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Euro. Policy, Pt 10, C.A.P.

10 DOWNING STREET

From the Private Secretary

12 July 1978

European Council, Bremen: Discussion of the CAP

During the first session of the European Council in Bremen on 6 July there was some discussion between the nine heads of government and the President of the Commission of the Common Agricultural Policy. The following is a summary based on the Prime Minister's and the Foreign and Commonwealth Secretary's notes of the main points which were made.

The discussion of the CAP was initiated by Signor Andreotti, who argued that it was wrong that agriculture should take up 70% - 75% of the Community's budget and that milk in particular accounted for much too high a proportion (Signor Andreotti pointed out that the dairy sector cost six times as much as the proposed Mediterranean package). Signor Andreotti said that it was time for the Community to take another look at the CAP and to do away with costly surpluses which could no longer be supported; the Community's efforts should be more targeted - he mentioned by way of example that a very small amount of production aid for oranges had resulted in the trebling of Italian exports of oranges to other Community countries. Chancellor Schmidt, speaking as President of the Council, agreed that there was an inbuilt automatism to the accumulation of surpluses; but to change the structure of the CAP which had produced this, the Council would have to take on the vested interests of European agriculture. The Chancellor indicated that he would not flinch from this given support from his partners.

President Giscard expressed disappointment with the last farm price review; he said that the French Government had conditioned the French farmers to accept a disappointing outcome and that France had been prepared to accept the co-responsibility levy to reduce milk subsidies. Agriculture Ministers, however, had effectively agreed to an increase in subsidies by reducing the co-responsibility levy.

/The Prime Minister

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The Prime Minister strongly supported Signor Andreotti's view that the CAP should be re-examined and that CAP support should be better directed. The Prime Minister described the CAP as a cuckoo in the nest, gobbling up too much of scarce resources which could be put to better use; the CAP was stultifying growth. In his summing up, Chancellor Schmidt said that the Commission should bring a report to the European Council in December in response to the main criticism made during the discussion, namely that the CAP had produced growing structural surpluses. The Danish Prime Minister entered a warning against moving too quickly into criticism of existing agricultural arrangements.

In view of the particular sensitivity of European Council discussions at which, as you know, officials are not present, I should be grateful if you and the other recipients of this letter would ensure that it is given strictly limited distribution.

I am sending a copy of this letter to Kieran Prendergast (Foreign and Commonwealth Office) and Martin Vile (Cabinet Office).

B. G. CARTLEDGE

Richard Packer, Esq.,
Ministry of Agriculture, Fisheries and Food.

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Separate copies to:

- MR PETRIE, EID(E)
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- MR CARTLEDGE, NO 10
- MR JONES (PS/CHANCELLOR OF THE EXCHEQUER)
- MR VILE (CABINET OFFICE)

Mr. Howe

See also Mr. Franklin's note below.

BW

13/7

EUROPEAN COUNCIL, BREMEN: 6-7 JULY

I attach records of the two Plenary Sessions of the European Council, compiled mainly from Dr Owen's notes. I should be grateful if they could be handled with the discretion due to records of conversations between the Prime Minister and other Heads of Government.

W K Prendergast

11 July 1978

W K Prendergast



European Council: First Session

1. The following account is based on the Foreign and Commonwealth Secretary's notes of the First Session of the European Council, on the afternoon of Thursday 6 July, and on the debriefing which Dr Owen gave afterwards.

Economic Policy

2. Dr Owen said that the Council had decided to confine themselves to two documents:

- a) the common strategy
- b) a German draft of the Presidency's conclusion

3. The status of b) was that it would be for the guidance of the President of the Council and the President of the Commission for their oral press briefing afterwards. It would have no official status. Officials would meet in the evening to look at the German draft, taking into account the afternoon's discussion. No other documents would be discussed unless specifically brought up, which would be discouraged. The German Chancellor said that he had neither seen nor authorised any documents other than those above. M. Thorn had already complained to him that there were too many papers. Foreign Ministers were to have a tour d'horizon before and during dinner and report back at the beginning of the morning session on 7 July.

4. The Danish Prime Minister introduced discussion of the common strategy beginning with a few extraneous remarks about the serious concern which might be caused by problems over fisheries.

Mr Jorgenson did not want anything which would weaken the snake. He wanted to extend its cover but any change must not weaken the

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strength of the existing snake. The President of the Commission talked about the document for the common economic strategy. Italy and Ireland were not to grow but would instead have to reduce their public sector deficit. Chancellor Schmidt pointed to the recent down-turn in unemployment within the Community. Herr Schmidt also engaged in a long dissertation on the constitutional difficulties which he faced in reflation. He would stand arraigned before a constitutional court more credibly if he agreed to reflate in the context of a major international package. It was also interesting that he did not exclude the possibility of resource transfers.

5. President Giscard drew attention to the wide variations in economic statistics. In the United States employment had gone down. We talked about world crisis. Yet during the period 1975-7 the Japanese economy had grown by 14%, the United States' had grown by 9%, as had France's. The United Kingdom, by contrast, had grown by 1.2% over that period. It was clear that the crisis was not affecting all countries equally. Europe had been harder hit than other countries yet there were wide differences within Europe.

6. President Giscard suggested that the aim was to increase growth overall, while reducing the gap between Member States. While stimulating the economy, we had also to clamp down on inflationary pressures, though growth was very difficult without inflation. Energy was a particular problem. We had been very successful in holding down oil prices. Yet with excessive demand and without a more active and viable energy policy, we ignored at our peril the threat of a fresh price-hike for oil.

7. President Giscard also spoke of the need for stability in exchange markets. He favoured the convoy and not the locomotive theory. Only by radically changing our productive cycles would

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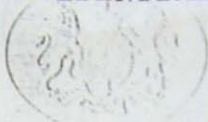
we achieve ordered growth. There was a need to introduce structural change. Managers were hesitant about investing.

8. The Italian Prime Minister said that economic convergence was a precondition of monetary stability.

9. The Prime Minister made a statement about public expenditure, unemployment, which was a major problem, and the danger that protectionism would grow. He warned his colleagues that if unemployment went up present policies would not be able to last. Unemployment would continue to rise unless we could find means to achieve a substantial growth rate. The psychological impact of the Bonn Economic Summit would be very important. Pessimism and protectionism were growing in the United States, viz the visit of Senator Byrd. If the Bonn Summit was not a success the consequences would be very serious. Mr Callaghan agreed with Signor Andreotti that economic convergence was a precondition for monetary stability. Britain would play a constructive role if there was to be any monetary arrangement.

10. Herr Schmidt said that from the low point at the end of 1974 to the end of 1977 GDP in Germany had risen by 5½%. Imports had increased in real terms by 25%, in consequence of the revaluation of the deutschmark. Exports had risen less than imports. Unemployment, at 3.9%, was the lowest in the Community. The Federal Republic had created enormous deficits to promote demand. Their deficit had risen from 2.8 to 4.5% of GDP. The current public borrowing requirement was 4.5%. GDP was much larger than in any other Community country. He had now reached the constitutional limit on government borrowing. Previously, people had been prepared to let sleeping dogs lie. Now "our Bavarian dog" had raised the issue so that Herr Schmidt had no leeway.

11. Herr Schmidt also commented that the Community steel, shipbuilding



and textiles industries were no longer competitive. Nor, thanks to wage levels in the Community, would they ever be competitive again.

CAP

12. Signor Andreotti then introduced a debate on agricultural policy which Dr Owen later described as the most interesting of his time at the Foreign and Commonwealth Office. Signor Andreotti said that it was wrong that agriculture should take up 70-75% of the budget. Milk in particular took up far too high a proportion of the budget. The dairy sector cost six times as much as the proposed Mediterranean package. It was high time the Community took another look at the CAP and did away with costly surpluses which could no longer be supported. Our efforts should be more targeted. For example, the very small amount of production aid for oranges had resulted in a trebling of Italian exports of oranges to other Community countries.

13. Signor Andreotti also mentioned that Italian union leaders had indicated that they were prepared to consider cutting the working week without raising wages. He himself wanted a stronger sentence on youth unemployment in the Presidency conclusions.

14. Herr Schmidt said that, speaking as President of the Council, and not as German Chancellor, he agreed that there was an inbuilt automatism to spend ever-growing surpluses. This was a function of the structure of the CAP as it had evolved. To change this structure, we should have to take on the vested interests of European agriculture. Signor Andreotti was therefore asking not just for drastic structural reform of the CAP, but also for a major struggle against vested interests. As Federal Chancellor, Herr Schmidt was prepared to undertake this provided he had seven other allies, not otherwise.

15. The Irish Prime Minister said that on agriculture we should



hasten slowly. It was a very serious issue for his country. A precondition to change in the CAP was an effective regional policy.

16. The French President said that it was not a question of what we said but of what we did. He himself had been very disappointed with the last farm price review. The French Government had been conditioning farmers to accept a disappointing outcome and France had been prepared to accept the co-responsibility levy to reduce milk subsidies. Yet when Agriculture Ministers had fixed the price for milk, they had effectively agreed an increase by reducing the co-responsibility levy. Herr Schmidt commented that no-one was prepared to control the farm Ministers.

17. The Prime Minister described the CAP as a cuckoo in the nest, gobbling up too much of scarce resources which could be put to better use elsewhere. We should examine the CAP, from Hamburg to Calabria. Mr Callaghan agreed with Signor Andreotti that, rather than increase total CAP support, we should direct it better. To meet Mr Lynch's point, he agreed that there would need to be something in its place. If there was a need for seven good men and true Mr Callaghan would be there. Heads of Government would return to this subject - events would force them to do so. The CAP was stultifying growth in other ways. He agreed that farm Ministers were out of control.

18. Herr Schmidt said that he doubted whether more than one or two Heads of Government were in control of Agriculture Ministers. They had a way of taking decisions the consequences of which were a major complaint against the EEC by the rest of the world. Summing up, Herr Schmidt said that the criticism had been raised that so far the CAP had led to growing structural surpluses. The Commission should bring forward a report to the December European Council.

/This



This was agreed implicitly rather than explicitly, with the President of the Commission commenting that further reports were useless in the absence of the will on the part of the Council to make changes, and the Dane warning against moving too quickly into criticism of existing agricultural arrangements. Signor Andreotti agreed that the problem was difficult and delicate; nevertheless, we should try to get something off the ground.

Youth Unemployment

19. It was clear that the real French grievance was against some comments by Commissioner Vredeling in Rome. Mr Jenkins made a convoluted statement which amounted to an apology, which the French accepted.

Ireland/Wales

20. Mr Lynch mentioned an electricity cable between Ireland and Wales (this was news to Dr Owen). He also asked for Community finance for offshore oil exploration.

7 July 1978