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PRIME MINISTER

European Issues

The new Government faces both a challenge and an opportunity in Europe - a challenge because it has a number of difficult negotiating objectives (not all that dissimilar from those of its predecessors) in respect of our contribution to the EEC Budget, a freeze on farm prices, etc.: and an opportunity because a greater commitment to Europe expressed publicly and in direct contact with our partners will ensure a more sympathetic hearing.

2. The attached paper sets out the main issues which will need early discussion and on which fuller Departmental briefing is of course being submitted. On agricultural prices for 1979-80 there will be meetings of the Agriculture Council probably coming to a crunch at the end of June; and "Convergence", which from our point of view means our net contribution to the Community Budget, will be a key subject for the European Council on 21st-22nd June. The Government will therefore need to take an early decision on how it is going to play its hand.

3. Tactics will be very important. There are a number of areas where we could show a more forthcoming attitude without any detriment to our substantive negotiating objectives. For example -

(a) EMS: even if the new Government does not want to take an early decision on joining the exchange rate mechanism, we can deposit 20 per cent of our reserves against the issue of ECUs. This would cost nothing in practical terms but would be an important gesture of support for the EMS and would be confirmation of an open-minded approach to the concept of a zone of monetary stability in Europe consistent with the mainstream of Community development.

(b) There are a number of issues which are not intrinsically of great importance but where the United Kingdom is blocking otherwise unanimous Community decisions simply because they imply an extension of the Community's role. These include a number of maritime and environment matters, such as signature by the Community of Protocols to the Bonn and Barcelona Conventions.

Adrian Pleasance

(I doubt whether this can be achieved by a currency system. Indeed it can't unless all the words up to 'maritime' of each country are right. on)

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- (c) We are in dispute within the Community on certain state aid questions which the new Government's attitude to subsidies would make it easier to resolve.
- (d) Energy in particular is an area where our favourable situation leaves room for us to play a more co-operative role within the Community without any sacrifice of our vital interests in relation to North Sea oil.

4. The fact that, in the last two or three years, the mood of the Community has changed and there is less emphasis on supranationalism, and a greater readiness to accommodate different national requirements, makes it easier for us to move on all these fronts.

5. But it would be wrong to do so without regard to the value of such moves in relation to our major objectives on the CAP and the Budget. The last thing we should do is to give the impression that the United Kingdom is now a soft touch, or to arouse exaggerated expectations. On the fisheries issue, for example, we have important interests to defend, although there are strong arguments for seeking an early settlement to safeguard fish stocks and before Spanish entry to the Community. The timing of moves on those matters where we could be forthcoming will need very careful consideration in relation to the sort of response we are getting from other member Governments on issues of crucial importance to us.

6. Ministers may feel however that there is a strong case for an early statement in Parliament and possibly in the Council, which would set a new tone from the outset and establish a momentum towards solving problems rather than digging into opposing trenches. This could be based on Chapter 6 of the Manifesto showing a genuine wish to co-operate with our partners combined with firmness on matters which are of real importance to us.

7. Copies of the attached paper, but not of this covering minute, are being given to the Foreign Secretary and other Ministers concerned with European questions.

John
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(John Hunt)

If it's not possible to go right back to the treaty itself. Fish should never have been made a common resource. It is quite wrong and we are unlikely to get a satisfactory solution unless it is brought up

EEC : SURVEY OF MAIN CURRENT COMMUNITY ISSUES : MAY TO JULY

INTRODUCTION

1. This paper sets out the major issues which will be discussed in the Community during the summer and on which Ministers will need to take positions. The issues will be dealt with in more detail in departmental papers. Ministers may however find a tour d'horizon useful since effective negotiation in the Community requires a coherent policy across the whole range of Community questions. The policy priorities need to be set clearly and pursued consistently; and negotiating capital saved for issues which are of real importance to British interests.

2. Our main concerns are the related problems of the UK contribution to the Community Budget and the excessive cost of the Common Agricultural Policy. Both will be live issues in the next two months. The Commission have proposed a price freeze for 1979/80 as the beginning of an attempt to eliminate agricultural surpluses and this awaits decision in the Agricultural Council (paragraphs 12 to 15 below). The European Council on 21/22 June will as usual be a focal point for discussion of the main Community and world issues. There will be continued discussion of the impact of the Community Budget on the economic performance of individual Member States (paragraphs 6 and 7 below). As this will be the first European Council after the general elections in the UK and Italy and probably with a new Government in Belgium as well, it could be an important opportunity for a new look at this problem, though a single meeting is unlikely to prove a decisive turning point.

3. The EMS (paragraphs 9 to 11 below) and the Common Fisheries Policy (paragraphs 16 to 18) will also require decisions in the period. In other areas of less importance (eg certain environmental and maritime proposals - see paragraph 22 below) there are outstanding UK reservations which are preventing agreement.

4. The Community as a whole has other preoccupations: the general economic situation (likely to be discussed at the European Council in the context of preparations for the Tokyo Summit on 28/29 June), enlargement (paragraphs 26-30)

below), and the Direct Elections to the European Assembly on 7-10 June: the Community will be running a short campaign to give these elections publicity and other Member States will watch with close interest the line taken by the Government and its supporters in the campaign.

5. Against this background, and the forthcoming programme of Community meetings requiring Ministerial attendance (at Annex), the paragraphs which follow outline the state of play on the main problems.

THE COMMUNITY BUDGET AND CONVERGENCE

6. The latest Commission figures show that, on the interpretation of the figures which we favour, our net contribution in 1978 was £747 million - the largest net contribution to the Budget. (The figures depend on the treatment of monetary compensatory amounts (MCAs) on which there is an unresolved dispute; but even on the basis of the least favourable interpretation the UK emerges as the second largest net contributor. The problem can only get worse as long as 75 per cent of the Budget goes on the CAP. In our view the less prosperous Members of the Community should not be significant net contributors to the Budget. The immediate UK interest is to secure acceptance of the principle that net resource transfers resulting from Community policies, taken as a whole, should contribute to convergence by being properly related to the relative economic strengths of Member States. Once this principle is secured, and its application to the UK is accepted, there are a variety of ways in which the alleviation of the UK budgetary burden can be sought.

7. Though some progress has been made in getting the rest of the Community to accept that a problem exists, there is still great resistance to doing anything about it from all except the Italians, who have been useful allies. The task for the UK at the June European Council will be to get agreement that a problem exists, that a specific solution is required in terms as close as possible to those in paragraph 6 above and that a mandate be given to the Commission to make proposals for remedial action in time for decisions at the December European Council. Before then, meetings of the Finance and Foreign Affairs Councils will provide opportunities for discussion of this question and for a statement of UK policy.

EUROPEAN MONETARY SYSTEM

8. This is a major issue in its own right which Ministers will wish to consider carefully. The EMS started on 13 March 1979. The UK does not participate in the exchange rate and intervention mechanism but does participate in other aspects, notably the introduction and development of the ECU (the European Currency Unit, a basket unit comprising weighted proportions of all Community currencies), the expansion of the Community's medium term credit facility and the long term goal (scheduled for two years after the start of the system) of the creation of a European Monetary Fund.

9. An early question the UK faces is whether to deposit 20 per cent of our gold and dollar reserves with the European Monetary Co-operation Fund in return for which we shall receive ECUs. We can do this at any time, but if an affirmative decision is taken there would be political advantage in making these deposits at the earliest moment since this action would help to confirm that the UK does have a commitment to the EMS even though we are not participating in the exchange rate mechanism.

10. The EMS will be discussed at the Finance Councils on 14 May, 18 June and 16 July. In September 1979 there will be a review of the functioning of the divergence indicator, an aspect of the EMS which has been considered to be of particular importance to the UK in that it is a way of putting pressure on strong currencies corresponding to the pressure weaker currencies experience in using reserves to maintain their levels within the margins. The review provides a natural occasion for re-examination of the question of UK participation in all aspects of the EMS.

COMMON AGRICULTURAL POLICY (CAP)

11. The immediate issue for Ministers will be the Government's attitude towards the Commission's proposal for a price freeze for 1979/80. Negotiations have been suspended during the United Kingdom Election. In the meantime various changes have been made in "green currency" rates, including a 5 per cent devaluation of the Green Pound.

12. Currency fluctuations and the measures taken to operate the CAP in spite of them - green rates and monetary compensatory amounts - mean that prices in national currencies have diverged markedly from the agreed 'common' price. German prices, the highest, are now some 30 per cent higher than UK prices, the lowest. High common prices, exacerbated by even higher German prices, inevitably produce surpluses and increase the United Kingdom contribution to the budget and the resource costs of importing food. The United Kingdom's interest, as far as the CAP itself is concerned, is to reduce the cost of the CAP and to eliminate structural surpluses.

13. The United Kingdom can secure a price freeze if the Commission stands firm on its proposals and the United Kingdom refuses to accept any increase, since the Council may change the Commission's proposals only by unanimity. If the Commission were to yield to pressure from other member states for price increases, and change its proposals, the Council may then accept them by a qualified majority and the United Kingdom might have to invoke the Luxembourg Compromise to assert a right of veto in order to enforce a freeze. The freeze is not generally popular. Italy still supports it in a rather half hearted manner but may well allow itself to be bought off. The countries with positive MCAs, Benelux and Germany, are determined not to agree to a fall in their agricultural prices in their own currencies. They therefore insist that only a price increase will enable them to begin to dismantle their MCAs. Denmark and Ireland who effectively have no MCA might accept a freeze on products in surplus (milk and sugar - perhaps cereals). France is anxious for some price increase, not least as a method of securing some reduction in positive MCAs.

14. The next Agriculture Council is scheduled for 8 May (but not to deal with prices). There is to be an informal Council meeting from 14-15 May at Perpignan, and the next Council is fixed for 18 June. It is possible that additional Council meetings will be added in order to speed up the price fixing. Meanwhile, prices remain fixed at last year's level.

COMMON FISHERIES POLICY (CFP)

15. The immediate problem is on conservation measures. HMG must decide whether to implement certain conservation measures which have already been announced in Parliament as coming into effect on 1 June but which may well

be challenged in the Community. Conservation is also likely to be a prominent aspect of the next Fisheries Council which will probably be during June. Three UK national conservation measures taken in 1978 were challenged by the Commission and are now before the European Court and generally the UK's freedom of manoeuvre on conservation is narrowing.

16. On the general internal regime for a modified Common Fisheries Policy there have been long and inconclusive discussions. The UK's principal requirements in the areas in dispute have been: virtually exclusive access for UK fishermen within 12 miles of the entire UK coastline; preferential access for UK fishermen in wide areas beyond 12 miles; an adequate conservation regime including the residual right to take national measures; a greater percentage allocation of catch quotas than is envisaged under the present Commission proposal; and a preferential share of any growth in fish stocks. The question of preferential access is the most difficult. The Eight and the Commission argue that the UK demands, particularly beyond 12 miles, are in conflict with the principle of equal access accepted by the UK (with temporary derogations) in the Treaty of Accession. The Community has been waiting for a general election in the UK and may now hope for a new approach from HMG.

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17. The Community's external fisheries regime is unlikely to present critical problems in the period. Annual arrangements on reciprocal fishing access have been concluded for 1979 with the other countries concerned, notably the Faroes, Norway, Sweden and Spain. However, the UK has withheld its agreement to the signature of longer term framework agreements with third countries pending progress on the internal regime. The Government will need to decide whether to maintain these reserves and more generally the extent to which parts of the CFP package should be linked.

INDUSTRIAL, REGIONAL AND INTERNAL MARKET QUESTIONS

18. Attempts to set up a general Community industrial policy have been unsuccessful but the similarity of problems throughout the Community has led in particular sectors to a readiness to find some common policies. On steel, there is in operation a regime for trade between the Community and third countries. A draft Decision determining the conditions under which aids to the steel industry may be granted is opposed only by the UK and

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Italy and there will be pressure to agree to a steel aids decision before the summer . The Commission are pressing for the adoption of guidelines for a Community policy on textiles. For shipbuilding the Fourth Directive agreed in 1978 sets out the conditions under which aids can be granted . The Commission has raised difficulties over certain proposed aids to British Shipbuilders and Harland and Wolff , and has not approved a renewal of the Intervention Fund. It is also still considering whether the last Government's proposal for an Employment Development Aid is compatible with competition policy .

19 . The Community's funds for non-agricultural purposes are still small but there is an awareness of the imbalance in the pattern of Community spending. The Regional Development Fund has recently been increased to approximately £600 million for 1979 and may be further expanded in the context of enlargement. The Social Fund, which aims to alleviate unemployment by supporting training schemes, will dispose of some £500 million in 1979. On both these Funds, we receive a higher share (27 per cent of the Regional Fund and 20-35 per cent of the Social Fund) than our share of contributions. Proposals for concerted action to combat unemployment (such as an agreement on shorter working hours) have been discussed but there is little sign of early Community agreement. Other schemes are under discussion including a fund for industrial restructuring, a fund for transport infrastructure and a subsidised loan scheme for projects of Community interest. If these or other schemes are pursued we need to ensure that the criteria will benefit the United Kingdom eg by focussing on the United Kingdom's regional problems and the economic disadvantages of our peripheral location, ageing infrastructure and high concentration of declining industries .

20. Progress towards the completion of the common market through the elimination of non-tariff barriers has been slow but could be accelerated if there were a common political will to achieve results . The United Kingdom has stimulated proposals for progress towards a genuine common market in fields where United Kingdom industry is likely to prove competitive eg insurance and motor vehicle components; but has in general shown an aversion to "harmonisation" proposals (under Article 100 of the EEC Treaty) which have not always been justified in terms of their beneficial trade effects.

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21. There are a number of proposals in the environmental and maritime fields on which the United Kingdom has reserves, ^{-also-} because of their possible implications for the "competence" of the Community although they do not raise matters of significant practical importance for the United Kingdom. These include proposals on aircraft noise control, ship inspection, and Community Accession to the Bonn and Barcelona Marine Pollution Conventions.

EURATOM

22. A discrepancy exists between the extensive powers accorded to the Commission in certain areas of the Euratom Treaty and the limited role it actually plays in nuclear trade. European Court judgements have confirmed that the provisions of Chapter VI of the Treaty remain in force even though unused. The United Kingdom has argued that Chapter VI of the Treaty should be amended as provided for in the Treaty itself. We have also argued that responsibility for non-proliferation controls and conditions applied to nuclear trade within or outside the Community should remain in the hands of Member States. French views on these points are similar and they have been taking the lead. Opposition can be expected, particularly from some of the smaller Members. Discussions on non-proliferation is expected to begin in political co-operation in May. Commission proposals relating to Chapter VI of the Treaty itself are also expected soon. Discussion will also continue of a mandate for the Commission to negotiate a safeguards agreement which will enable deliveries of Australian uranium to be made to the Community; our own bilateral agreement with the Australians will also need to be authorised by the Commission.

ENERGY

23. The Community has had great difficulty in moving towards its consistently stated objective of a common energy policy despite the pressures of a turbulent world energy situation. The significantly different energy endowments and different economic strengths and weaknesses have made agreement very difficult. Our relatively strong energy situation gives us something potentially to contribute; others would welcome a lead, but up to now we have shown greater concern to avoid encroachments on our national competence. At the last meeting of the Council of Ministers (Energy) on 27 March, the main emphasis was put on the national energy programmes of Members States. The Community's role was seen as agreeing common objectives, for example on reduced dependence on imported oil; comparing national energy programmes and their adequacy to meet these objectives; and considering whether there are any gaps

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which might usefully be filled by Community action . In line with this approach the Council commissioned a study of national policies; work on a long term outlook for world oil supply; and work on the development of Community coal policy (which could benefit the United Kingdom provided the terms are right). There is likely to be a short meeting of Energy Ministers on 17 May to consider the difficult oil supply situation resulting from the Iranian crisis, but the Council will return to the main questions of Community energy policy on 25 June and Ministers will wish to reassess the United Kingdom line .

24. An issue on which an early decision is likely to be required by Ministers is the handling of our Interest Relief Grant (IRG) Scheme for offshore supplies . We know that the Commission have already approved in principle a Decision requiring us to abolish the scheme although they have not yet formally communicated this to us (because of the General Election). If we do not comply with the Decision we would risk being taken to the European Court (where we would be likely to lose). The Commission have also queried other important aspects of our North Sea policies - the requirement under which all North Sea oil must be landed in the United Kingdom unless a specific exemption is granted, the policy of ensuring that British industry has "full and fair opportunity" to compete for North Sea business; and the requirement for United Kingdom Continental Shelf licences to have their central management and control in the United Kingdom. A further approach can be expected from the Commission after the Election.

ENLARGEMENT OF THE EUROPEAN COMMUNITY

25. Although there are still some questions to be resolved which are sensitive for the United Kingdom, the negotiations for the enlargement of the Community are generally proceeding satisfactorily.

26. The Greek negotiations have been virtually completed and signature of the accession Treaty is due to take place in Athens on 28 May. The Prime Minister and the Foreign and Commonwealth Secretary have been invited to attend. Greece is likely to enter the Community on 1 January 1981. There will be a transitional period of five years (seven in certain sectors, eg the free movement of labour).

27 . Negotiations with Portugal began formally in October 1978, but the main substance will not be tackled before the summer break and is unlikely to be settled before the end of 1980. This suggests signature of a Treaty in 1981 with accession perhaps on 1 January 1983. Since the Portuguese economy is weak a transitional period of ten years in some sectors may be necessary.

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28 . Spain with a population of 36 million presents larger problems than Greece (population 9.1 million) and Portugal (9.7 million). The Spanish market has so far been relatively protected from EEC industrial exports which can therefore expect to benefit from Spain's accession. On the other hand there will be problems for Community producers of Mediterranean agricultural products , and on textiles and fisheries . The negotiations with Spain opened formally in February with the substantive phase due to start after the summer break . Spain might enter the Community together with Portugal in 1983 with a transitional period of perhaps eight years.

29. Fears have been expressed on the effect which enlargement will have on the workings of the Community's Institutions. It will be more difficult to reach a consensus on certain matters with 12 members than ine; and the Community will have three new official languages . The risk of stratification of the Community into more and less prosperous members may be increased. The Committee of three Wise Men, including Mr Edmund Dell, is looking into some of these problems and is due to report in the Autumn.

EXTERNAL RELATIONS

30. The Community's external relations cover a wide field of economic activity , but give rise to few major immediate problems for the United Kingdom. Now that the GATT Multilateral Trade Negotiations (MTNs) have been initialled by the main participants (though not yet by the development countries), the main item on the Community's external agenda in the coming months concern the re-negotiation of the Lome Convention and the Community's policy at the May meeting of UNCTAD V. Also under active discussion are the Community's relations with Japan, Yugoslavia, Turkey, CMEA and China. Later in the year decisions will be needed on the post 1980 Generalised Scheme of Preferences (GSP) and on the lending commitments of the European Investment Bank (EIB) after 1981.

31. Under the present Lome Convention 57 African, Caribbean and Pacific ACP) states (which include 27 Commonwealth countries) enjoy an advantageous aid and trade relationship with the Community. This expires in March 1980 and a successor agreement is currently under negotiation. The final Ministerial conference to settle its terms is due to be held in Brussels on 24/25 May. The

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last Foreign Affairs Council at which the Community's position can be discussed is that of 8 May, though it is possible that a further special Council will be needed for this purpose, perhaps just before the 24/25 May meeting. One important decision required will be the amount of EEC aid to be offered under the new Convention.

32. UNCTAD V opens at Manila on 5 May. The co-operation of Community positions was discussed at the March and April Foreign Affairs Councils and the 8 May Council is likely to approve detailed positions now under intensive discussion in Brussels.

33. Trade relations between the EEC and Japan are under some strain. Negotiations are in progress for a new preferential trade agreement with Yugoslavia. Turkey presents important and urgent economic problems for the Community. Negotiations with the Soviet-dominated CMEA to which the Eastern Europeans and the Soviet Union belong have arisen because the CMEA has insisted that there should be an EEC/CMEA trade agreement before CMEA members would be entitled to negotiate bilaterally with the Community. The Community agreement with China was signed in 1978 and has given rise to practical problems, including access for Chinese textile exports. There are also unresolved problems with Malta, Cyprus and Turkey over access for textiles.

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