

Briefing Note

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THE EUROPEAN COMMUNITY

There have been major developments within the European Community in the past few weeks. This note summarises the main events and describes how the Government intend to move forward.

The Falkland Islands

The European Community has shown impressive solidarity with Britain over the Falklands crisis, initially imposing an embargo on Argentine imports for a month, and an indefinite embargo on arms exports to Argentina. These sanctions have now been renewed indefinitely, and while Ireland and Italy declined to participate, both continue to condemn the Argentine action, and have promised to ensure that their imports do not undermine the Community's sanctions.

These sanctions are rather harsher than those imposed by the United States, and no Member State has sought to link this solidarity with the resolution of any of the Community's internal disputes.

The Farm Price Review and the Luxembourg Compromise

On 18th May the Council of Agricultural Ministers adopted the Farm Price Review for 1982-3. In an unprecedented manner, the British veto was ignored, thus setting aside the Luxembourg Compromise, the "gentleman's agreement" whereby each Member State has the right of veto over any matter affecting its vital national interests. Britain was joined by Denmark and Greece in objecting to this. The United Kingdom had maintained its veto pending agreement on the question of Britain's contribution to the Community Budget, since agriculture accounts for two-thirds of spending within the Community Budget. The connection had previously been recognised both at the time of the May 30th 1980 Agreement and by the meeting of Community Heads of Government in November 1981.

The main substance of the Farm Price Agreement was not objectionable to the United Kingdom. The average increase in agricultural prices for the UK is 10.2%, which will lead to increases in the RPI and the food index of only a ½% and 1½% respectively over a full year. The effect on consumer prices over a year will thus be rather less than the increase in food prices every month during the last Labour Government.

The main features of the Agreement are:

- * No revaluation of the Green Pound;
- * ½% cut in the milk co-responsibility levy, worth around £10 million a year to British milk producers;
- * Increased Community aid for the provision of school milk;
- * A 40% increase in the maximum beef premium payment, and an increase in the Community contribution from 25% to 40%;
- * Continuation of the UK 13p a pound butter subsidy;
- * Resolution of the issue of cheap gas for the Dutch horticultural industry with their prices coming up to the EEC average in 1983.

As the Treaty of Rome provides for majority voting, and the Luxembourg Compromise is only a convention, the Farm Prices package was legally adopted and has been implemented in the United Kingdom.

The Government has made clear its extreme disquiet about the setting aside of the British veto, rejecting the arguments of the French Government that the veto could be overridden because it was misused.

The Government therefore aims to see a Member State's right of veto over matters of vital national interest enshrined in the proposed European Act - an initiative taken by the German and Italian Governments, the primary aim of which is to strengthen the basis of political co-operation between the Ten. As these proposals currently stand they will provide for an increased use of majority voting in the Council whilst preserving the right of veto for those matters which a Member State defines as being contrary to its vital interests.

The Foreign Secretary, Mr. Francis Pym, told the House of Commons:

"All British Governments have made clear the importance they attach to the Luxembourg Compromise. It has been disregarded on grounds that we do not accept as justifiable. The Government's objective now is to ensure that nothing like this happens again. There cannot be confusion about the way decisions are to be taken. The Community practice must apply equally to all Members and there must be a means of safeguarding the important national interests of any Member State" (Hansard, 26th May 1982, col. 938).

The British Contribution to the Community Budget

The May 30th Agreement provided for Budget rebates to the United Kingdom of £1.5 billion over two years. The Agreement also set in train a series of negotiations over the balance of spending within the Community Budget with a view to solving the problem of Britain's excessive net contribution in the longer term. The Agreement also provided for a possible extension for a third year of the system of refunds for the United Kingdom.

As negotiations over a long-term solution to Britain's Budget problem remained unsolved, it was decided to accept a one-year extension of the May 30th Agreement, and on 25th May, it was agreed that Britain should receive £480 million in respect of 1982, reducing our net contribution for the year to £375 million. This means that taken over the three year period, 1980-2, Britain will have received refunds on our net contribution to the European Budget of 75% of the total, compared with the two-thirds originally envisaged. The Foreign Ministers also undertook to complete negotiations on a longer term solution by November 1982.

Community Membership

In response to the usual Labour Party calls for withdrawal from the EEC, and suggestions from the French Government of second class membership for Britain, the Prime Minister reaffirmed her determination that Britain should remain a member of the Community:

"Our role in the Community is to be a full and equal partner and to be fully entitled to equitable and fair treatment ... We intend to remain full members of the EEC and we intend to make our views known and see whether we can reverse the decision about the Luxembourg Compromise ... I believe it is in our interests to continue to be a member of the European Community" (Hansard, 20th May 1982, cols. 467-8).

ESCB/CDB