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Foreign and Commonwealth Office

London SW1A 2AH

31 October 1980

*J. P. [Signature]*

*Dear Michael,*

Call on the Prime Minister by the President of the  
European Commission: Monday 3 November

As requested in your letter of 9 October  
I enclose a brief for Mr Jenkins' call on Monday  
3 November.

*yours ever  
Rodric Lyne*

(R M J Lyne)  
Private Secretary

M O'D B Alexander Esq  
No 10 Downing Street  
LONDON SW1

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CALL ON PRIME MINISTER BY PRESIDENT OF THE EUROPEAN COMMUNITY:  
MONDAY 3 NOVEMBER, 3.00 pm

POINTS TO MAKE

FISHERIES

1. Committed to 1 January 1981 target for agreement of revised CFP.
2. Settlement must cover all elements identified in 30 May Council declaration. Useful progress at 28 October Council. Conservation and control effectively settled. Now have to tackle quotas and access in parallel, starting at high-level official meetings in early November.
3. Glad to learn of agreement to discuss quotas in detail at 17/18 November Council; though we remain far from happy with Commission methodology. UK approach to negotiations constructive and flexible, but settlement must be seen to be fair by UK industry, which is still coming to terms with enormous losses of fishing in third country waters. Figures of 32% for latest Commission offer and 45% for UK industry's demand widely publicised. Such 'overall' figures can be misleading but you can appreciate HMG's difficulties with current figures which on stocks of major UK interest are lower than those proposed (and publicised) in 1978. Recognise cake has shrunk but even more important for Commission to be even-handed. Must give priority to human consumption fishing; countries such as Denmark must accept an equitable share of burden which UK and others are being asked to carry.
4. Access a fundamental element of CFP settlement: 12 mile zone reserved exclusively or almost exclusively for national fishermen will be essential if package to be sold in Britain. Some form of demonstrable preference beyond 12 miles perhaps related to areas specially dependent on fishing also essential.

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EUROPEAN COUNCIL, 1 - 2 DECEMBER

5. (a) Agenda should include a general discussion on economic issues, including CAP and the problems of industry and trade, (vehicles, steel, petrochemicals, textiles etc).

(b) Restructuring may well need to be discussed in general terms.

(c) Would Mr Jenkins give a wide ranging report including the achievements of his Commission?

RESTRUCTURING OF COMMUNITY BUDGET

6. Commitment to review major turning point in Community development. Valuable opportunity to set house in order. Make full use.

7. Cannot be shirked. Triple challenge of:

— (a) 1% VAT ceiling;

— (b) enlargement;

— (c) commitment to avoid "unacceptable situations".

8. UK preliminary thought. Approach open minded. Exploratory stage.

9. Must keep to timetable i.e. Commission paper by June; aim at solution by end 1981. Otherwise likely dislocation of Community business. Thorough preparation by present Commission essential if new Commission to maintain momentum.

10. UK committed to finding Community solutions to Community problem.

11. Fundamental problem: rapid growth/dominance of CAP; stunted growth of other policies. Former must be controlled to make room for latter.

12. Must find solution within 1% ceiling. Raising unacceptable to number of Member States but would also make problem worse. If breached no effective constraint on CAP spending; cost of enlargement; UK net contribution larger.

13. Important that decisions affecting 1981 budget (especially price-fixing) should not prejudice finding of long-term solution.

Agriculture

14. Commission proposals on Agriculture will set tone and scope. Important they are widely framed and presented only after full consultation with Member States .

15. Must cut cost of CAP and reduce surpluses. They undermine Community finances and political support for Community.

16. Do not question principles and objectives of CAP, but structural surpluses and problems must be tackled to prevent collapse of CAP.

17. Broad objectives of reform should be:

- (a) elimination of structural surpluses, especially milk;
- (b) reduction in CAP's share of budget;
- (c) progress towards market clearing prices;
- (d) preservation of healthy agricultural industry.

18. Believe central element must be policy of severe price restraint. Prepared to consider combining it with direct aids to help those hardest hit.

19. Recognise restraint itself unlikely to be sufficient. Ready to consider how it can be supplemented. Already Council commitment in principle to super levy for milk. For cereals price support must relate to volume of production. For beef, intervention should be reduced. Quantitative restrictions appropriate for other commodities eg. Mediterranean products.

20. Opposed to across-the-board extension of basic co-responsibility levy principle. Avoids tackling central problem.

21. Strongly support reduction of CAP's share of budget as medium

term objective. Finance Ministers should consider urgently in relation to 1981. Synchronisation of price-fixing and budget procedures might help.

22. 1981 Price fixing: must not prejudice restructuring. Rumours of 8-10% totally unacceptable. Hope present Commission can prepare ground for proposals set at realistically low level. Surplus products should be treated more severely.

#### Non-Agricultural

23. If CAP cut, scope for expansion of RDF/Social Fund and possibly new policies. UK approach positive. Outstanding proposals: coal, structural measures for transport, fisheries. New policies : urban/industrial decay; energy.

24. These policies cannot solve problem by itself. Massive budget expansion would be needed.

25. Role in preventing unacceptable situation only effective if preponderantly beneficial to States likely to find themselves in this situation.

26. Revenue side: changes should be considered. May not be possible to avoid unacceptable situation by action on expenditure alone.

27. No doubt Commission will consider French/German idea of ceiling on net benefits/contributions.

#### MEASURES TO ASSIST INDUSTRIES IN CRISIS

28. (a) Certain industrial sectors in Community facing common problems through third country competition and depressed internal market conditions (steel, vehicles, textiles). Synthetic fibres, petrochemicals should be discussed on general approach at next Council, with Davignon present. Could Mr Jenkins make a general presentation outlining steps the Community is already taking and with guidelines for future?

(b) US Synthetic Fibres and Chemicals

New Commission will need to make major effort with the new US administration over unfair advantage of oil and gas feedstocks.

(c) EC/Japan

Common EC import regime for Japan is attractive. Member States cannot be expected to make concessions which are not reciprocated equally. EC motor industry facing critical difficulties. New Commission must pay special attention to these.

(d) MFA

Tough successor to present MFA essential. Commission must make realistic proposals.

STEEL

29. Glad that the Industry Council on 30 October was able to agree Commission proposals for production quotas under Article 58 of the ECSC Treaty. Measures very important to UK steel industry, grateful to Commission for their efforts to secure effective measures to meet the crisis in the European industry.

30. Now need effective measures on the external side. Cannot expect to impose a greater discipline on Community producers than on external suppliers. Hope Commission can negotiate early renewal of voluntary arrangements.

31. (If raised) We support the Commission's wish to provide funding for social measures on steel, and are examining the means by which the funding can be made available.

THE EUROPEAN MONETARY SYSTEMUK Membership

32. Will consider joining exchange rate mechanism when the time is right.

33. Not possible to join now. Priority is to secure sustained control of the money supply. Exchange market intervention to curb upward pressure on sterling would pose an unacceptable threat to this at present. Sterling, as virtually a petro \_currency, subject to pressures not suffered by other States - particularly acute in present disturbed state of the oil market. Upward pressures on sterling seen recently would also have posed major threat to pattern of EMS exchange rate had we been members. This would not have been good for either the system or the UK.

Future of the system

34. March 1981 deadline for establishing the EMF seems unlikely to be met. UK has played a full part in discussions to date, which are helping to refine the options.

35. Premature for the government to express a view on the type of Fund until the implications have been fully worked through by the Monetary Committee and Central Bank Governments.

36. UK will co-operate in measures to extend the initial period of the EMS for as long as is necessary to enable Fund to be set up.

37. No objections to developing the ECU - but Community should proceed cautiously.

ERDF; GREEK SHARE

38. Recognise that Community should make provision for Greece for 1981. But you will know that we look to the Commission to justify the proposed 15% quota. We have asked a number of questions on this.

39. Present Commission proposals to share costs among Member States on a relative GDP basis is a helpful step, but we believe that six more prosperous Member States should bear total cost of providing for Greece. Commission figures indicate that in terms of net receipts Commission proposals have perverse affect on UK.

EUROPEAN COMMISSION

COMMISSION

Portfolios

40. Tugendhat : support his wish to continue with budget. Should be given proper coordinating authority on all matters with budget implications.
41. Richard : his wide experience of relations with developing countries make him a strong candidate for development. How does Mr Jenkins see his chances? Is Cheysson likely to move?
42. What does Mr Jenkins know of the intentions of other Member States?

Commission Staffing

43. Will continue to press to achieve 'harmonious geographical distribution' (i.e. our share). Important for us to replace present British Director General for Energy, who is retiring, (and also Transport when present Director-General retires). For Energy would back either Herzig or le Cheminant, or Audland if Commission insisted on in-house promotion.
44. Remain worried about imbalance to our detriment.



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ESSENTIAL FACTS

FISHERIES

1. 30 May Foreign Affairs Council declaration called for revised CFP to be in effect by 1 January 1981. Negotiations protracted and difficult, but progress being made: agreement at 29 September Fisheries Council on a conservation regulation, and at 28 October Council on principles of an enforcement regulation. Also agreement on 28 October to move from discussions of methodology of Commission quota proposals to actual quota figures: bargaining will start in earnest in run-up to and at next Council on 17/18 November. Agreement on two high level meetings of senior fisheries officials on 5 and 12 November to try to speed progress before next Council.

2. Main UK complaints over present Commission quota proposals are:-

- (a) suffering caused by excessive allowance for past Danish by-catches from industrial fishing (Commission intransigence on this may relate to nationality of Commissioner Gundelach);
- (b) greater allowance should be given for third country losses (mainly affects UK and Germany);
- (c) Commission must devise fair proposals for regions especially dependent on fishing. ('Hague regions') - on present Irish benefit at UK expense. Also wide and obvious discrepancy between UK quota currently offered by Commission (32% average all species) and 'minimum' demand of UK industry (45%) endorsed by recent House of Lords Select Committee Report.

3. Vital (to UK) question of access (both within 12-mile coastal belt and beyond not yet formally broached in Council (though raised by Mr Walker at lunch during 28 October Council). No firm Commission proposals. No prospect of agreement to any quota figure without adequate access arrangements.

RESTRUCTURING

4. UK preliminary work: OD agreed general approach on 10 October. Clear that if unacceptable situation to be avoided, combination of

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measures will be needed. Important at this stage not to rule out possibilities. Preliminary consultation with partners now beginning.

5. Commission preliminary work: present Commission is to produce line by line examination of budget, detailed papers on CAP and on other major spending policies. Will prepare groundwork but leave new Commission to come forward with proposals. Legacy of present Commission will be important in helping to determine new Commission's approach.

6. Timetable: present deadline set in para 7 of 30 May Council Agreement (i.e. Council will attempt to solve problem by structural changes but if this not possible proposals along lines of 1980/81 solution will be put forward to cover 1982). German public position is still that review must be complete by end 1981 though Schmidt earlier indicated privately that he thought early 1982 more realistic. Our interests best served by sticking to letter of 30 May Agreement (I.e. initially in favour of end of 1981 deadline).

7. 1% VAT ceiling: French and Germans support UK view on maintenance of

of ceiling. Raising would make problems more difficult since it would open sluice gate for more agricultural spending.

#### 8. CAP Reform

Useful opportunity to outline our preliminary thinking and encourage Mr Jenkins to do what he can to prepare ground in such a way that new Commission will initiate a wide ranging debate on CAP reform by presenting a series of options to the Council rather than putting forward a single recipe. It will also be important that present Commission prepares proposals for 1981/82 agricultural prices which do not prejudice the restructuring exercise. (There have already been rumours that Gundelach is contemplating increases of 8-10%). New Commission will actually formally present proposals in January, but will be heavily dependent on work done under Mr Jenkins' Presidency.

9. Non-Agricultural : various proposals in existence. UK proposals for Community policy to encourage indigenous production of coal - others have been blocked because benefits UK disproportionately but this is precisely kind of policy we must have if unacceptable situation to be avoided. Moreover their argument is based on 'juste retour' for each Community policy - contrary to their position in the budget negotiation. Other proposals on the table : structural measures in fisheries/transport infrastructure. Neither would bring significant benefit to UK in present form but both offer potential. New policy areas : urban/industrial decay, energy. Considerable potential.

10. Enlargement: likely to bring further problems in that acceding States will have significant call on funds which at present benefit UK (RDF/Social Fund). If Commission follow line taken over Greece's share of RDF, UK could become net contributor to both these.

11. Revenue side: possibility of change should not be ruled out. Likely to prove difficult to avoid unacceptable situation without some means of bringing level of gross contributions into line with GNP share.

12. Ceiling on net benefits: French/German idea has not been filled out yet. This could be important as negotiation develops because promising area for UK if idea of override mechanism gained ground. However, we must be careful not to get into lead in proposing this: will be seen clearly as dictated by self-interest with risk of isolating us in negotiation. At present most we should do is to encourage Commission to look further into French/German idea.

#### MEASURES TO ASSIST INDUSTRIES IN CRISIS

#### 13. EC/Japan

Commission have proposed overall Community strategy towards Japan to cover inter alia political questions, technological cooperation and unified policy on import restrictions. France and Italy which have various import quotas strongly opposed. UK has no quotas but various informal industry to industry arrangements exist. In present climate cannot accept any reduction in existing level of production. We favour tougher proposals than those the Commission has put forward. Initial Japanese reaction discouraging.

14. Aid to Industry

Commission brought forward proposals in 1978 to provide financing to industries in crisis. Proposals lapsed in face of Member States position. Proposals did not contain sufficient restructuring element. New proposals would be welcome and consistent with measures already taken under ECSC Treaty. M Davignon has launched an initiative on telematics, much of which could benefit the UK industry. We are encouraging early discussion in the Council and financial assistance might also be appropriate in addition to harmonisation.

15. Multi-Fibre Arrangement

The current MFA expires at the end of 1981. The developing countries have made clear they are looking for a much more liberal regime. The Prime Minister has told the UK industry that we shall be seeking a 'tough' successor. France, Italy, Ireland and Benelux are also likely to want a restrictive successor (as are the US and the Scandinavians). The Germans will be arguing in favour of liberalisation. The new Commission must begin drawing up a detailed draft negotiating mandate early in 1981. The negotiations themselves are not expected to begin in earnest until the Autumn. There is real potential for a serious North/South confrontation.

## STEEL

16. The European steel industry is in a state of crisis. Demand is much lower than production. Commission proposed Article 58 quotas on production. Discussed at Foreign Affairs Council on 7 October and at Industry Councils on 25 and 30 October. Eventually able to reach satisfactory agreement. Main stumbling block had been German opposition to mandatory quotas. They asked for discussion to continue at the first Industry Council on the grounds that they had major national interests at stake. Agreement had proved possible on all but special steels. This was subsequently agreed on 30 October. External measures are now necessary. We look for extension of Commission mandate to negotiate renewal of present arrangements which expire 31 December 1980.

17. Commission have proposed measures to provide funding for the social consequence of restructuring the steel industry. We have ourselves applied for £140m from the ECSC to cover payments for early retirement and severance pay within the UK. We have difficulty on the vires and the payment. We cannot accept transfer from EEC Budget under Article 235 Regulation. Prefer ad hoc contributions.

## EMS

18. UK membership

The Prime Minister's meeting on 19 March agreed that it would not be worth our joining the EMS exchange rate regime in the immediate future, but we should keep open the possibility of doing so when we have achieved greater success with our monetary policies.

19. The future of the system

EC heads of government resolved in December 1978 to consolidate the EMS, not later than two years after the start, into a 'final

system'' involving the creation of a European Monetary Fund, as well as the full utilisation of the ECU as a reserve asset and a means of settlement. The effective deadline for this is March 1981.

20. Much technical work has since been done in the Monetary Committee and amongst Central Bank Governors, but the French in particular have political reservations about any scheme which would involve ceding French gold to a European Monetary Fund. The Germans also have reservations about the effect of the Fund on Community liquidity. There has therefore been little political impetus to push the work forward.

21. The technical studies that have been undertaken have not yet teased out all the implications of the various types of European Monetary Fund that have been suggested. Until this is done, we believe that it would be premature for governments either to consider formal proposals for the Fund, or to make a political commitment to a certain type of Fund.

22. The March 1981 deadline is not legally binding, except in respect of the ECU swaps, which will automatically be unwound in March 1981 unless Member States take a unanimous decision to the contrary. The UK has already said that it will be content to extend the life of these swaps, and thus to ensure the continuity of the ECU.

23. The Commission, anxious to make progress on the EMS, have suggested that loans should be floated by Community bodies denominated in ECU's. We have no objection to experimental issues of ECU denominated loans, but believe the Commission should act cautiously. The market for such loans may not be as large as the Commission think.

ERDF (Greek share)

24. Treaty of Accession for Greece provides that the Community will take steps to ensure that Greece receives assistance from the ERDF in 1980. The Commission have proposed that Greece be given a 15% share, and that the existing quotas of the other Member States be reduced on a relative GDP basis. Commission figures show that the UK's net benefit in 1981 would be reduced by some 55%. We have questioned the basis of the Commission's calculations and have received some support from other Member States. We have not however, come out against the 15% figure, but we have asked that the costs should be borne by the six more prosperous Member States.

25. We have been anxious to ensure that the UK is not seen as taking the lead in opposing the provision for Greece. There are important political reasons why Greece should receive a good quota share, and our bilateral interests suggest that we should not be in the forefront of opposing the present proposals. The Greek Prime Minister raised our reported opposition with the Prime Minister in Athens on 10 October. Our stance has therefore been interrogative on the 15%, and we hope other Member States will take the lead in opposing the proposals. But we shall be anxious

to ensure that no damaging precedent is established and that the UK interests on ERDF are safeguarded in the context of the budget restructuring negotiations.

## COMMISSION

26. New Commission

UK has nominated Mr Tugendhat and Mr Richard. European Council on 1/2 December will nominate complete new Commission; formal appointment will be on 1 January 1981 when Greece can legally take part in decisions; new Commission will take office on 6 January. The latest state of play on other Member States' intentions is at Annex A.

27. Portfolios

We shall wish Mr Tugendhat to be a vice-President and to retain the Budget portfolio, strengthened to give him more influence in the restructuring exercise. We have identified three other portfolios which could be of value to the UK and might be attainable: Development, Industrial Affairs and Competition policy. A British incumbent in the Development portfolio should help to redress the very poor share of aid contracts we get at the moment under the European Development Fund. Mr Richard is well qualified. But M Cheysson may be re-appointed and, if he is, our chances of dislodging him are slight. Industry is another portfolio we would like to have. The responsibility for the steel and textile industries is particularly important for us. Here too, the present incumbent M Davignon may stay, in which case our chances are slight. A third portfolio of interest is Competition where a Commissioner sensitive to the political importance to us eg. of regional aids and North Sea Oil could be useful.

28. At this stage it would be best to show some general interest in all three portfolios, until the situation becomes clearer about the fate of the incumbents. Too strong a display of interest in Development, for example, might only strengthen the French determination to hold on to it. As to the portfolios for non-British members, the field is too open yet to express any strong views.

29. Commission Staffing

UK is under-represented in the Commission, particularly in the A4, A5 (principals) and A6/7 grades which form the essential pool from which candidates for more senior posts are taken. The Commission's examination of its own structure in the light of the Spierenburg Report on its functioning, and the need to make room for Greek nationals provide an opportunity to press our claims for a better balance. We have already taken this problem up with Mr Jenkins and Mr Tugendhat and shall need to continue to do so with the new Commission. It is particularly important to ensure that there is a British successor to Mr Leonard Williams, the Director-General for Energy, who is soon to retire. We shall also want to keep the post of Director-General for Transport in British hands when the present incumbent leaves shortly.