £116.4 million) and 88.2 mecu (some £55.3 million), respectively.

When the results of these votes were announced, I formally reminded the Parliament's Plenary that the Council had not agreed to raise the maximum rate and that the budgetary procedure provided for in Article 203 of the Treaty had not therefore been completed.

As the 3 July judgement by the European Court of Justice on the 1986 budget dispute makes clear, the President of the Parliament is not in a position under Article 203 of the Treaty to declare adopted without the Council's agreement a budget for 1987 which does not respect the 8.1 per cent maximum rate. From 1 January 1987, therefore, the Community will have to operate under the provisional twelfths regime set out in Article 204 of the Treaty. The broad effect of this is to limit expenditure on individual lines month by month to one-twelfth of the level of the preceding year, though the Council may authorise by qualified majority expenditure in excess of one-twelfth subject to the further limitations set out in the Treaty. While the provisional twelfths regime lasts, we would expect to make VAT contributions, and to benefit from VAT abatements under the Fontainebleau system, at the same monthly rates as in the current year: the favourable effect on our net budgetary position would however be unwound after a 1987 budget has been adopted.

The Government naturally regrets that the Council and the Parliament were unable to reach agreement last week on a budget for 1987 but welcomes the Council's determination to insist on adherence to budget discipline.

* All conversions are made at the 1987 budget exchange rate of £1=1.5939 ecu.

FCO
MR BRAITHWAITE
MR RENWICK

RESIDENT CLERK
HD/ECD (I) (3)
HD/NEWS DEPT

PLUS FCO

IMMEDIATE

<p><u>CABINET OFFICE</u> MR WILLIAMSON MR JH HOLROYD MR MH JAY MR GREEN</p>	<p><u>DTI</u> MR WAINMAN WINKETT MR WAINMAN 1 VIC ST MR LOUGHHEAD MR B HOPSON RM 539 1 VIC ST</p>	<p><u>DEPT OF EMPLOYMENT</u> PS/SOFS MR P IRWIN MR L LEWIS PS/PMR PS/MR LEE MR DANE MR LEWIS</p>
<p><u>H M TREASURY</u> MR MACANLAW MR C D CRABBIE</p>	<p><u>MAFF</u> PERMANENT SECRETARY</p>	<p><u>DHSS</u> MR K BLUNT MR ADGEES HSE MR BOLTON HSE MR MASSON HSE MR BUCHANAN HSE</p>

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EC SOCIAL AFFAIRS COUNCIL : 11 DECEMBER 1986.

SUMMARY.

1. KEY PRESIDENCY OBJECTIVE ACHIEVED. EMPLOYMENT RESOLUTION ADOPTED WITH MINIMUM AMENDMENT AFTER VIGOROUS BUT UNSUCCESSFUL EFFORTS BY ITALY TO SECURE COMMITMENT ON EXTRA FINANCE. CARCINOGENS DIRECTIVE BLOCKED BY ITALIAN RESERVE. NO AGREEMENT ON BENZENE DIRECTIVE. DISCUSSION OF THE HEALTH AND SAFETY DOSSIERS INFLUENCED BY IMMINENCE OF SEA. ADAPTATION OF POVERTY PROGRAMME AGREED. BRIEF LUNCHTIME DISCUSSION OF FUTURE OF EUROPEAN SOCIAL FUND.

2. PAYMASTER GENERAL (MR CLARKE) CHAIRED WHILE MR LEE (PARLIAMENTARY UNDER SECRETARY FOR EMPLOYMENT) REPRESENTED UK.

3. 'A' POINTS AGREED. (EXCEPT POINT 4 ON IRON AND STEEL).

EMPLOYMENT RESOLUTION (10801/86).

4. MR CLARKE RECALLED THE BACKGROUND TO THE RESOLUTION, AND IN PARTICULAR THE REMIT IN THE CONCLUSIONS OF THE LONDON SUMMIT. DISCUSSION THEN PROCEEDED BY TAKING EACH SECTION OF THE RESOLUTION IN TURN. THERE WERE NO COMMENTS ON THE INTRODUCTION, NOR ON THE SECTIONS CONCERNED WITH PROMOTING NEW BUSINESS, TRAINING, AND LONG TERM UNEMPLOYMENT.

5. THERE WAS STRONG PRESSURE FROM ALL OTHER DELEGATIONS (INCLUDING OUR CLOSEST ALLIES) IN FAVOUR OF COMMISSION PROPOSAL TO PLAY UP THE ROLE OF THE SOCIAL PARTNERS IN THE CHAPEAU TO THE SECTION ON EFFICIENT LABOUR MARKETS. FOLLOWING INTERVENTIONS IN THE OPPOSITE SENSE BY MR LEE, THE COMMISSION TONED DOWN ITS PROPOSAL, AND THE CHAIR WAS ABLE TO SECURE AGREEMENT ON LIMITING COOPERATION WITH THE SOCIAL PARTNERS TO 'WITHIN THE PRACTICES IN FORCE IN THE MEMBER STATES'.

6. THE SOUTHERN MEMBER STATES ARGUED HARD FOR A STRONG REFERENCE TO

STATES".

6. THE SOUTHERN MEMBER STATES ARGUED HARD FOR A STRONG REFERENCE TO PROMOTING COHESION WITHIN THE COMMUNITY. IN ADDITION, DE MICHELIS (ITALY) TABLED, UNANNOUNCED, HIS OWN PAPER IN FAVOUR OF A COMMUNITY FINANCIAL FACILITY FOR PROJECTS TO PROMOTE EMPLOYMENT. DESPITE HIS LONG HARANGUE, DE MICHELIS RECEIVED NO SUPPORT FOR HIS PET IDEA, BUT CLEARLY HAD IN MIND TO PURSUE THE IDEA NEXT YEAR.

7. QUINN (IRELAND) HELPFULLY PROPOSED SIMPLY RECALLING THE TERMS OF ARTICLE 130A OF THE SINGLE EUROPEAN ACT AND THE CONCLUSIONS DRAWN AT THE LAST TWO EUROPEAN SUMMITS. CHAIRMAN SECURED AGREEMENT THAT ONLY A NEW PARAGRAPH ON THESE LINES WOULD BE INSERTED INTO THE TEXT. NO FURTHER DISCUSSION OF COHESION.

8. ON IMPLEMENTATION OF PROGRAMME, COMMISSION AND SEVERAL OTHER DELEGATIONS JIBBED AT PENULTIMATE PARAGRAPH, CALLING FOR SIX MONTHLY REPORTS. BUT MR CLARKE SECURED AGREEMENT FOR EXISTING TEXT THROUGH ADDITION OF COUNCIL MINUTES STATEMENT ASKING THE MEMBER STATES TO PROVIDE THE COMMISSION WITH THE NECESSARY INFORMATION. COMMISSION IS THUS OBLIGED TO PRESENT SIX MONTHLY REPORTS TO COUNCIL, EP AND ESC.

9. THERE WAS A LENGTHY CAMPAIGN BY PORTUGAL, SPAIN AND ABOVE ALL ITALY TO BRING FORWARD THE DATES WHEREBY THE COMMISSION WOULD SUBMIT ITS PROPOSALS UNDER THE PROGRAMME. AFTER SOME DISCUSSION, IT WAS AGREED THAT THE COMMISSION WOULD PRESENT ITS FIRST PROPOSALS UNDER THE PROGRAMME, AND IN PARTICULAR THOSE CONCERNING YOUTH TRAINING AND LONG-TERM UNEMPLOYMENT, BEFORE THE NEXT LABOUR AND SOCIAL AFFAIRS COUNCIL. THE SAME TIMETABLE SHOULD APPLY TO THE REPORT SOUGHT BY ITALY ON THE FUNCTIONING OF THE EXPERIMENTAL SECTION OF THE ESF. THE EXISTING NEUTRAL TEXT ON THE FUND-(LAST PARAGRAPH OF THE RESOLUTION) WAS LEFT UNTOUCHED.

10. THE ABOVE AMENDMENTS WERE CIRCULATED IN THE AFTERNOON AND WERE ACCEPTABLE TO ALL.

PROSCRIPTIONS DIRECTIVE (10753/1/86)

11. DE MICHELIS (ITALY) ADAMANTLY REFUSED TO LIFT RESERVE ON GROUNDS THAT NO COUNTRY SHOULD BE ALLOWED TO HAVE UNLIMITED DEROGATIONS AND THERE SHOULD BE NO COMPROMISE ON CITIZENS' HEALTH FOR ECONOMIC REASONS. MARIN WARNED THAT, IF NOT AGREED, THE DIRECTIVE WOULD BE A CLASSIC FOR QUALIFIED MAJORITY VOTING UNDER ARTICLE 118A OF THE SEA. IN ORDER TO HELP ITALY HE PROPOSED THAT ARTICLE 6 SHOULD CALL FOR A REPORT TO BE SUBMITTED BEFORE 1 DECEMBER 1991, RATHER THAN AFTER 8 YEARS. FRG AND PRESIDENCY PRESSED DE MICHELIS TO ACCEPT THIS AMENDMENT, POINTING OUT THAT THE DEROGATIONS SUGGESTED IN PRESIDENCY COMPROMISE WERE VERY SEVERELY LIMITED. DE MICHELIS WAS OBDURATE AND PRESIDENT CONCLUDED DOSSIER SHOULD BE REFERRED BACK TO COREPER.

BENZINE DIRECTIVE (10973/86)

12. PRESIDENT, PROPOSED TO TRY TO SEEK AGREEMENT SUBJECT TO EP OPINION. THERE WAS GOOD DEAL OF PRECEDENT FOR PROCEEDING IN THIS WAY. MARIN, SUPPORTED BY QUINN AND DE MICHELIS WERE UNHAPPY. MARIN CONFIRMED THAT EP WAS USING THE BENZENE DIRECTIVE AS A POLITICAL TEST CASE. THEY HOPED IT COULD BE SUBJECT TO THE NEW CONSULTATION PROCEDURES IN THE SEA. IF THE COUNCIL APPROVED THE DIRECTIVE TODAY, THEY REISKED OFFENDING THE EP. PRESIDENT COUNTERED THAT EP HAD BEEN ASKED FOR THEIR OPINION AS EARLY AS JANUARY 1986.

13. IN SUBSEQUENT DISCUSSION ON THE ACTION LEVEL, 10 DELEGATIONS COULD ACCEPT THE PRESIDENCY COMPROMISE PROPOSED AT COREPER (2 PPM ACTION LEVEL BY 1 JANUARY 1990 AND 1.5 PPM BY 1 JANUARY 1995) BUT DE MICHELIS, DESPITE CRITICISM FROM DENMARK AND OTHERS, CONTINUED TO INSIST ON LEVEL OF 0.5 PPM OR AT THE VERY HIGHEST 1 PPM, WITH DEROGATIONS TO ALLOW COUNTRIES TO ADAPT AND LEE COULD RELUCTANTLY ACCEPT AN ACTION LEVEL OF 2 PPM BUT NO LOWER.

INSIST ON LEVEL OF 0.5 PPM OR AT THE VERY HIGHEST 1 PPM, WITH DEROGATIONS TO ALLOW COUNTRIES TO ADAPT AND LEE COULD RELUCTANTLY ACCEPT AN ACTION LEVEL OF 2 PPM BUT NO LOWER.

14. AS IT WAS CLEAR NO AGREEMENT WOULD BE REACHED, PRESIDENT CONCLUDED THAT FURTHER DISCUSSION ON OTHER OUTSTANDING POINTS WAS UNNECESSARY, AND THE DOSSIER SHOULD BE REFERRED BACK TO COREPER. THE SECRETARY GENERAL WOULD ALSO WRITE TO THE EP AGAIN URGING IT TO PROVIDE AN OPINION BEFORE THE END OF THIS YEAR.

EC ANTI POVERTY PROGRAMME (10740/86)

15. ARTHUIS WITHDREW THE FRENCH RESERVE AND BADEN OPTED TO ABSTAIN RATHER THAN FORCE A VOTE. PRESIDENT CONCLUDED THAT COREPER WOULD FINALISE TEXT WITH VIEW TO ITS ADOPTION AS AN 'A' POINT BEFORE THE END OF THE YEAR. FRG STATEMENT WOULD BE ENTERED IN COUNCIL MINUTES, REGRETTING THAT CONTINGENCY PLANS WERE NOT MADE FOR SPAIN AND PORTUGAL WHEN THE BUDGET FOR THE PROGRAMME WAS ADOPTED ORIGINALLY.

16. SOCIAL SECURITY FOR MIGRANT WORKERS: YUGOSLAVIA (10741/86)
ARTHUIS REGRETTED HE COULD NOT LIFT THE FRENCH RESERVE. FRANCE WOULD CIRCULATE A NOTE TO MEMBER STATES IN THE NEXT FEW DAYS. PRESIDENT CONCLUDED THAT MATTER SHOULD BE REFERRED BACK TO COREPER.

DRAFT COUNCIL CONCLUSION ON VOCATIONAL TRAINING FOR YOUNG PEOPLE (10975/86).

17. ARTHUIS LIFTED THE FRENCH RESERVE, BUT MR LEE HAD TO MAINTAIN A UK SECURITY RESERVE, AS THE DOCUMENT HAD NOT BEEN CLEARED IN LONDON.

PINNA JUDGEMENT.

18. MIRA AMARAL SAID THE COMMISSION SHOULD SUBMIT PROPOSALS FOR A NEW COMMUNITY REGULATION IN 1987, CLEARLY LINKED TO THE ECJ RULING ON PINNA. THE REGULATION SHOULD BE BASED ON A UNIFORM PAYMENT SYSTEM BASED ON THE COUNTRY OF EMPLOYMENT, NOT THE COUNTRY OF RESIDENCE. ARTHUIS AGREED THAT A RAPID SOLUTION WAS NEEDED. THERE WOULD BE NO INTERRUPTION IN PAYMENT OF FAMILY BENEFITS IN THE INTERIM. MARIN CONFIRMED THAT THE COMMISSION WAS STILL CONSIDERING AN APPROPRIATE SOLUTION, BUT DID NOT COMMIT HIMSELF AS TO WHETHER HE WOULD PURSUE THE LEGISLATIVE ROUTE (AS ALSO FAVOURED BY FRANCE) OR FURTHER CASES BEFORE THE ECJ.

LUNCH TIME DISCUSSION.

19. DURING LUNCH, COMMISSIONER MARIN ARGUED THAT, UNDER HIS STEWARDSHIP, THE MANAGEMENT OF THE FUND HAD GREATLY IMPROVED. TO THIS END, HE DISTRIBUTED PAPER (BY BAG TO LEWIS, DEPT OF EMPLOYMENT) ABOUT REDUCTION IN PROBLEM OF WEIGHT OF THE PAST. HE THEN ARGUED THAT THE WAY WAS NOW CLEAR FOR INCREASES IN SIZE OF THE FUND. MINISTERS THEN TOOK UP PREDICTABLE POSITIONS.

'A' POINTS.

20. AMONG THESE WAS THE DIRECTIVE TO ENSURE EQUALITY OF OPPORTUNITIES IN ACCESS TO SELF EMPLOYMENT AND SETTING UP OF BUSINESSES.

HANNAY

YYYY
ADVANCE
RENWICK FCO
WALL FCO
NBARNETT FCO
WILLIAMSON CAB
JAY CAB
LOUGHEAD DTI
MACAUSLAND TSY
CRABBIE TSY

From: R W Renwick ✓

Date: 11 December, 1986

cc: PS/Mrs Chalker
Mr Braithwaite
Sir David Hannay
UKREP Brussels
Mr Williamson
Cabinet Office
Mr Fergusson
Mr Houston
Mr Wall
ECD(I)

Private Secretary

COMMUNITY FINANCING

A Before dealing with the points raised by Mr David Curry, I should describe how we see the discussions going next year and our suggested objectives in them.

2. Delors will have a "brain-storming" with COREPER on 19 December. In January he will visit capitals. He is likely to do so on the basis of internal Commission papers envisaging an increase in the own resources to 1.4% of GDP (equivalent to 2.1% of VAT) plus a call for agricultural reform, concentration of the structural funds in ways that could affect our receipts share and no convincing arrangements for overall budgetary control.

3. The French and Germans will not buy this approach any more than we will. M. Martens may try to arrange a first discussion among heads of government in Brussels on or about 25 March, when he hopes they will attend ceremonies to mark the 30th anniversary of the Treaty of Rome. There is no need to isolate ourselves in this negotiation. Our approach should be to concert with the French and Germans so that all three of us take a very tough line on overall financing. We should make clear that there is no question of anything like the increase which may be proposed by the Commission being agreed. We should insist on effective arrangements for budgetary discipline. We should not be prepared to go one inch beyond Fontainebleau. Nor would we be prepared at any stage to contemplate a change without effective CAP reform.

4. In a more rational world, we should be able to get the Germans to block any increase in the VAT ceiling. Because of their farmers, they are unlikely to do so. While the Germans probably would agree to an increase to 1.6% or its equivalent without a German budgetary correction, they would insist on a correction for any increase going beyond that.

5. The French and Germans are well aware that we shall not in any event be prepared to agree to an increase in the life time of this Parliament. We have made clear to the Belgians that decisions will not be reached at the European Council in June. The best that can be hoped from that meeting is that it might pave the way for an eventual solution of which the essential element must be effective measures to eliminate future agricultural surpluses.

6. The Danes expect, as we do, discussion throughout the Belgian Presidency to be inconclusive. They see no chance of agreement on the basis of what the Commission are likely to propose. The Danes intend at some point during their Presidency to propose instead an agreement based on Fontainebleau ie an increase in the VAT rate to

1.6% in 1988, plus significant agricultural reform. It may be that some agreement on that basis could be reached towards the end of 1987. It is not going to be reached on any other basis. An agreement on that time scale could not come into effect until mid-way through 1988.

7. As there certainly will be no early agreement to any increase in the own resources, there will be strong pressures for an inter-governmental agreement to finance the 3 or 4 becus FEOGA deficit in the period from October next year. We should work hard on the French and Germans to try to get them to agree that this should be nationally financed. This would be the most effective way of installing some real discipline. We should point out that the Germans would pay three times as much through an IGA than if they paid their farmers themselves. But neither the French nor the Germans can really be relied upon to hold out against an IGA. Our contribution to an IGA would be covered by the Fontainebleau mechanism. But we would not be able to use an IGA to get any leverage for CAP reform. The alternative for us is not to contribute, in which case we should have need to be prepared to take over payments to our own farmers in the latter part of next year.

8. The 1988 provisional draft budget, published in May, should show an increase in our correction to £1.8 billion, a drop in our VAT rate to 0.46 per cent and a very low net contribution. The Parliament will try to strike out our abatement if there is no agreement on an eventual increase in the own resources. Our abatement is incorporated in the Own Resources Decision. If the Parliament interfered, we should be prepared if necessary to abate anyway (ie to pay at the corrected rate) in 1988. Our legal position would be much stronger than pre-Fontainebleau, though the Law Officers will never be prevailed upon to say that it could not be contested. An agreement would be better (a) for that reason, and (b) because we probably would have to abate at the 1987 rather

than the higher 1988 rate.

9. The best eventual solution may be:

(a) a very limited increase in the own resources in 1988, depending on

(b) an effective mechanism to prevent the accumulation of future surpluses;

(c) shifting FEOGA advance payments to simultaneous or ex post facto reimbursement of the member states, thereby rendering the intervention system less attractive and producing a saving of 2 becus or more which could be used to help deal with the deficit at the end of 1987.

Since (c) requires unanimity, there will be no chance of getting it agreed without agreement also on (a).

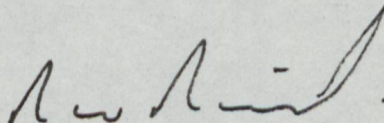
10. It would be to our advantage to get the new rate expressed as an average or uniform rather than a maximum rate. An average rate of just over 1.4% would generate roughly the same additional revenue as a maximum rate of 1.6%. It would avoid our abatement figure appearing even nominally on the expenditure side and would mean that the resources available for expenditure on Community policies would be independent of the size of our abatement (thereby dealing with one of Mr David Curry's main points). I attach drafts setting out the effects of various possible changes on (a) the total EC budget, and (b) our net contribution. On (b), B,C the "bulge" in 1988 is explicable because, otherwise, our net contribution will be exceptionally low in 1988 (£440 million for the financial year 1988/89 and close to zero for the calendar year 1988).

11. With Mr Curry's other point - that we should not necessarily remain attached to the Fontainebleau system - I have little sympathy. As the Prime Minister said at her press conference, Fontainebleau was a good agreement and the best we are likely to get. It is very much in our interests to preserve it. This should not prevent us reactivating the "safety net" idea, if that seemed tactically desirable. But a general discussion of that kind is liable to demonstrate more sympathy for Spain and Portugal than for our situation. A solution, if there is one, is more likely to be based on Fontainebleau.

12. Obviously we should not consider agreeing to any eventual increase, however limited, unless we really do get effective measures of CAP reform. Otherwise the problem would simply repeat itself and the money would run out again in 1988 or 1989. The accumulation of surpluses increases the problem dramatically not only through the intervention and storage costs, but also through the effects on the world price (see the attached chart). I do not agree that reforms are unattainable. If we play our cards right, there should be a chance of getting agreement in the Agriculture Council next week or in the near future on a 5.5% cut in milk quotas next year (reducing milk production by 5½ million tonnes), though that will have to be accompanied by an increased out-goers scheme; and on a 10% cut in the beef intervention price - provided we do not put the main emphasis on preserving the BVPS.

13. That of course would be only the first stage. We can and should use the leverage provided by the price fixing and the own resources debate to get further cuts for milk and beef in 1988, and action also on cereals and olive oil. This is going to be a long, grinding negotiation. But it will offer real opportunities

to get reforms we have been demanding for years. Meanwhile our position will be fully protected so long as we stick to the text of Fontainebleau ie there may, not will, be an increase to 1.6% in 1988.

A handwritten signature in cursive script, appearing to read 'R W Renwick', written in dark ink on a light-colored paper.

R W Renwick

E.E.C. BUDGET PITFALLS 1987

Note by David Curry

The question of Britain's contribution to the E.E.C. budget and farm spending may emerge as a political issue again in 1987 for the following reasons:

1. The Commission has started its review of the Fontainebleau mechanism following the exhaustion of the 1.4 per cent ceiling. The report is expected around the turn of the year, possibly delayed until after the German election. It will certainly demand an increase to the 1.6 percent further ceiling as of the 1988 budget. It is not clear how much further the report will go.

2. The 1.6 per cent (repeat 1.6 per cent) will be exhausted in 1987. The $\text{£}/\text{ECU}$ rate points to an agricultural over-run in 1987 in excess of 2.5bn ecu (Agricultural financial guideline for 1987 = 22.95bn). Commission forecast of over-run at $\text{£} = 1.1$ ecu is 1.2bn ecu: at $\text{£} = 1.02$ ecu is 2.5bn. (Actual rate (10.10.86) is $\text{£} = 1.04$.)

1987 farm policy may need to be financed by some form of national financing or national contribution outside the own resource ceiling (new IGA; willingness to defer repayment of existing IGA, cut in collection fees for traditional own resources, etc.)

With a stocks position which is disastrous opponents will claim that the attempt to discipline farm spending has collapsed.

3. The UK will find it difficult to oppose an increase to 1.6 per cent. We agreed this year to defer the additional amount due to us after correction of initial estimates. An increase in Own resources will be necessary to secure this payment plus the "regular" abatement due in 1987. Opponents in the Conservative Party as well as Labour will claim we are being forced to agree to finance still higher farm spending in order to get our own money back.

4. The rebate/abatement is an issue with other member states. It is the third biggest item in the budget, excluding agriculture:

1987 PDB:	Social Fund	2.589bn (Chapters 60, 61)	Draft Budget	= 2.499bn
	Reg. Fund	2.495bn (" 50, 51)	Draft Budget	= 2.422bn
	Abatement	2.366 bn expressed as gross expenditure equivalent		

and 1.633bn actual abatement before additional amount deferred to 1987 is added.
 Contrast: development aid and non-member countries = 1.259bn.

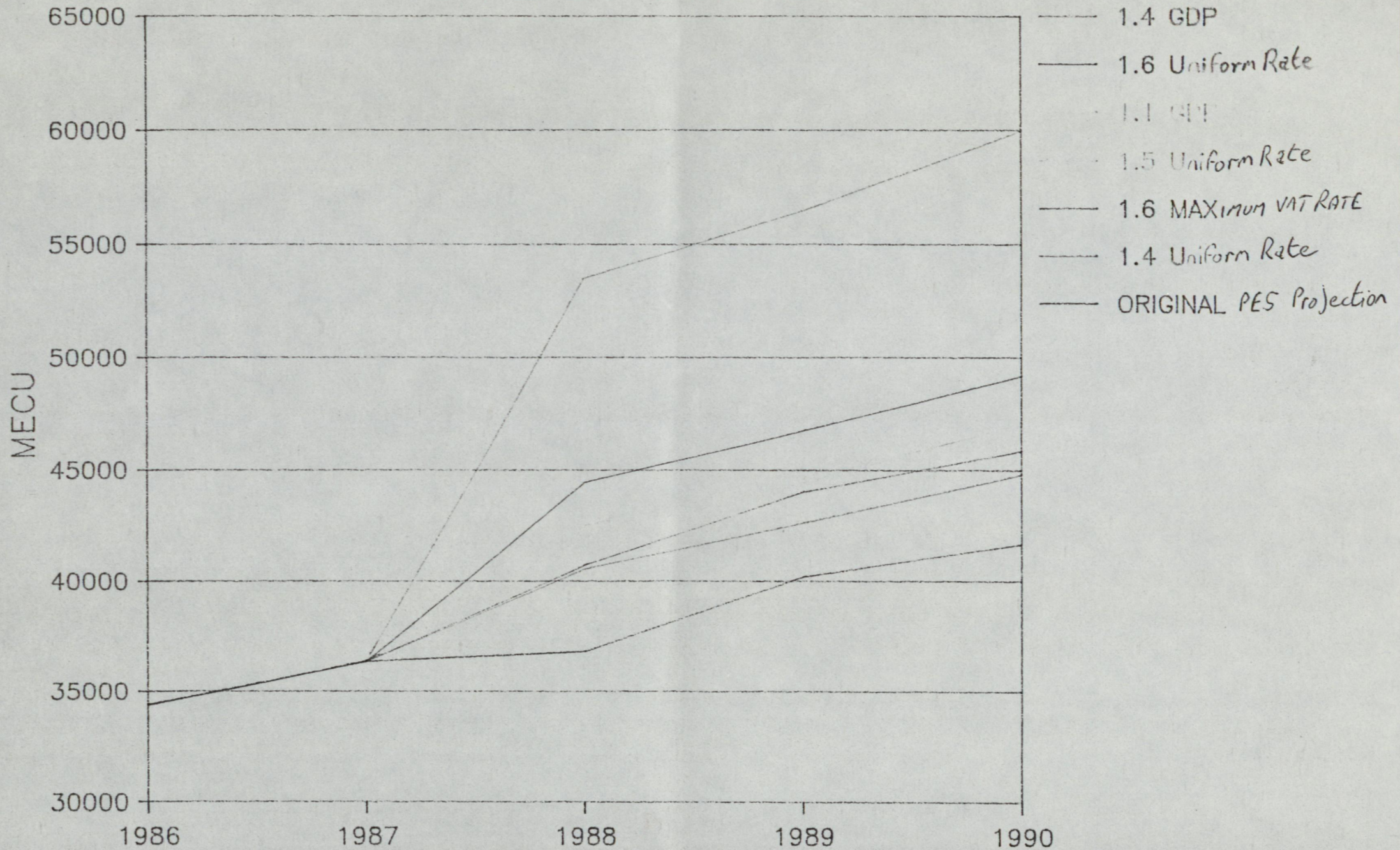
There are two problems with the present mechanism:

a) The sheer size of the abatement gives it a high political profile;
b) The expenditure equivalent formula means that the budget cost of the abatement is much higher than the actual amounts retained by the UK. This creates "dead" money which cannot be spent but which still uses up the O.R. ceiling. It also means that the effective ceiling is well below the nominal ceiling. For example, the call-in rate for the 1987 budget (PDB) is 1.3837 for most countries, virtually on the ceiling. Without any correction for imbalances it would be 1.2563. So since the two IGAs took the ceiling beyond 1 per cent even before the formal raising to 1.4 per cent and since the effective new ceiling is around 1.26 per cent, we have actually seen all the argument over new resources for the EEC for the sake of about 0.1 per cent of VAT new money.

The UK can argue that the situation proves a) just how big the UK contribution is; b) how urgent is the need for a fundamental reform of the budget based e.g. on national wealth with limited liability to contribute and capacity to receive.

But in the short-term the danger is of being attacked for over-selling the Fontainebleau mechanism and being unable to exercise the constraint of refusing a further rise in VAT ceiling. Could and should we use the Presidency to table a Green Paper of our own on this problem (analogous to the set-aside proposals in agriculture) so we are not left looking over-committed to the Fontainebleau mechanism, if it begins to be seen as badly flawed and if the Commission report lacks real new thinking? Or does this risk conceding our opponents' case?

TOTAL EC BUDGET



ADDITIONAL UK NET CONTRIBUTION

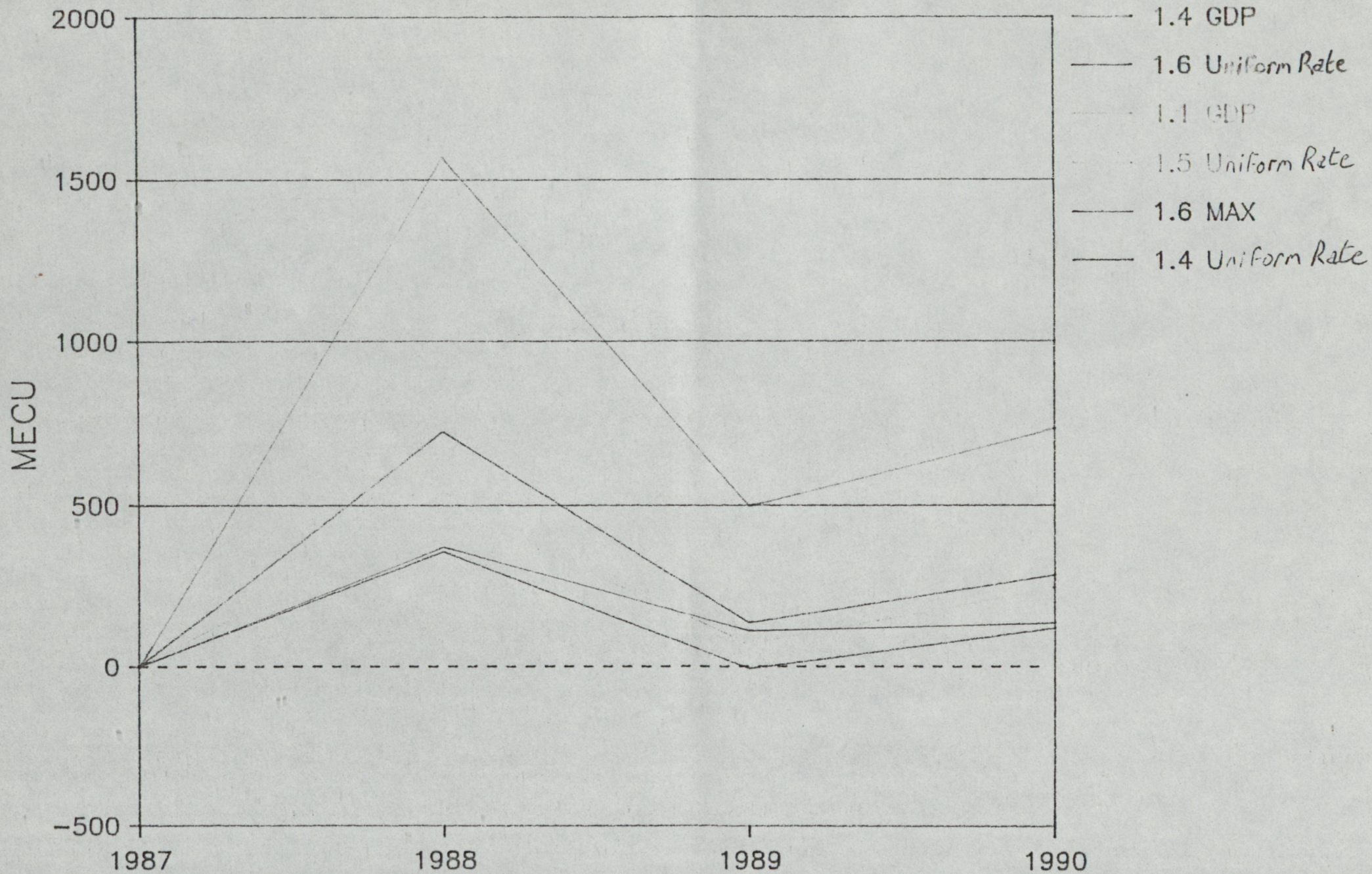


Chart II.1: World price and stocks : wheat

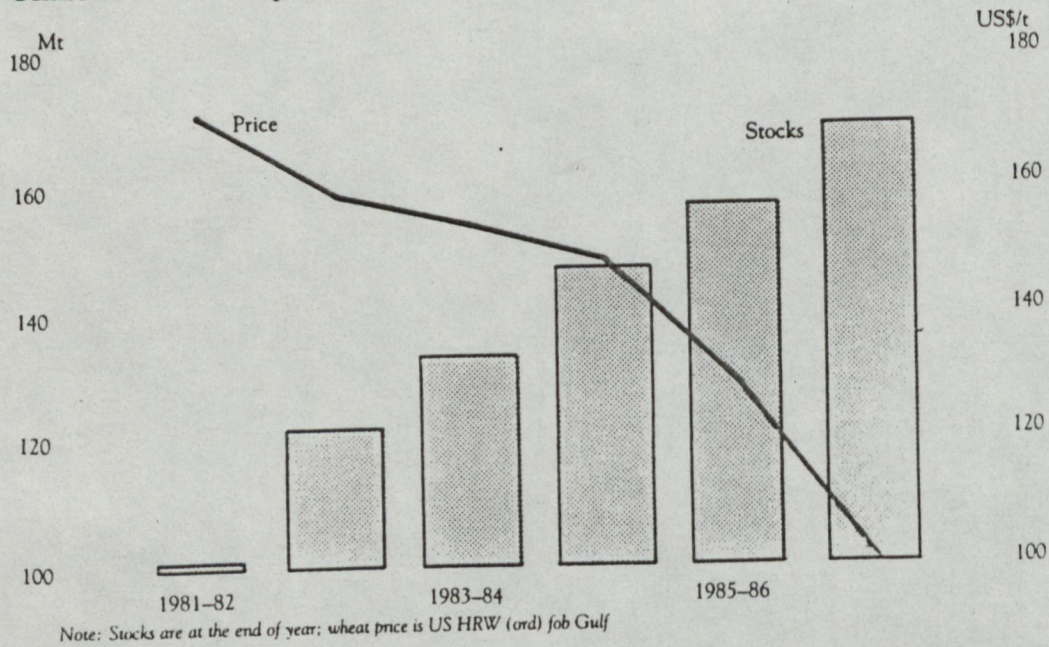
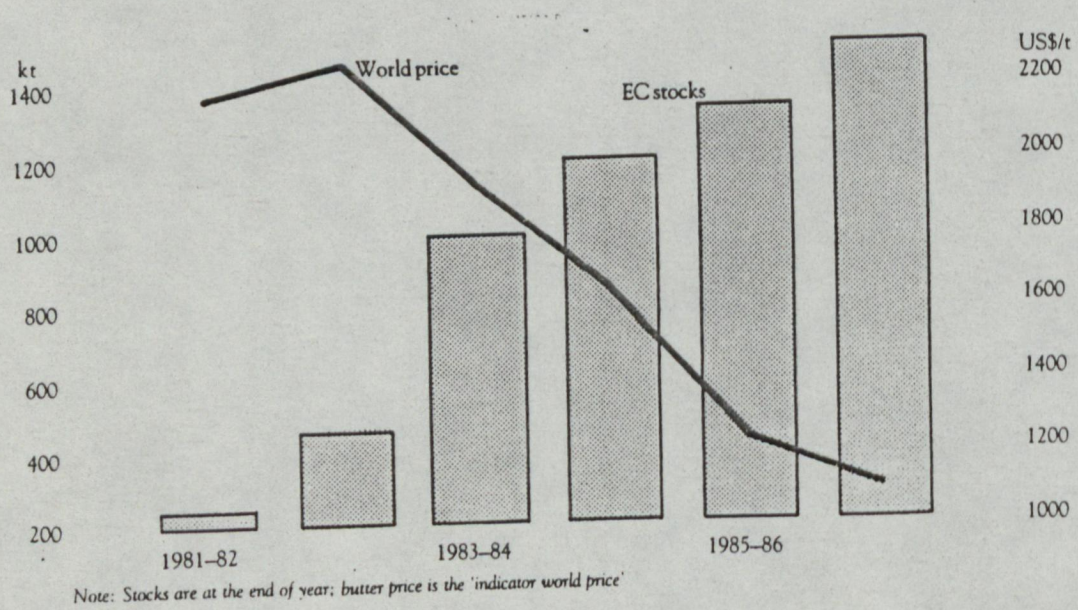


Chart II.2: World price and stocks : butter





Prime Minister
CDD
10/12
[Signature]

Qz.05518

MR POWELL (10 Downing Street)

COMMUNITY FINANCING

Following the Prime Minister's statement in the House of Commons on 8 December and her visit to Strasbourg yesterday, I attach summary notes on Community financing which may be useful for supplementaries tomorrow.

1987 is an opportunity for us to exert effective pressure for changes in the operation of the common agricultural policy which we have been advocating for years. For this we need to participate fully in the discussion on future financing. The French and Germans have told us that they were very dissatisfied with Monsieur Delors' excessive demands in his presentation to the heads of government on the ex novo review. There is for them no question of an increase beyond what was envisaged at Fontainebleau. We must stand, as far as possible and so long as it remains in our national interest, with the French and Germans against wilder demands from the Commission and some other member states. Our objectives should be:

- (1) to maintain pressure for agricultural changes in the discussion on the ex-novo review;
- (2) to discuss seriously but to take no commitment now on future financing beyond what was agreed at Fontainebleau ("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.");
- (3) to avoid any financing by intergovernmental agreement (ie outside the normal Community system) in 1987 unless the agreement were of direct benefit to us;



(4) to preserve our advantages including the very high UK abatement foreseen in the 1988 budget (the 1988 budget is likely to provide for a further large increase in our abatement to £1.6 billion reducing our VAT rate to about 0.4%).

D F Williamson

D F WILLIAMSON

10 December 1986

CONQUEROR

Community financing in 1987 and beyond

- Community expenditure must be financed through the own resources
- An increase in the VAT to 1.6% would require the unanimous agreement of all member states *and could not take place in any event before 1 January 1988.*
- There could be no question of any change without a significant reform of the operation of the common agricultural policy
- I have made clear that ~~a main part of the~~ discussion on future financing over the next year must ^{focus on} be expenditure on agriculture

United Kingdom abatement

- Our abatement is incorporated in the Own Resources Decision, which has Treaty force and can only be changed by unanimity

A supplementary budget in 1987?

- 11
- A supplementary budget is part of the normal budgetary procedure, provided it is within the own resources

Would you agree to an inter-governmental agreement (ie expenditure outside the Community budget) in 1987?

- Not unless it was of direct benefit to Britain (for example, if we receive more than we contribute to it)

Prime Minister
C.D.P.
10/xii

Chevening House Chevening Sevenoaks Kent TN14 6HG

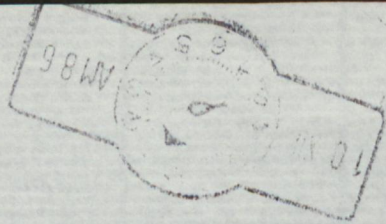


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Dear Margaret,

I shall not, I am afraid, be in Cabinet tomorrow because of the North Atlantic Council meeting: but I thought you would like to know that I thought you took exactly the right line on the financing of the Community, both in the House on Monday, and with the European Parliament on Tuesday.

You may have heard that since the European Council, the French and the Germans have told us that they were very dissatisfied with Jacques Delors' alarmist presentation to the heads of government. They are ready to combine in a common front against the demands of the southern member states. They know that there is no question for us of ~~any~~ considering at any point anything more than was envisaged



at Fontainebleau; and that we shall not
agree to anything in the absence of agreement on
fundamental CAP reforms. We can and must
use next year's negotiations to get just that.

The points you made in the Home
club on statement were exactly right. As you
probably know, the 1988 draft budget will
show another jump in the statement (to
£1.6 billion) - reducing our 1988 VAT
rate and net contribution to a very low
figure. We need to reform the Fontainebleau
system, and can do so if we proceed in
the way you explained to the Home

I'm just off to Strasbourg, after
a good day with Shuttle, Rammstein + Gentchev.
Hopefully that wretched Paisley will have learnt
his lesson from the reaction to his disgraceful
behaviour with you

Yours

John Major

Ref. A086/3427

PRIME MINISTER

Cabinet: Community Affairs

You may wish to report on the meeting of the European Council on 5-6 December in London. You obtained agreement to the conclusions which we were seeking on the two main themes of the Council: business and jobs and safeguarding the open society (terrorism, immigration, asylum seekers, drugs). After earlier European Councils there had been criticism that not enough attention had been given to jobs and to issues of direct popular concern such as terrorism and drugs, too much attention being paid to the budget. On air fares and particularly on agriculture, however, the conclusions of the European Council were not as good as we wanted. Chancellor Kohl was determined to avoid any significant agricultural reference in advance of his elections. Monsieur Delors gave a preliminary report on his ideas on future financing, agriculture and the structural funds, which will form part of the ex-novo review agreed at Fontainebleau. He will be visiting capitals early in 1987. The situation is very unsatisfactory but, as we want to use this review to secure necessary changes on agriculture, we do not want to close our options in advance.

2. We shall continue to present positively the conclusions which were endorsed by all Heads of Government on encouragement for small and medium businesses (including over £1 billion of loans and endorsement in principle of the higher VAT exemption threshold); the programme for jobs which, if adopted by the Social Affairs Council on 11 December, will commit the Community to concentrating on opportunities for employment and training for employment, rather than over-protective legislation for workers; continued pressure for practical measures to complete



the internal market on which the United Kingdom Presidency had made markedly more progress than any previous Presidency; and the wide measure of agreement on the key issues of action to counter terrorism, drugs, illegal immigration and abuse of asylum. The European Council also agreed to designate 1989 as European Cancer Information Year and followed our lead in asking for a Community-wide exchange of information on AIDS. in discussions on political co-operation East/West relations and arms control were the main issues and there was wide support for the points which you had agreed with President Reagan at Camp David recently.

3. We should also continue to present positively the work of the United Kingdom Presidency generally. We have successfully tackled difficult issues - in particular on trade (including the new GATT round, the multifibre agreement, the mandate for Mediterranean agreements and settlements with the United States on steel and citrus), the internal market (35 measures now agreed), the budget (1986 budget adopted and satisfactory Council agreement on 1987 budget) and on strengthening the external frontiers.

4. The Chancellor of the Exchequer will report on the Economic and Finance Council which he chaired on 8 December. The Council discussed whether Greece should receive from the Community the second part (about £640 million) of a balance of payments loan. Because of its economic difficulties Greece had not only received the first part of the loan in 1985 but also had been allowed by the Commission to introduce import deposit and export subsidy schemes. A particular problem for the United Kingdom has been the subsidisation of exports of cement to our market. At the Council Greece agreed to reduce rates of import deposit on 1 February and to abolish the scheme entirely by the end of April 1987: also to reduce export subsidies at the beginning of 1987 and phase them out thereafter, halving them by the end of 1987. At the same time the Chancellor ensured in bilateral



discussions with the Greeks that imports of Greek cement into the United Kingdom would be severely limited over the next three years. The Council also agreed on a further internal market measure, the Bank Accounts Directive which, by increasing transparency in the way the annual accounts of banks across the Community are presented, will facilitate business.

Lord Cockfield also gave a firm commitment in the Council that the Channel Fixed Link would be given equal treatment with competing links which have duty-free facilities, the Chancellor concluding that duty-free facilities are a fact of life and will remain so unless and until the Council can agree to abolish fiscal frontiers.

5. The Chancellor of the Exchequer may also report on the results of the 1987 Community budget discussions between the Council and the European Parliament. A Budget Council will be looking again at these issues today.

6. The Secretary of State for Trade and Industry may report on the Research Council on 9 December at which the Minister of State, Department of Trade and Industry, Mr Pattie, took the chair. Though the Council did not reach agreement on its main item of business - the Research and Development Framework Programme for 1987-1991 - the Presidency was able both to substantially reduce the general expectations on the size of the programme and to introduce the idea of changing the period on which there might be agreement at this stage. Given the slowness with which new research programmes are developed, this could rein back the level of commitments and expenditure. In spite of Monsieur Delors' threat to withdraw the Commission's proposals Commissioner Narjes will produce a revised document on the new lines which will be discussed at a resumed meeting of the Research Council on 22 December.



7. If he has returned from Brussels the Minister of Agriculture, Fisheries and Food will report on the Agriculture Council which he chaired on 8-10 December. The Council had before it the major proposals for the reform of the Community's milk and beef regimes, including cuts in milk quotas and for beef a substantial reduction in intervention support levels and modifications of the present premiums. The Council also has eight items from the internal market rolling programme before it for settlement - one of which has now been agreed.

8. You addressed the European Parliament in Strasbourg on 9 December on the United Kingdom Presidency and the European Council. Next week there is a Foreign Affairs Council on 15-16 December, a Transport Council on 15-16 December and a Fisheries Council on 17-18 December.

RA

ROBERT ARMSTRONG

10 December 1986

CYPC



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1-19 VICTORIA STREET
LONDON SW1H 0ET

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GTN 215
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

10 December 1986

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Charles, attached.

EC INTERNAL MARKET

With your letter of 1 December to Colin Budd you attached a telex from a group of European businessmen proposing a new initiative to speed up progress in completing the Internal Market, notably in the Internal Market Council itself.

... We have agreed with the FCO that the DTI should prepare the draft reply (attached).

... You will see the industrialists have not supplied any address of telex callback number. We therefore suggest that the most satisfactory course would be to write to each industrialist at their company's Head Office, as in the attached list.

I am copying this letter to Colin Budd (FCO) and David Williamson (Cabinet Office).

*Yours ever,
Michael*

MICHAEL GILBERTSON
Private Secretary

Encls

JF3AVE

**17
19 86**
BOARD OF TRADE
BICENTENARY

To him
JAAVAIK.

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO EUROPEAN INDUSTRIALISTS

I am grateful for your support in our efforts to speed up progress in the internal market which has been a major objective of the United Kingdom Presidency.

Progress has been slower than we would have wished but the Internal Market Council, which you particularly mention, has achieved substantial results.

As you may know I wrote to other Community Heads of Government before the 1 December Internal Market Council to ask for their support in seeking agreement on a package of 13 measures which in the Presidency's view were ready for decisions. I am pleased to say that the Council managed to agree 9 proposals in the package. These included substantial measures on controlling counterfeit goods, on good laboratory practice, on procedures for placing new pharmaceutical products on the market and on legal protection of microcircuit designs. At the European Council last week Heads of Government called for decisions to be taken on the remaining four measures before the end of the Presidency. This would bring to very nearly 20 the number of measures agreed by the Internal Market Council during the United Kingdom Presidency, a considerable achievement compared with the previous rate of progress.

At the European Council Heads of Government also called for decisions to be taken in other Councils, where progress has been slower, notably Agriculture, (on food law and plant and veterinary health measures), and the Transport Council (on

major packages on liberalising air and shipping services). I can assure you that the United Kingdom Presidency will be doing all that it can to secure results by the end of the year, and to ensure that progress continues in 1987.

I am writing in the same terms to other members of the Internal Market Support Committee who signed the telex to me.

JF3AVF

Mr Umberto Agnelli
Deputy Chairman
Flat SPA
Corso Marconi 10
10125 Turin

Viscount Etienne Davignon
Chairman
SIBEKA
52 rue Royale
1000 Brussels

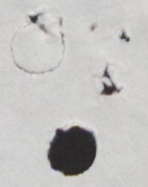
Dr Wisse Dekker
Chairman Supervisory Board
of Philips
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Dr Karlheinz Kaske
President and Chief
Executive Officer
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Mr Curt Nicolin
Chairman
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Sweden

Mr Patrick Sheehy
Chairman
British American
Tobacco Company
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EUROPOL Budget pt 34



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Dr. Patrick Sheehy
100000
100000
100000
100000
100000
London SW10 2TL



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etc

10 DOWNING STREET

From the Private Secretary

9 December 1986

Dear Mike,

COMMUNITY BUDGET FOR 1987

The Prime Minister has seen the Minister of State, Treasury's minute of 8 December about the Community Budget for 1987. As I told Mr. Brooke on the telephone last night, the Prime Minister shares the aim of arriving at an agreement with the Parliament which respects budget discipline. She is, however, opposed to accepting a deal which would go beyond the maximum rate, even to the relatively modest degree proposed in paragraph 6 of the Minister of State's minute. She would prefer in these circumstances to have no agreement and to go to provisional twelfths. Mr. Brooke will wish to bear this in mind and will want to consult the Prime Minister as well as the Chancellor on how the United Kingdom's votes are cast if such a proposal materialises.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), Tim Walker (Department of Trade and Industry), John Turner (Department of Employment) and Trevor Woolley (Cabinet Office).

Yours sincerely,

(C. D. POWELL)

Mike Norgrove, Esq.,
Minister of State's Office,
H. M. Treasury

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TO DESKBY 090915Z FCO
TELNO 4364
OF 082045Z DECEMBER 86
INFO IMMEDIATE EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

ECOFIN COUNCIL 8 DECEMBER 1986

SUMMARY REPORT

(X DENOTES ITEM NOT REPORTED ELSEWHERE)

1. A SUCCESSFUL AND BUSINESSLIKE COUNCIL, NOTABLY FOR A SATISFACTORY SETTLEMENT ON THE GREEK ECONOMY: FORMAL AGREEMENT ON A SUBSTANTIAL CONTRIBUTION TO THE COMPLETION OF THE INTERNAL MARKET, IN THE SHAPE OF THE BANK ACCOUNTS DIRECTIVE: AND A SOLUTION TO THE TRAVELLERS ALLOWANCE PROBLEMS REUNITED TO ECOFIN BY THE EUROPEAN COUNCIL.

2. THE CHANCELLOR OF THE EXCHEQUER CHAIRED THE COUNCIL: MR STEWART, ECONOMIC SECRETARY, REPRESENTED THE UK.

'A' POINTS (X)

3. 'A' POINTS LISTED IN DOCUMENT 10948/86 APPROVED.

NIC IV (X)

4. COUNCIL CONFIRMED COMMON POSITION ON DOCUMENTS 10772-74/86. CADILHE (PORTUGAL) MADE AN ADDITIONAL (UNILATERAL) MINUTES STATEMENT STRESSING THE ROLE OF NIC LENDING IN CONTRIBUTING TO STRUCTURAL ADJUSTMENT.

RENEWAL OF MTFM MECHANISM (X)

5. THE COUNCIL AGREED THE TEXT AND MINUTES STATEMENT SUBJECT TO UK PARLIAMENTARY SCRUTINY RESERVE. FORMAL ADOPTION AS AN A POINT LATER THIS MONTH.

DIRECTIVE ON BANK ACCOUNTS (X)

6. ADOPTED BY UNANIMITY. THE CHANCELLOR NOTED THAT THIS DIRECTIVE MARKED AN IMPORTANT STEP IN ACHIEVING THE INTERNAL MARKET, AND CONGRATULATED THOSE CONCERNED.

FISCAL TREATMENT APPLICABLE TO RUM IMPORTED FROM THE FRENCH OVERSEAS DEPARTMENTS (X)

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7. SCHEER FRANCE) SPOKE TO THE PAPER WHICH HAD BEEN CIRCULATED (DOCUMENT 11156/86), AND URGED THE COUNCIL TO REMIT THE MATTER TO COREPER SO THAT IT COULD PERHAPS BE PLACED ON THE NEXT ECOFIN COUNCIL AGENDA. THE CHANCELLOR OF THE EXCHEQUER AGREED THAT COREPER SHOULD EXAMINE THE ISSUE, WITHOUT GIVING ANY INDICATION OF WHAT THE OUTCOME SHOULD BE.

TAX AND DUTY FREE ALLOWANCES FOR FUEL IN THE STANDARD TANKS OF LORRIES

8. GERMANY BLOCKED THE PRESIDENCY COMPROMISE AND REFUSED EVEN TO TAKE A FIRST STEP TO 300 LITRES.

TRAVELLERS' ALLOWANCES

9. COMMISSION CONFIRMS HELPFUL STATEMENT ON EQUAL FISCAL TREATMENT FOR CFL. SOLUTION IN PRINCIPLE AGREED FOR IRISH AND GERMAN PROBLEMS ON BEER IMPORTS AND BUTTERSHIPS. PROPOSAL FOR 2 YEAR EXTENSION OF DANISH DEROGATION RECOMMENDED FOR URGENT CONSIDERATION IN CAPITALS. DRAFT 8TH TRAVELLERS ALLOWANCES DIRECTIVE REMITTED TO COREPER.

ANNUAL ECONOMIC REPORT

10. REPORT AS AMENDED BY COM(86)530, AND AS FURTHER AMENDED DURING LUNCHTIME DISCUSSION, AGREED. ALL UK CONCERNS DEALT WITH. FORMAL ADOPTION AS AN 'A' POINT LATER THIS MONTH.

GREEK ECONOMY AND LOAN

11. COUNCIL AGREEMENT THAT COMMISSION SHOULD RELEASE SECOND TRANCHE OF LOAN. SATISFACTORY TIMETABLE AGREED FOR DISMANTLING TRADE MEASURES. BILATERAL DEAL ON CEMENT.

LUNCH ITEMS

BANKING ADVISORY COMMITTEE

12. IRELAND AND NETHERLANDS JOIN UK IN SPEAKING IN FAVOUR OF SPECIAL TREATMENT FOR THE BAC UNDER THE COMITOLGY PROPOSALS, BUT COMMISSION ARE HOSTILE. COREPER TO CONSIDER BAC'S FUTURE POSITION IN CONTEXT OF COMITOLGY DECISION.

FOLLOW-UP TO EUROPEAN COUNCIL

13. COMMISSION OUTLINE THEIR PRIORITIES IN FINANCIAL SERVICES, PARTICULARLY INSURANCE, AND TAKE OPPORTUNITY TO FLAG FUTURE WORK ON MACRO-ECONOMIC ISSUES INCLUDING CAPITAL MOVEMENTS.

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14. DETAILS OF ITEMS IN PARAGRAPHS 8-13 IN MY 6 IFT'S.

HANNAY

YYYY

ADVANCE:

RENWICK FCO

WALL FCO

BLOOMFIELD FCO

RICHARDSON ECD(P) FCO

ARON FCO

WILLIAMSON CAB

JAY CAB

MERCER CAB

SHEARER CAB

M F KNOX C/E

MOGG DTI

LOUGHEAD DTI

HEALEY DTI

J WALKER DTI

PS/CHANCELLOR TSY

PS/ES TSY

LAVELLE TSY

EDWARDS TSY

MORTIMER TSY

BARBER TSY

SINCLAIR TSY

LAMBERT D/TP

PS/GOVERNOR BANK

KIRBY BANK

MALLET BANK

MAIN:

FRAME ECONOMIC

UCLNAN 5750

(ADVANCED AS REQUESTED)

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cc: PG

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DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Miss Jill Rutter
Private Secretary to
the Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CDP
9/12

8th December 1986

Dear Jill,

EUROPEAN COMMUNITY R & D FRAMEWORK: 9 DECEMBER RESEARCH COUNCIL

Thank you for your letter of 5 December which ^{will request of rec.} my Minister has seen.

He notes the Chief Secretary's reservations about the two options put forward in his letter of 4 December. He also notes that the Prime Minister would be content for him to proceed on the basis he has outlined on the understanding that the outcome would, in practice, have to be compatible with the conclusions of E(A). This would, of course, be my Minister's intention.

As regards the first option, which is the Prime Minister's preferred one, my Minister acknowledges that this would imply a level of commitments of 1.05 becu in 1992. But he asked me to point out that this is exactly the same level as the Budget Council recently agreed for 1987. If we successfully follow this option it will mean that the R & D budget will actually have been reduced in real terms over the duration of the Framework Programme.

I am copying this letter to the recipients of yours.

Yours sincerely,

Tim Abraham

T P ABRAHAM
PRIVATE SECRETARY

DE4/DE4AAE

17
19 **86**
BOARD OF TRADE
BICENTENARY



FROM: PETER BROOKE
8 December 1986

PRIME MINISTER

COMMUNITY BUDGET FOR 1987

I shall be spending most of this week in Strasbourg trying to bring the 1987 budget process to a satisfactory conclusion. I am due to present the Council's second reading budget to the Parliament's plenary shortly before your own speech on Tuesday, and the plenary debate is expected to take the rest of Tuesday. The Budget Council is likely to meet on Wednesday evening for a final negotiation with the Parliament, and the Parliament will vote on Thursday.

2. Our objective as Presidency will be to obtain agreement between the Council and the Parliament on a legal budget for 1987. Our objective as the UK will be to do all we can to ensure that budget discipline is respected.

3. I believe that, happily, our Presidency and UK objectives will continue to coincide. All the northern Member States except Ireland are likely to join the UK in arguing strongly for strict application of budget discipline, while showing flexibility over the distribution of expenditure between individual lines.

4. That said, I fear that agreement between the Council and the Parliament will not be easy. In response to the Council's second reading budget, which respected budget discipline both on agriculture and on non-obligatory expenditure, the European Parliament's Budgets Committee has abandoned the Parliament's earlier proposals on agricultural expenditure, though the outcome of this week's discussions in the Agriculture Council on milk and beef is still likely to influence the Parliament's attitude on the budget. For non-obligatory expenditure, however, the Budgets Committee has proposed increases which would take this expenditure above the budget discipline/maximum rate level by some 293 mecu on commitments and 93 mecu on payments. Although there are some in the Parliament who think that the increases in non-obligatory expenditure proposed by the Budgets

Committee go too far, there is also a widespread expectation, which we are doing all we can to change, that the Council will in the end agree to go beyond the maximum rate. I see a reasonable chance that the Parliament might be persuaded to reduce payment appropriations to the maximum rate level. I see little or no chance that they will scale down their commitment appropriations, line by line, to that level.

5. One possible solution lies in persuading the Parliament (a) to reduce their demands for the regional development fund and development aid to the levels proposed by the Council or the Commission and, to the extent that further agreed economies cannot be found, (b) to offset the remaining excess of commitment appropriations above the maximum rate by the same, eccentric device as this year - a "negative reserve" of reductions which the Parliament would be committed to making in the course of 1987. This solution would respect budget discipline and the maximum rate without obliging individual subject committees of the Parliament formally to give up cherished appropriations now.

6. If a solution on these lines does not work, we shall be obliged as Presidency to explore other possibilities in the Council. It will be important in that case to do all we can to dissuade the Council from offering the Parliament increases going beyond the maximum rate: the Parliament would simply pocket such offers and hold out for more. If on the other hand a point were reached where the Parliament itself, in response to a firm stand by the Council, offered to settle at levels very close indeed to the maximum rate (say within 60 mecu or thereabouts), we could find that there is a groundswell of opinion in the Council for accepting such a deal and that our own votes would be critical. In such a scenario, I would propose to consult with the Chancellor about use of the UK's votes. I think, however, that the scenario is rather an improbable one and that the more likely outcomes are disagreement or a solution on the lines of paragraph 5 above.

7. I hope you will agree that we should proceed in this way.

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

P.B.

PETER BROOKE

010

CLPC



CDP
8/12

FCS/86/292

MINISTER OF STATE, TREASURY

Community Budget for 1987

WITH CDP?

1. I have seen a copy of your minute about our strategy on the 1987 Community Budget.

2. I agree with the way you are proposing to handle the negotiations with the European Parliament. The whole key to the success we have achieved so far has been to work in the closest possible cooperation with the French and Germans. We should work with them for a solution which involves holding to the maximum rate or which provides only a fractional increase.

3. I am copying this minute to the Prime Minister, the Secretary of State for Trade and Industry, the Secretary of State for Employment, the Minister of Agriculture and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
8 December 1986

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TO IMMEDIATE UKDEL STRASBOURG
TELNO 83
OF 051510Z DECEMBER 86
INFO IMMEDIATE UKREP BRUSSELS, WASHINGTON

MIPT : VISIT TO WASHINGTON BY PRESIDENT OF EUROPEAN PARLIAMENT

TEXT OF PRIME MINISTER'S LETTER TO M. PFLIMLIN IS AS FOLLOWS:

'THANK YOU FOR YOUR LETTER OF 25 NOVEMBER ABOUT YOUR MEETING WITH
PRESIDENT REAGAN IN WASHINGTON.

I WAS GLAD THAT YOU WERE ABLE TO SPEAK TO ANTONY ACLAND BEFORE
SEEING PRESIDENT REAGAN, AND THAT YOUR DISCUSSIONS WITH THE
PRESIDENT COVERED SOME VERY USEFUL GROUND.

I AGREE VERY MUCH WITH WHAT YOU SAID TO THE PRESIDENT ABOUT
AGRICULTURE. I KNOW THE EUROPEAN PARLIAMENT SHARES OUR VIEW THAT
THE PROBLEMS OF EXCESS AGRICULTURAL PRODUCTION HAVE TO BE TACKLED
BOTH INTERNATIONALLY AND WITHIN THE COMMUNITY AND I WELCOME THE
FACT THAT YOUR VOICE HAS BEEN ADDED TO THOSE SEEKING TO ADAPT OUR
POLICIES TO MODERN CONDITIONS.

I LOOK FORWARD TO HAVING THE OPPORTUNITY NEXT WEEK TO TELL YOU
ABOUT MY OWN TALKS IN WASHINGTON. I BELIEVE THERE ARE NOW REAL
PROSPECTS FOR REDUCING NUCLEAR WEAPONS. THIS MUST BE DONE WITHOUT

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3665 - 1

DAMAGING EUROPE'S SECURITY.

IT WILL BE A PLEASURE TO SEE YOU AGAIN NEXT WEEK AND TO HAVE YOU
AS MY GUEST AT LUNCH. WITH BEST WISHES

YOURS SINCERELY. MARGARET THATCHER.'

HOWE

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FB/CHALKER.

MR THOMAS.

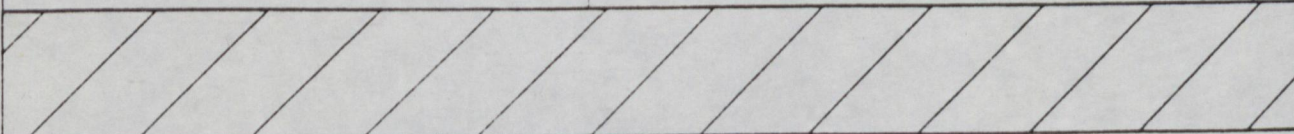
MR REDJICK.

COPIES SENT TO
No. 10 DOWNING STREET

OUT TELEGRAM

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 4 damaging Europe's security.

6 It will be a pleasure to see you again next week and to have you
 7 as my guest at lunch. With best wishes

9 Yours sincerely *Margaret Thatcher.*

11 HOWE

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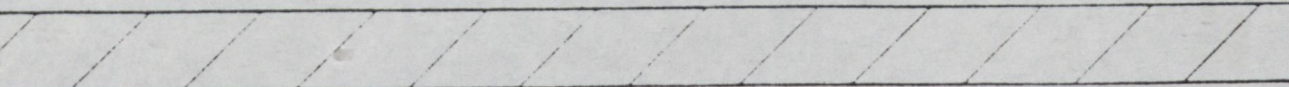
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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 December 1986

LETTER FROM M. PFLIMLIN

PF
Thank you for your letter of 5 December enclosing the draft reply from the Prime Minister to the letter from the President of the European Parliament. I should be grateful if you could dispatch this.

(Charles Powell)

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



Foreign and Commonwealth Office

London SW1A 2AH

5 December 1986

Dear Charles,

Letter from M. Pflimlin

Thank you for your letter of 1 December asking for a draft reply to the letter from the President of the European Parliament about his visit to the United States. The Foreign Secretary received a letter in the same terms.

/ I enclose a copy of the statement made by M. Pflimlin
/ after his meeting with President Reagan which he forgot to
enclose with his letter. I also enclose a draft reply for
the Prime Minister in the form of a telegram to
Strasbourg.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

SUBJECT: PRESIDENT PFLIMLIN VISIT WITH PRESIDENT REAGAN

AT THE CONCLUSION OF HIS MEETING WITH PRESIDENT REAGAN TODAY, NOVEMBER 20 AT THE WHITE HOUSE, THE PRESIDENT OF THE EUROPEAN PARLIAMENT, PIERRE PFLIMLIN MADE THE FOLLOWING STATEMENT:

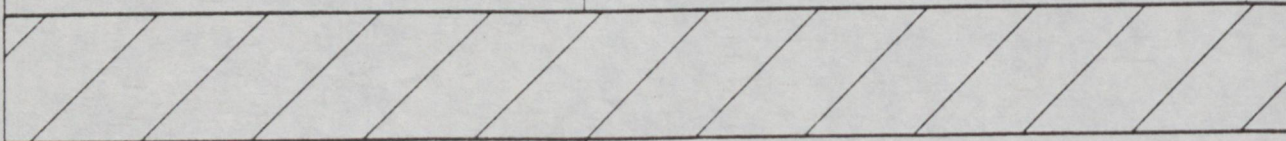
"OUR CONVERSATION BEGAN WITH A REVIEW OF THE TRADE QUESTIONS CURRENTLY AT ISSUE BETWEEN THE UNITED STATES AND THE EUROPEAN COMMUNITY, IN PARTICULAR REGARDING AGRICULTURE. I THANKED THE PRESIDENT FOR THE FIRM STAND HE HAS TAKEN UP TO NOW AGAINST PROTECTIONIST TENDENCIES IN THE UNITED STATES. I EXPRESSED THE HOPE THAT HE COULD WITHSTAND THIS PRESSURE IN THE FUTURE. I STRESSED MY CONVICTION THAT THE EUROPEAN COMMUNITY AND THE UNITED STATES WOULD DO BETTER TO COOPERATE THAN CONFRONT ONE ANOTHER.

WE THEN TURNED TO QUESTIONS OF SECURITY WITH SPECIAL REFERENCE TO THE REYKJAVIK SUMMIT. TO MY QUESTIONS ON THE CONTENT OF THE AGREEMENT WHICH HE AND MR GORBACHEV HAD CONSIDERED, PRESIDENT REAGAN STRESSED THAT IF THE TWO SIDES AGREED TO RENOUNCE INTERMEDIATE RANGE MISSILES IN EUROPE, THEY WOULD NOT BE MERELY WITHDRAWN, BUT DESTROYED. PRESIDENT REAGAN ALSO SAID THAT A POSSIBLE AGREEMENT ON NUCLEAR WEAPONS IN EUROPE COULD BE LINKED TO THE RE-ESTABLISHMENT OF A BALANCE IN CONVENTIONAL FORCES."

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/	28		
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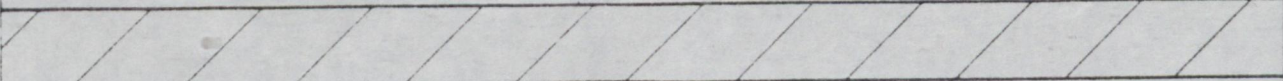
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 9 Yours sincerely, *Margaret Thatcher.*
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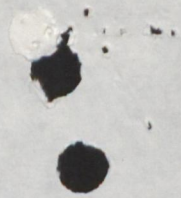
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Ευρωπαϊκό Budget: PE 34





RESTRICTED

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MR POWELL (10 Downing Street)

European Court of Justice: Insurance Cases

The Court this morning gave its judgement on the 4 insurance cases. The judgements accept some important points on which we supported the Commission, notably in ruling against French, German, Danish and Irish requirements for the lead insurer in co-insurance contracts to be established in the member state where the risk is situated. They also state, however, that it is justified for a company writing insurance on a services basis to be required:

- a. to be authorised in the member state where the risk is situated; and
- b. to follow the requirements of that member state's legislation concerning the terms of insurance (eg size of technical reserves).

This will allow other member states to maintain some of their existing restrictions on provision of insurance services by United Kingdom insurers.

The best tactic is undoubtedly to take as a positive line as possible publicly and to emphasise that the judgement reinforces the need for the Community to make progress on the proposed non-life insurance services directive (on which negotiations have been suspended since June 1985 pending the Court judgements).

I would propose, therefore, no change in the current draft of the European Council conclusions ("[The European Council] called for decisions next year . . . to open up the market in financial services including insurance in the light of the judgements just given by the European Court of Justice"). We



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We shall have an opportunity to amplify this in a Presidency statement under other business at the ECOFIN Council on 8 November, if this appears appropriate after a more considered reading of the 4 judgements.

I am sending copies to Colin Budd (FCO), Alex Allan (Treasury), Timothy Walker (Department of Trade and Industry), Juliet Wheldon (Law Officer's Department) and to Trevor Woolley here.

D F WILLIAMSON

4 December 1986

conqueror

PRESIDENCY CONCLUSIONS

PROGRESS

The European Council noted that in the five years since their last meeting in London the Community had settled a number of difficult and divisive issues and had a record of solid achievements, notably:

- the convergence of economic policies
- the accession of two new Member States
- the agreement on the Single European Act

SINGLE EUROPEAN ACT

The Heads of State and Government noted that those Member States which have not already done so aim to ratify the Single European Act in time for it to enter into force on 1 January 1987.

THE CHALLENGE: BUSINESS AND JOBS

Economic and social progress and the constant improvement of the living and working conditions of the people of Europe are central goals of the Community. The Community must be a major force for growth in the 1980s and 1990s as it was in the 1960s.

EClAAA,1

SN 4002/1/86

The scourge of unemployment, particularly long-term unemployment, can only be tackled effectively through the growth of business and enterprise.

To create the conditions for this, the Community must work to break down the remaining barriers to trade between Member States, reduce burdens and open up opportunities so that European enterprise can flourish in all Member States.

The European Council stressed the importance of the growing convergence of economic policy in all the Member States over the last four years. This has led to reduced inflation, now estimated by the Commission to be likely to fall to 3% in 1987, the lowest Community average for 20 years.

The European Council reaffirmed its commitment at The Hague to a cooperative growth strategy. It welcomed the priority being given to work aimed at helping to

ECLAAA,2

SN 4002/1/86

create the conditions for establishing non-inflationary growth and a substantial growth in employment, including measures:

- to promote long-term prosperity and job creation through the completion of the internal market;
- to achieve sustained employment growth;
- to lighten burdens on business; and
- to help small and medium-sized enterprises make a dynamic contribution to the creation of prosperity and jobs; and
- to encourage productive investment.

The European Council agreed that strengthening the open world trading system on the basis of a fair balance of rights and obligations is crucial to this strategy and to the future prosperity of both industrialised and developing countries. The Community played a leading role in the successful launch of the new round of Multilateral Trade Negotiations. The success of those negotiations will increase opportunities for EC

EC1AAA,3

SN 4002/1/86

exporters, making an important contribution to growth and employment, not least in the key new service industries.

The Council called on Japan to take urgent and effective steps to ensure that imported goods are able to compete freely in the Japanese market and, in specific market sectors, to reduce the massive and still growing trade imbalance with the Community. It considered that an end to the discrimination against imported alcoholic drinks would be a test case of Japan's willingness to open its markets to foreign competition. It invited the Council to conduct a thorough review of other actions to achieve a more balanced trading relationship; and called on the Commission to identify other sectors in which action should be pursued to remove barriers to trading in the Japanese market.

EC1AAA,4

SN 4002/1/86

THE SINGLE LARGE MARKET

The European Council welcomed the steady acceleration of progress on the internal market over the last year, and looked forward to still faster progress when the Single European Act enters into force.

The Heads of State and Government noted the substantial results recently reached by the Internal Market Council which completed work on nine out of a package of thirteen measures proposed by the Presidency. They underlined the importance which they attached to completing the package by the end of the year. They asked the Member States concerned to lift their outstanding reserves on two items. On the two remaining items concerning public purchasing and standardisation in the fields of information technology and telecommunications they agreed to instruct their Permanent Representatives to reach agreement before the end of the year. They considered that the completion of the package would be a clear signal to business of the Community's determination to complete the internal market by the end of 1992.

ECLAAA,5

SN 4002/1/86

They called on the Agriculture Council to reach decisions on food law measures and veterinary and plant health measures currently before it.

They called for substantial further progress in the Transport Council towards:

- a Community policy for civil aviation encouraging greater competition between airlines and improved services to their customers including a means of making cheaper air fares more widely available by reducing the restrictions on them.
- measures to establish a common shipping policy for the Community, including the freedom to provide shipping services.
- an increase in road haulage quotas for 1987.

EC1AAA,6

SN 4002/1/86

Heads of State and Government welcomed the further liberalisation of capital transactions decided in November. They called for decisions next year:

- to achieve the free movement of capital throughout the Community;
- to open up the market in financial services including insurance in the light of the judgments just given by the European Court of Justice;
- on mutual recognition of testing and certification;
- on the full arrangements for a single market in road haulage by 1992;
- on the continued opening-up of public purchasing;
- on more internal market measures in the Agriculture Council; and
- on faster progress with the creation of a Citizens' Europe, including the freer movement of people and the mutual recognition of professional qualifications.

EC1AAA,7

SN 4002/1/86

They noted that fiscal issues would be taken up again by the Council of Economic and Finance Ministers early in 1987 with a view to further progress.

The European Council urged Research Ministers, at their next meeting on 9 December, to reach agreement on the Framework Programme for Community action in research and technological development, an important step towards enabling the Community to reinforce the internal market and compete in the worldwide market for high technology products.

They asked the Commission and the Council to make a special effort to secure agreement on standards and the commitment of operators necessary to enable Europe to compete in the development and marketing of digital cellular radio in the 1990s.

EC1AAA,8

SN 4002/1/86

ENCOURAGING ENTERPRISE

The European Council emphasised the priority it attaches to maintaining and building on the work which has begun:

- to lessen fiscal, administrative and legal constraints on business;
- to encourage enterprise; and
- to promote employment.

The Council welcomed the conclusions of the 20 October Industry Council on reducing burdens on business and the steps taken by the Commission to assess the impact of all new proposals on business costs and jobs and similarly to review existing legislation.

The Council welcomed the setting up of the Commission task force on small and medium sized enterprises to coordinate action to improve the environment for business.

The European Council also endorsed the principles of the Commission's proposals on help for small businesses, and in particular steps to:

- improve the administrative environment for small firms;
- ensure that existing schemes operate effectively for small firms;
- help the setting up of new small firms;
- improve the access of small firms to new technology;
- enable Member States to learn from each other's experience.

The European Council particularly welcomed the Commission's recent proposals on the application of VAT to small and medium businesses, and urged the Council to reach a decision on them within three months.

EC1AAA,10

SN 4002/1/86

Heads of State and Government welcomed the agreement that has been reached to provide Community loans worth 1.5 billion ecu which will be available to small and medium sized enterprises and will help them invest in new technology.

AN ACTION PROGRAMME FOR EMPLOYMENT GROWTH

The European Council, noting the proposals made by the Commission and Member States in this area, emphasised the importance of Community action on jobs designed to:

- encourage better training for both young people and adults;
- help the long-term unemployed back into jobs;
- promote the creation of self employment and of small and medium sized firms;
- improve the workings of the labour market, including ways of increasing part-time and other flexible working patterns, providing better

ECLAAA,11

SN 4002/1/86

access to training for disadvantaged groups, and encouraging employment for such groups in inner city areas.

They called on the Social Affairs Council meeting next week to adopt an action programme for employment growth based on these priorities.

The European Council undertook to review progress at its next meeting.

The European Council welcomed the progress made in discussions at European level between the social partners and invited the Commission to continue its efforts to encourage this cooperation.

COHESION

The European Council recalled the provisions of the Single European Act relating to economic and social cohesion. The Council took note of the Commission's intention to put forward in the near future comprehensive proposals on the structure and operational rules of the Structural Funds, in accordance with Article 23 of the Single European Act.

ECLAAA,12

SN 4002/1/86

TRAVELLERS' ALLOWANCES

The European Council noted the importance attached by several Member States to travellers' allowances. It invited the December Council of Economic and Finance Ministers and the Commission to find solutions to these problems.

ERASMUS

The European Council called for further consideration of the ERASMUS student mobility programme at an early Council.

ENVIRONMENT

The European Council noted that good progress had been made in protecting the environment through action within the Community. They emphasised that greater attention needed to be given to the effects on the Community of cross-border problems originating outside the Community's frontiers.

SN 4002/1/86

COMMUNITY FINANCING AND AGRICULTURE

The President of the Commission informed the Heads of State and Government of progress in bringing forward the review agreed at Fontainebleau. It was agreed that Monsieur Delors should visit capitals to set out the various options.

The Prime Minister drew the attention of the European Council to the message received from the President of the European Parliament about agricultural expenditure. The Heads of State and Government reaffirmed the conclusions they reached at the European Council in The Hague on necessary adaptations of the CAP. They underlined the need to reach early decisions on the matters before the Agriculture Council, in particular on milk and beef, with due consideration for the problems of producers making the necessary reductions in production. The European Council also called on the Commission to bring forward proposals to deal with other products in surplus, including proposals for the revision of the regime for vegetable oils and fats envisaged in the Accession Treaty, and on the Council to reach early decisions.

SN 4002/1/86

PRESIDENCY CONCLUSIONS

SAFEGUARDING THE OPEN SOCIETY

The European Council had a detailed discussion of how further to intensify their cooperation to combat terrorism, illegal immigration and drug trafficking. They agreed that concerted policies to deal with these problems were essential to the goal of achieving free movement within the Community as set out in the Single European Act.

Terrorism

They agreed that the following principles must govern their common fight and alliance against terrorism and those who sponsor terrorist acts:

- no concessions under duress to terrorists or their sponsors

- solidarity between the Member States in their efforts to prevent terrorist crimes and to bring the guilty to justice.

SN 4001/1/86

- concerted action in response to terrorist attacks on the territory of a member state and to evidence of external involvement in such attacks.

The Heads of Government confirmed the decisions taken by the Twelve in April and November 1986 in response to evidence of state sponsored terrorism. The Heads of Government welcomed the intention of the governments of France, Greece and Ireland to ratify the European Convention on the suppression of terrorism.

Cooperation Between Security Authorities

State and

Heads of ^{*State and*}Government agreed that they must pool their resources to maximise their ability to prevent terrorist acts and to bring those responsible to justice. They agreed also to intensify their cooperation with like-minded countries.

Asylum Seekers

The Heads of Government expressed concern at the recent increase in the abuse of appeals for asylum. While they

underlined their continued willingness to give asylum where there was genuine humanitarian justification for doing so, they agreed that asylum should not be sought for economic and financial reasons and that steps must be taken to counter abuse. They invited Interior and Justice Ministers to concert action with a view to ensuring that the right of asylum is not abused.

Action by Interior Ministers

The European Council asked Interior Ministers to concert:

- arrangements for extradition. They welcomed the changes being made by the United Kingdom to its extradition laws which will enable it to adhere to the European Convention on extradition.
- measures to deal with the theft and forgery of passports.
- consideration of the role of coordination and possible harmonisation of visa regimes in tightening controls at the Community's external frontiers.

- intensified cooperation on measures to prevent illegal immigration.

- firm action on the exclusion of suspects so that a suspect excluded from one Community country will be excluded from all.

At the same time, the Community and the member states will be examining what further action they can take to simplify frontier procedures within the Community, for the benefit of all their citizens.

In order to strengthen their defences against terrorism while making travel easier for the Community tourist and businessman, they endorsed the action of Interior Ministers in setting in hand a study of how to strengthen controls at the Community's external frontiers. Heads of Government agreed to examine the progress made at their next meeting, determined that their solidarity in the face of the terrorist threat to the safety of their citizens should be put into practice at every level of cooperation.

DRUGS

Heads of Government decided that the Community and the member states must continue to contribute to the fight against drug abuse. They endorsed the Seven Point Action Programme of work agreed by Interior Ministers and noted that agreement had been reached for the Community to participate as an observer in the 1987 UN Conference on Drugs.

They agreed on the need to work in close cooperation with the Council of Europe's Pompidou Group to:

- cooperate to thwart and to prosecute those who criminally traffic in illegal drugs;
- coordinate legal action and, in particular, ensure that the assets of someone convicted of illicit trafficking in one Community country will be liable to confiscation throughout the Community;
- exchange Drugs Liaison Officers between EC countries and continue posting such officers to other countries;

- intensify cooperation between police and customs authorities;
- seek recommendations from EC ambassadors in drug producing countries on further ways in which the EC can help, including possible use of bilateral and Community aid to bolster those countries' own efforts to end drug production and trafficking;
- concert their contributions to the 1987 UN Conference;
- work closely with other friendly countries;
- draw on each others' expertise in the treatment and rehabilitation of drug addicts and work together to educate teachers, parents and children about the dangers of drug abuse.

Each member state has its own problems and ways of dealing with them but there are lessons which will apply to all. The European Council called for a report to be made to the next European Council with recommendations for action by the Community and its member states.

PUBLIC HEALTH

The European Council recalled that at their meeting in The Hague they had requested the Council of Ministers to reach agreement on an action programme against cancer, and agreed that 1989 should be designated European Cancer Information Year. The aim will be to develop a sustained and concerted information campaign in all the member states on the prevention, early warning and treatment of cancer.

The European Council expressed its concern about the rising incidence of AIDS. They stressed the importance of coordinating national campaigns to improve public awareness about the disease and prevent its spread.

They asked the Council of Ministers and the Commission to ensure the effective Community-wide exchange of information about the spread of the disease, prevention and treatment and to consider what further cooperative measures should be taken by all the member states. They agreed to consider also the scope for further cooperation in research.

Europa: Budget p. 3k.



175200 J

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

I have shown the Prime Minister your minute of 11 November about the Department of Trade and Industry's report on what went wrong with the preparation of the United Kingdom Regional Development Programme submitted to the European Commission in July.

The Prime Minister is not sure whether the lessons from this episode should be communicated to departments through a minute, as you suggest, or whether she should refer to them at Cabinet as a follow up to the discussion on 23 October. If the latter course was adopted, you could then write to Permanent Secretaries drawing their attention to the relevant Cabinet conclusion; and underlining the important lessons for administrative practice.

There is, however, one point of substance on the lessons to be learnt which I told the Prime Minister I would discuss with you on your return from Australia. This is as follows.

The essence of the conclusion drawn from the report is that material to be published by a department should be approved by a Minister before it is sent for publication; and that where one department provides information to another department for the publication, the originating department should seek Ministerial approval for its material before sending it forward to the publishing department. As the minute for the Prime Minister is drafted, this procedure is given the force of a rule which departments should follow in all circumstances. Two considerations make me wonder whether this is right.

First, the thrust of management nowadays in the Service is to devolve responsibility downwards to named officials. This is certainly the philosophy of the Financial Management Initiative. To specify that officials should, in all cases, refer material for publication up to a Minister would, I think, tend to undermine the sense of responsibility at official level which we are trying to create. Second, on a more mundane level, I would expect that there will be some instances where it will be obvious that it is unnecessary to refer a departmental contribution up to a Minister for clearance; for example, cases where one department provides no more than an anodyne line or so for another department's publication. In such circumstances, officials would

hsl

probably "break the rule" and not refer upwards.

These considerations suggest to me that the emphasis of our guidance to departments should be as follows:-

- (i) Officials preparing material for publication should scrutinise it for its political sensitivity (as well as for accuracy, comprehensiveness, clarity and so on). They should keep in mind the likely reception of the material by all the audiences that will read it - Parliamentary, press, international, etc. - and not just by the audience to which it is directed.
- (ii) The responsible official (typically at Assistant Secretary level) should decide whether the content and sensitivity of the material requires it to be cleared by a Minister. While not wishing to over-burden their Minister, officials should, in cases of doubt, seek their Minister's view.
- (iii) If the responsible official comes to the conclusion that the sensitivity of the material does not require it to have Ministerial clearance, he or she should be ready to back his own judgment and authorise the publication of the material.

I have translated these principles into a passage for the draft minute for the Prime Minister. This can easily be transformed into a speaking note for Cabinet if that is the vehicle chosen for promulgating the guidance.

Perhaps we could have a word about this at a convenient moment well after your return from Australia!

N.L.W.

N.L. Wicks

4 December 1986

REVISED PARAGRAPH 3 OF DRAFT MINUTE

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

- (i) Officials preparing material for publication should scrutinise it for its political sensitivity (as well as for accuracy, comprehensiveness, clarity and so on). They should keep in mind the likely reception of the material by all the audiences that will read it - Parliamentary, press, international, etc. - and not just by the audience to which it is directed.
- (ii) the responsible official (typically at Assistant Secretary level) should decide whether the content and sensitivity of the material requires it to be cleared by a Minister. While not wishing to over-burden their Minister, officials should, in cases of doubt, seek their Minister's view.
- (iii) If the responsible official comes to the conclusion that the sensitivity of the material does not require it to have Ministerial clearance, he or she should be ready to back his own judgment and authorise the publication of the material.

This guidance applies both to material produced by a department which it publishes and to material produced for publication by another department. Departments publishing the material, however, carry the final responsibility for the material published.

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YOUR TELNO 414 TO ATHENS: INTERNAL MARKET

1. MATIGNON HAVE PASSED TO US A LETTER FROM M. CHIRAC IN REPLY TO THE PRIME MINISTER'S MESSAGE IN TELEGRAM UNDER REFERENCE. THE FOLLOWING IS OUR TRANSLATION.

BEGINS. THANK YOU VERY MUCH FOR YOUR LETTER OF 20 NOVEMBER, WHICH I HAVE STUDIED CAREFULLY, ASKING FOR MY SUPPORT FOR THE EFFORTS YOU ARE MAKING TO ESTABLISH THE INTERNAL MARKET. MY GOVERNMENT IS DETERMINED TO WORK TO CREATE A GENUINE UNIFIED ECONOMIC AREA WITHIN THE COMMUNITY. I CAN THEREFORE ASSURE YOU OF MY FULL SUPPORT FOR THIS GOAL.

THE FRENCH GOVERNMENT AGREE WITH THE APPROACH ADOPTED BY YOUR PRESIDENCY OF WORKING OUT BALANCED 'PACKAGES' OF DECISIONS. M. BOSSON, THE MINISTER OF STATE WITH RESPONSIBILITY FOR EUROPEAN AFFAIRS DISCUSSED THIS AT LENGTH WITH MR CLARK, MINISTER FOR TRADE, DURING HIS VISIT TO LONDON ON 6 NOVEMBER. AT MY REQUEST, THE FRENCH DELEGATION AT THE 1 DECEMBER MEETING OF THE INTERNAL MARKET COUNCIL PARTICIPATED IN THE DISCUSSIONS WITH THE OPEN MIND NECESSARY TO ENABLE THE COUNCIL TO REACH CONCLUSIONS ALONG THE LINES ENVISAGED BY THE PRESIDENCY.

THE SUCCESS OF THAT MEETING HAS REWARDED THE EFFORTS OF YOUR PRESIDENCY OVER THE LAST MONTHS. I AM DELIGHTED THAT THIS IS SO AND OFFER MY CONGRATULATIONS.

(COMPLIMENTARY CLOSE) ENDS.

2. ORIGINAL FOLLOWS BY BAG.

FRETWELL

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PRIME MINISTER

Cabinet: Community Affairs


You will be presiding and the Foreign and Commonwealth Secretary attending the European Council in London on 5-6 December, the main themes for discussion being Business and Jobs (employment, small businesses, internal market, technology) and Safeguarding the Open Society (external frontiers, terrorism, immigration, drugs). There will be discussion on issues of political cooperation, in particular East/West, and of cancer prevention and AIDS.

2. The Secretary of State for Trade and Industry will report on the successful Internal Market Council on 1 December at which the Minister of State, Department of Trade and Industry, Mr Clark, took the chair. In preparation for this you had written to Heads of Government urging that agreement on a package of 13 measures should be reached at this Council, with those member states who had outstanding reservations lifting them in the common interest of making a major move towards the completion of the internal market. In the event agreement was reached on 9 of the 13 items; 2 other items have been sent to the Committee of Permanent Representatives with a view to being agreed by the end of the year; and agreement on the 2 remaining items is only held up by continued Danish reservations on one and ad-referendum reservations by Germany and Italy on the other. We thus have a good chance of achieving agreement by the end of the year on 12 of the 13 measures in this package. Of the measures agreed our industry will particularly welcome the directive on counterfeit goods which strengthens the defences against such goods. Another directive will

CONFIDENTIAL

also benefit industry by giving microchip designers local copyright protection. In view of the progress made by this Council there will not be a need for an emergency Internal Market Council later in December. But you will still need to maintain pressure at the European Council to complete the package and to achieve progress on measures outstanding in other Councils (in particular, Agriculture and Transport). The Secretary of State for Transport will be making a strong effort at the December Transport Council to reach agreement on a number of issues on road and sea transport which are in the Internal Market rolling programme. On air transport, in particular the conditions for cheaper fares, Mr Moore has a difficult balance to keep: we must keep up the pressure on air fares but, if progress is only modest, avoid a counter-productive press or public reaction, particularly in view of the forthcoming privatisation of British Airways. This might best be achieved by taking the discussion of air fares over lunch in the Transport Council. The Minister of Agriculture, Fisheries and Food intends to use the December Agriculture Council for a push towards agreement on up to a dozen measures.

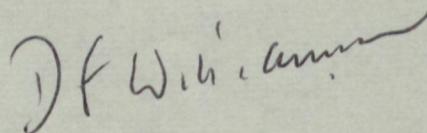
3. The Secretary of State for Education and Science may mention the meeting of the Education Council on 28 November at which the Minister of State, Department of Education and Science, Mrs Rumbold, took the chair. Work has been going on on a Community programme of student exchanges, ERASMUS, plans for which were commended by the Hague European Council in June. But the cost of the Commission's proposal was an obstacle for the French, Germans and ourselves. In particular, Mr Baker was unable, given the other pressing priorities on his budget, to make any funds available for it in the current PES period. Agreement was not therefore reached - in fact, because of the combined German, French and United Kingdom position - but Mrs Rumbold's handling as Presidency was widely appreciated. The programme remains of importance to the Commission and it is possible that


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Monsieur Delors will mention it at the European Council. But somewhat perversely Commissioner Marin withdrew the Commission's formal proposal. (This is the second time recently that the Commission have done this when it has claimed that its original proposal was in danger of being emasculated. The other occasion was the withdrawal by Lord Cockfield of the Commission's proposals on the Travellers Directive which could have provided the necessary legal authorisation for the provision of duty free goods on the Channel Fixed Link.)

4. The Minister of Agriculture, Fisheries and Food may report on the meeting of the Fisheries Council on 3 December. There are two main items on the agenda: a Commission proposal for a 10 year programme of aid to Community fishermen which may not be agreed until the next Council on 17-18 December; and relations with third countries, which may include a low key discussion of the Falkland Islands Management and Conservation Zone.

5. After the European Council on 5-6 December there is a sequence of important Councils. There is to be an Economic and Finance Council on 8 December; an Agriculture Council on 8-9 December, when the Commission's proposals for major changes to the milk and beef regimes will be the main issues, in addition to the agriculture and food internal market items; a Research Council on 9 December when agreement will be sought on the Community's Research and Development Framework Programme; and a Labour and Social Affairs Council on 11 December when the resolution and programme of work on job creation should be approved. The European Parliament is in session from 8 to 12 December when it will have its second reading of the 1987 Budget and consider the Council's common position agreed recently at the Budget Council.



D F WILLIAMSON

3 November 1986

Le Premier Ministre

PARIS, le 3 décembre 1986

Madame le Premier Ministre,

Votre lettre du 20 novembre 1986, sollicitant mon soutien aux efforts que vous déployez en faveur de la réalisation du Marché Intérieur, a retenu toute mon attention et je vous en remercie vivement.

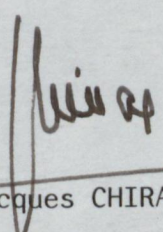
Mon Gouvernement est déterminé à oeuvrer en faveur de la réalisation d'un véritable espace économique unifié dans la Communauté. Je puis donc vous assurer de mon plein appui à cette fin.

Le Gouvernement français approuve l'approche, préconisée par votre présidence, qui consiste à élaborer des "paquets" équilibrés de décisions. M. BOSSON, Ministre délégué chargé des affaires européennes, s'en est d'ailleurs longuement entretenu, lors de sa visite à LONDRES, le 6 novembre 1986, avec M. CLARCK, Ministre du Commerce.

Lors de la session du 1er décembre 1986 du Conseil des Communautés, consacrée au "Marché Intérieur", la délégation française, à ma demande, a abordé les discussions avec toute l'ouverture d'esprit nécessaire pour permettre de conclure sur les bases préconisées par le ROYAUME-UNI.

Je me réjouis, et je vous en félicite, du succès de cette réunion qui a ainsi ponctué les efforts de votre présidence au cours des derniers mois.

Je vous prie d'agréer, Madame le Premier Ministre, l'assurance de ma très haute considération, *Se uns respectueuse bowung*
5 Se un bien ondiel gouven.


Jacques CHIRAC

Mme Margaret THATCHER
Premier Ministre
de GRANDE BRETAGNE
LONDRES

CAP COM

We have been chasing
comments on PMG's
letter of 21.11.86 (at flap).

Replies have been
received from:

SS/DES, FCS & min/HMT.

SS/DTI & SS/DHSS have
no comments.

Julie

3/12

010

ccpe
SM (2)



Prime Minister

CDP
2/12

MS

PRIME MINISTER

THE INTERNAL MARKET

Yesterday's Internal Market Council was an undoubted success.

Agreement was reached on 12 measures in our Presidency Action Programme. These included nine in the package outlined in your message to Heads of Government. In addition there are good prospects of agreement by the end of the year on three of the other four items in the package. On only one item, (the noise levels of hydraulic excavators) am I doubtful of progress because of the intractable political difficulties faced by the Danes in securing the necessary Parliamentary clearance.

The message you sent to Heads of Government was decisive in concentrating minds. The diplomatic initiative taken by Alan Clark and Michael Lucas was invaluable in securing further progress in clearing away reservations. At the Council itself Alan Clark's achievement is to be highly commended in particular for the skill with which he coaxed and cajoled his colleagues into agreement.

At the European Council you will be able to report a creditable record on the internal market, which I hope we can improve on before the end of the year. Our Presidency's score of successes on the Internal Market action programme is

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now 32 - compared with just under 20 under the previous Presidency. Of these, 19 have already been achieved in the Internal Market Council which accounts for about a third of the total programme. Our record in the Internal Market Council belies the rather gloomy impression Arthur Cockfield gave when he met you last week.

I have copied this minute to Geoffrey Howe, other members of OD(E), John Moore and Sir Robert Armstrong.

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

MPC

PAUL CHANNON

2 December 1986

[Approved by the Secretary of State
and signed in his absence]

DEPARTMENT OF TRADE & INDUSTRY

JG1AGQ

CPB

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

PRIME MINISTER

Add to
Council file

Prime Minister

CDP
2/12

INTERNAL MARKET MEASURES

See EURO.POL: Appt. Pres. EEC: Pt 3.

I have seen your Private Secretary's letter of 24 November recording your meeting with Lord Cockfield. I notice he deplored the slow progress made in adopting internal market measures and said that, by contrast, the Commission "had done everything asked of it".

You should know that, in the agriculture and food area, the Commission:

- (1) have been very late in producing some proposals;
- (2) have amended earlier proposals, at a very late stage, so as to diminish the control that Member States may exert over the manner in which the Commission exercise delegated powers, even though they are well aware that a number of Member States will oppose such amendments;
- (3) threatened to withdraw a proposal when the Council was about to exercise its right to amend it by unanimity (this again concerned the way in which the Commission exercise delegated powers);
- (4) threatened to take the Council before the European Court if it amended, by unanimity, a proposal for a measure in the plant health area, so as to add Article 100 of the Treaty of Rome to the legal base.

The last point is of particular importance. If veterinary and plant health measures are adopted only on the basis of Article 43 of the Treaty as the Commission wish, and not also Article 100, we are likely to be unable to make use of the provision which you managed to get inserted into the Single European Act in order to protect our frontiers against the introduction of plant and animal disease.

I hope you will bear these points in mind during the European Council if the Commission again complain about lack of progress.

I am copying this minute to the Foreign & Commonwealth Secretary, the Secretary of State for Trade and Industry and to Sir Robert Armstrong.

MJ
2 December 1986

M. Guy GUERMEUR

1912



file
DA

1) 6/12
2) 6/11/87

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

Ack/ 1 December 1986

I enclose a copy of a letter to the Prime Minister from M. Guy Guermeur.

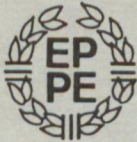
I should be grateful for a draft of a reply if necessary.

I am copying this letter and enclosure to Colin Budd (Foreign and Commonwealth Office).

(Charles Powell)

Ivor Llewelyn, Esq.,
Ministry of Agriculture, Fisheries and Food.

VC



De Europæiske Fællesskaber
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EUROPEAN PARLIAMENT

Communautés Européennes
PARLEMENT EUROPEEN

Comunità Europee
PARLAMENTO EUROPEO

Europese Gemeenschappen
EUROPEES PARLEMENT

Madame Margaret THATCHER
Premier Ministre
10, Downing Street
LONDON SW 1

R/12

Bruxelles, le 24 novembre 1986

Madame le Premier Ministre,

La commission des pêches du Parlement européen a décidé - sur ma proposition - d'inviter l'autorité budgétaire à rétablir le crédit d'engagement initialement inscrit par la Commission dans son avant-projet, soit 127 M d'écus sur la ligne 40-47 et l'inscription de 10 M d'écus en paiement. Ces montants avaient été massivement réduits dans le projet du Conseil.

La commission des budgets du Parlement européen a adopté cet amendement, après assurance donnée par la Commission exécutive que les engagements pourraient être réalisés en 1987 à hauteur du chiffre proposé.

Je tiens à signaler l'importance de la décision financière attendue par les élus et la Commission pour assurer la nécessaire modernisation des structures - navires, recherche, installations à terre, aquaculture, pêches lointaines - et la prise en compte du nouveau potentiel de capture, après l'adhésion de l'Espagne et du Portugal.

Au nom de mes collègues, comme moi-même attachés au progrès harmonieux des pêches européennes, je vous remercie par avance de l'attention que vous accepterez de réserver à notre préoccupation et vous prie d'agréer, Madame le Premier Ministre, l'assurance de ma haute considération.

Guy GUERMEUR

97/113 rue Belliard
1040 BRUXELLES
Tél. (02)234.21.11



10 DOWNING STREET
LONDON SW1A 2AA

1 December 1986

From the Private Secretary

25.11.86

I enclose a copy of a letter to the Prime Minister from the President of the European Parliament about his visit to the United States. As you will see, M. Pflimlin says that he encloses a copy of a statement following his meeting at the White House with the President on 20 November. In fact he neglected to do so and you will want to ask our delegation in Strasbourg to obtain a copy.

CB

I should be grateful for a draft reply from the Prime Minister, to issue before she goes to Strasbourg on 9 December.

Charles Powell

Colin Budd Esq
Foreign and Commonwealth Office.

K



VR
CR

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1 December 1986

EC Internal Market

I enclose a copy of Snr Gonzalez' reply to the Prime Minister's recent message about the Internal Market. It was delivered over the weekend. You will want to inform our delegation at the Internal Market Council today of its contents.

I am copying this letter and enclosure to Mike Gilbertson (Department of Trade and Industry) and David Williamson (Cabinet Office).

(CHARLES POWELL)

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

JB



file
DA

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1 December 1986

I enclose a copy of a reply from Signor Craxi to the Prime Minister's recent message about the internal market.

I am copying this letter and enclosure to Michael Gilbertson (Department of Trade and Industry) and David Williamson (Cabinet Office).

(Charles Powell)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

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CSPC

The Italian Ambassador

Italian Embassy
4, Grosvenor Square
London, W. 1.

1972

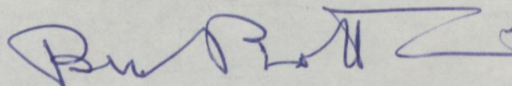
1st December, 1986

Dear Charles,

Part 33 -

I take pleasure in forwarding to you a message addressed to the Prime Minister by the President of the Council of Ministers, Signor Bettino Craxi, together with a rough translation.

Sincerely yours



Bruno Bottai

Charles Powell, Esq.,
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1



PART 33 ends:-

Craxi (Pm Italy) to Pm (T 2288/86)

PART 34 begins:-

Italian Ambassador to CDP 1.12.86

Grey Scale #13



A 1 2 3 4 5 6 **M** 8 9 10 11 12 13 14 15 **B** 17 18 19



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Centimetres 1 2 3 4 5 6 7 8

Colour Chart #13

Blue Cyan Green Yellow

