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10 June 1980

EUROPEAN COUNCIL, VENICE
12/13 JUNE 1980

COMMUNITY BUDGET REVIEW AND RESTRUCTURING

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. We have no particular interest in raising this subject ourselves. The Commission already have a satisfactory mandate to make proposals by the end of June 1981 and we do not want discussion of that mandate reopened.

POINTS TO MAKE [IF THE SUBJECT IS RAISED]

2. The agreement of 30 May offers us a real opportunity to prevent the recurrence of unacceptable situations for any Member State. The 1% ceiling is also going to provide a valuable discipline.

3. The review the Community will be conducting will require careful preparation. But it will also need to be pressed forward with great determination. It is in everyone's interest that decisions be taken by the end of 1981.

4. We shall approach this constructively. We have no wish to challenge the principles of the Community.

5. We are looking for a better control over CAP expenditure and a better balance between it and expenditure on other Community policies.

6. [If the French or Germans raise their ideas about limiting net benefits] This is one of the ideas which will need careful examination.

7. [If Schmidt or others raise CAP reform] Entirely agree with need for changes. Commitment to reform could be incorporated in Presidency Conclusions.

/BACKGROUND

BACKGROUND

8. The Commission mandate is as follows(para 7 of 30 May Foreign Foreign Affairs Council Conclusions - full text attached as Reference A to Brief No 3): ''For 1982, the Community is pledged to resolve the problem by means of structural changes (Commission mandate to be fulfilled by the end of June 1981. The examination should concern the development of Community policies, without calling into question the common financial responsibility for these policies, which are financed from the Community's own resources, nor the basic principles of the Common Agricultural Policy. Taking account of the situations and interests of all Member States, this examination will aim to prevent the recurrence of unacceptable situations for any of them). If this is not achieved, the Commission will make proposals along the lines of the 1980-81 solution and the Council will act accordingly.''

9. The UK interest is to avoid substantive discussion at this stage. The 30 May Budget agreement pledged the Community to resolve the UK Budget problem by means of structural changes. The Commission mandate is to put forward proposals by the end of June 1981. Left to itself, the Commission is more likely to come up with proposals that suit us than it would if the 30 May agreement was glossed in some way at French instigation.

10. We are concerned not to start discussions on contentious matters relating to the 1981 review (eg. Giscard and Schmidt's ideas on a limit on net benefits from the Community Budget) before we have got agreement on Community legislation to implement the 30 May budget settlement. It is important not to provoke the smaller Member States at a time when we shall need their support in getting the legislation through in a form acceptable to us.

11. The question may however be raised in any discussion on enlargement that takes place as a result of President Giscard's speech on 5 June (Brief No 17). Giscard may, for example, use

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the occasion of the European Council to put forward ideas for reviewing the rules of Community financing.

12. We understand from the Embassy in Bonn that Schmidt intends to press for Council endorsement of a commitment to reform of the CAP by the end of 1981. He seems to envisage this exercise being contemporaneous with the budget review (with which, of course, it is closely linked). The French President, Prime Minister and Foreign Minister also suggested last week in connexion with the National Assembly debate on the Brussels agreement that they were ready to contemplate improvements in the management methods of CAP. The Prime Minister will wish to support any move of this kind, but not take the lead. Tactically, it would also be wise to avoid any formal linkage between the budget review and this exercise. Satisfactory reform of the CAP can be achieved without amendment to the basic principles contained in Article 39 of the Treaty. It will not, however, be appropriate for this Council to discuss specific methods of reform and, in endorsing any commitment to reform, we need to avoid any undertakings on financial solidarity, unity of the market or Community preference which the French will probably wish to have inserted in the text and which could be used subsequently to preclude certain types of reform eg. part national financing of CAP expenditure. If the French insist on a reference to the Treaty,it should be argued that a simple reference to Article 39 is all that is necessary.

FOREIGN AND COMMONWEALTH OFFICE

10 JUNE 1980

CONFIDENTIAL
FRAME GENERAL
FM UKREP BRUSSELS 300958Z MAY 80
TO FLASH FCO
TELEGRAM NUMBER 2654 OF 30 MAY
INFO PRIORITY BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN, LUXEMBOURG.

FOREIGN AFFAIRS COUNCIL, 29-30 MAY.

CONVERGENCE/BUDGETARY QUESTIONS.

MIPT: FOLLOWING IS TEXT OF CONCLUSIONS.

1. THE NET UNITED KINGDOM CONTRIBUTION FOR 1980 WILL BE CALCULATED ON THE BASIS OF THE PRESENT COMMISSION ESTIMATE (1,784 MEUA). 1,175 MEUA WILL BE DEDUCTED FROM THIS FIGURE. THIS LEAVES A UNITED KINGDOM CONTRIBUTION OF 609 MEUA FOR 1980.

2. THE NET UNITED KINGDOM CONTRIBUTION FOR 1981 WILL BE CALCULATED ON THE BASIS OF THE COMMISSION ESTIMATE OF 2,140 MEUA. THE UNITED KINGDOM'S 1980 NET CONTRIBUTION WILL BE INCREASED BY A PERCENTAGE EQUAL TO THE DIFFERENCE BETWEEN 1,784 AND 2,140 MEUA, NAMELY 19.9 PER CENT OR 121 MEUA. THE NET UNITED KINGDOM CONTRIBUTION FOR 1981 THEREFORE BECOMES 730 MEUA.

3. THE UNITED KINGDOM CONTRIBUTION, BASED ON THE ABOVE CALCULATIONS, IS REDUCED FOR 1980 AND 1981 BY 2,585 MEUA (1,175 PLUS 1,410).

4. IF THE UNITED KINGDOM'S ACTUAL CONTRIBUTIONS FOR 1980 AND 1981 ARE HIGHER THAN 1,784 AND 2,140 MEUA RESPECTIVELY THE DIFFERENCE WILL BE SPLIT - FOR THE FIRST YEAR 25 PER CENT WILL BE BORNE BY THE UNITED KINGDOM AND 75 PER CENT BY THE OTHER 8 MEMBER STATES. FOR THE SECOND YEAR - INCREASE FROM 730 TO 750 TO BE BORNE IN FULL BY THE UNITED KINGDOM: FROM 750 TO 850, 50 PER CENT TO BE BORNE BY THE UNITED KINGDOM AND 50 PER CENT BY THE OTHER 8 MEMBER STATES: ABOVE 850, 25 PER CENT TO BE BORNE BY THE UNITED KINGDOM AND 75 PER CENT BY THE OTHERS.

5. PAYMENTS OVER THE PERIOD 1980-82 SHOULD BE MADE BY MEANS OF THE ADAPTED FINANCIAL MECHANISM AND THE SUPPLEMENTARY MEASURES PROPOSED BY THE COMMISSION. THE FINANCIAL MECHANISM WILL CONTINUE TO FUNCTION AUTOMATICALLY UNTIL THE END OF 1982.

6. THE CREDITS ARE INSCRIBED IN THE BUDGET OF THE FOLLOWING YEAR, FOLLOWING THE PRECEDENT OF THE FINANCIAL MECHANISM. AT THE REQUEST OF THE UNITED KINGDOM THE COUNCIL CAN DECIDE EACH YEAR ON A PROPOSAL BY THE COMMISSION TO MAKE ADVANCES TO PERMIT THE ACCELERATED IMPLEMENTATION OF THE SUMMPLEMENTARY MEASURES.

7. FOR 1982, THE COMMUNITY IS PLEDGED TO RESOLVE THE PROBLEM BY MEANS OF STRUCTURAL CHANGES (COMMISSION MANDATE TO BE FULFILLED BY THE END OF JUNE 1981. THE EXAMINATION SHOULD CONCERN THE DEVELOPMENT OF COMMUNITY POLICIES, WITHOUT CALLING INTO QUESTION THE COMMON FINANCIAL RESPONSIBILITY FOR THESE POLICIES, WHICH ARE FINANCED FROM THE COMMUNITY'S OWN RESOURCES, NOR THE BASIC PRINCIPLES OF THE COMMON AGRICULTURAL POLICY. TAKING ACCOUNT OF THE SITUATIONS AND INTERESTS OF ALL MEMBER STATES, THIS EXAMINATION WILL AIM TO PREVENT THE RECURRENCE OF UNACCEPTABLE SITUATIONS FOR ANY OF THEM). IF THIS IS NOT ACHIEVED, THE COMMISSION WILL MAKE PROPOSALS ALONG THE LINES OF THE 1980-81 SOLUTION AND THE COUNCIL WILL ACT ACCORDINGLY.

8. THE COUNCIL REAFFIRMS THE CONCLUSIONS ADOPTED BY IT (IN ITS COMPOSITION OF MINISTERS OF ECONOMIC AFFAIRS AND FINANCE) ON 11 FEBRUARY 1980 ((CF ANNEX TO DOC. 5081/80 PV/CONS 5 ECO/FIN 9)), WHICH INCLUDED REFERENCE TO THE 1 PER CENT VAT OWN RESOURCES CEILING.

9. IT IS IMPORTANT FOR THE FUTURE WELL BEING OF THE COMMUNITY THAT DAY TO DAY DECISIONS AND POLICY MAKING SHOULD FUNCTION EFFECTIVELY AND THIS PARTICULARLY DURING THE PERIOD WHEN THE REVIEW FORESEEN IN PARAGRAPH 7 IS UNDER WAY. WITH THIS OBJECTIVE IN MIND ALL MEMBER STATES UNDERTAKE TO DO THEIR BEST TO ENSURE THAT COMMUNITY DECISIONS ARE TAKEN EXPEDITIOUSLY AND IN PARTICULAR THAT DECISIONS ON AGRICULTURAL PRICE FIXING ARE TAKEN IN TIME FOR THE NEXT MARKETING SEASON.

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BUTLER. [ADVANCED AS REQUESTED]

FRAME GENERAL
ECD(I)

EHG(V)(80)3 REFERENCE B

CAP PRICES PACKAGE

The main features of the CAP prices package are as follows:-

(a) The average price increase overall is about 5 per cent.

(b) On milk, the target price would increase by 4 per cent. The basic co-responsibility levy on farmers' deliveries to dairies would however also increase from 0.5 to 2.0 per cent of the price, with a lower rate of 1.5 per cent on the first 60,000 kilograms delivered by producers in less favoured areas. Thus the net increase would be 2½ per cent for most producers (and less in Germany because of monetary change). An additional supplementary levy would be applied in 1981/82 if deliveries of milk in 1980 exceed the 1979 level by more than 1.5 per cent. The details of the supplementary levy would, however, have to be agreed.

(c) The other main proposal affecting milk producers is the limitation on the payment of grants on dairy farm investments. This is now framed in a manner which avoids discrimination against UK producers. National aids to dairy farmers' investment would no longer be payable. Aid under Community schemes would be limited to provision for a herd of 60 cows or an increase in the size of the producers' herd of not more than 15 per cent.

(d) The UK butter subsidy of 13p per lb, financed wholly from Community funds, would be continued.

(e) On beef, the guide price would increase by 4 per cent but the effect on producers' returns and consumers' prices in the present year would be less than this. The proposals would enable us to continue our beef premium scheme. There would be a new subsidy of 20 ECU per cow (£12), funded 100 per cent by Community funds and payable on cows in specialised beef herds.

(f) On cereals, the target price increase is 6.25 per cent, with the intervention prices increased by 4.5 per cent. The production refunds on cereals used in starch manufacture would be reduced.

(g) On sugar, the minimum beet price would increase by 4.0 per cent. There would be no changes in the quota arrangements for 1980/81. This is, however, less significant now that world sugar prices have risen to around the level of the Community price, so that currently there is no significant disposal cost falling on Community funds.

(h) ~~The~~ proposals provide for a 10 per cent saving to be made on the costs of processed fruit and vegetables. On wine some changes have been agreed that should help to contain the costs falling on Community funds.

(i) On whisky, the Council has accepted a commitment to adopt the necessary regulation by the end of this year for the payment to the UK of the returns on Community cereals used in exported scotch whisky. This commitment covers retrospective payment of some £40 million net due to the beginning of 1980. At current cereal prices, the annual payments due would be some £16 million per annum.

2. The main implications for UK interests are as follows:-

(a) UK Producers The proposals would increase UK producers' returns by about £100m (after allowing for feed price increases) in a full year. Most of the benefit would go to the cereals and beef sectors, with UK milk producers probably suffering a small net reduction in returns because of the co-responsibility levy. The overall increase would not prevent a further fall in the industry's real net income.

(b) UK Consumers The proposals would produce an increase of about 0.7 per cent in the Food Price Index, and about 0.2 per cent in the R.P.I., when all effects had worked through. The UK butter subsidy offsets much of the effect of the price increases, being worth some £108 million to consumers.

(c) Community Expenditure The proposals are estimated to increase Community expenditure by some 240 million EUAs in 1980 and by about 1000 million EUA in a full year. These figures make no allowance for production and consumption responses to higher prices in future years. About one-fifth of the additional expenditure would be in the UK. The settlement (including the increase in sheepmeat) would give the UK a net benefit of £37m in 1980/81 and a net cost of £40m (~~excluding the butter subsidy~~) in a full year ~~on the~~ basis of no ~~change~~ in our budget contribution. But the overall effect ~~is subsumed in~~ but these figures do not take the budget settlement into account.

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REFERENCE C

SHEEPMEAT

(1) The proposals

1. The main features of the sheepmeat proposals are as follows:-

(a) Variable premium In the UK there will be no intervention buying. Instead there will be a variable premium (ie deficiency payment), paid to UK producers from Community funds and making good the difference between the average UK market price and a "guide level", set at the level of the intervention price operated in other member countries and on the same seasonal pattern. This premium will be recovered on lamb exported. As a result, the return to the producer or trader from sales on the British market will be higher than the return from selling to France at or even somewhat above the French intervention price. There should accordingly be no sales of British lamb into French intervention.

(b) Intervention in other countries In other countries, intervention will be available from August to December at 85% of the basic price, ie well below the recent level of French market prices. Sales into intervention should be relatively light, because when the French market is weak there should be little or no importation from the UK to depress it further.

(c) Reference prices In all countries reference prices will be set which will act as a guarantee of average producer returns. Where the average market price is lower than the reference price an annual compensatory premium will be paid to make good the difference between the two (or between the intervention and reference prices if this is smaller). These reference prices are to be aligned in four equal annual steps. After four years UK producers will thus benefit from the same guarantee as those in all other member countries. The UK producer's return will be sustained by the UK variable premium (bringing his return up to the level of the French intervention price) and a further compensatory premium to bring it up to the common reference price.

(d) New Zealand The whole regime will come into effect only if and when New Zealand agrees [~~on the volume of~~] a limit on her imports into the Community in exchange for a reduction in the existing tariff of 20 per cent ad valorem. This gives New Zealand the opportunity to ensure that the total arrangements are acceptable to her and do not damage her trading interests.

[illegible]) Export refunds Provision is made for export refunds, but these are subject to New Zealand being satisfied on the regime in general, and to a Council Declaration that refunds must be operated in conformity with international obligations and so as not to prejudice agreements with third country suppliers. This leaves New Zealand free to negotiate, as part of her voluntary agreement with the Community, in relation to how refunds should operate, as well as having the power to block the scheme as a whole. (Mr Gundelach has told Mr Talboys that these arrangements give New Zealand a veto over export refunds distinct from its veto over the regime as a whole.)

(ii) Implications for the UK

2. The main implications of these proposals for the UK are:-

(a) The guaranteed return to UK producers would be increased by 17 per cent in 1980/81, and almost certainly rise substantially thereafter as reference prices were harmonised. Total payments from Community funds to British producers could rise towards £100 million per annum at the end of the four-year transition. French illegal barriers to imports from the UK would be removed.

(b) UK consumers would benefit because the use of deficiency payments, and their recovery on exports, would tend to keep British lamb in Britain when Continental prices were low, thus keeping UK market prices down; while the higher guaranteed price would ensure a production increase and ample supply. The arrangements to be negotiated by New Zealand would ensure a continued supply of New Zealand lamb.

(c) The UK economy would benefit from the financing from Community instead of national funds of an increasing producer guarantee on our production, which approaches one half of total Community production.

(d) The provisions for New Zealand give her an effective veto over the introduction of the scheme and an opportunity to negotiate not only on the volume of her imports and a tariff reduction but also on the operation of export refunds and on other matters of interest to her.

EHG(V)(80)3

REFERENCE D

Brussels, 30 May 1980

COUNCIL DECLARATION ON THE COMMON FISHERIES POLICY

1. The Council agrees that the completion of the common fisheries policy is a concomitant part in the solution of the problems with which the Community is confronted at present. To this end the Council undertakes to adopt, in parallel with the application of the decisions which will be taken in other areas, the decisions necessary to ensure that a common overall fisheries policy is put into effect at the latest on 1 January 1981.

2. In compliance with the Treaties and in conformity with the Council Resolution of 3 November 1976 (the "Hague agreement") this policy should be based on the following guidelines :

(a) rational and non-discriminatory Community measures for the management of resources and conservation and reconstitution of stocks so as to ensure their exploitation on a lasting basis in appropriate social and economic conditions ;

(b) fair distribution of catches having regard, most particularly to traditional fishing activities, to the special needs of regions where the local populations are particularly dependant upon fishing and the industries allied thereto [1], and to the loss of catch potential in third country waters ;

(c) effective controls on the conditions applying to fisheries ;

(d) adoption of structural measures which include a financial contribution by the Community ;

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[1] Cf. paras 3 and 4 of Annex VII of the Council Resolution of 3 November 1976.

.../...

(e) establishment of securely-based fisheries relations with third countries and implementation of agreements already negotiated. In addition, endeavours should be made to conclude further agreements on fishing possibilities, in which the Community - subject to the maintenance of stability on the Community market - could also offer trade concessions.

3. Furthermore, Article 103 of the Act of Accession shall be applied in conformity with the objectives and provisions of the Treaty establishing the European Economic Community, with the Act of Accession, inter alia articles 100-102 and with the Council Resolution of 3 November 1976, in particular Annex VII.

4. The Council agrees to take up again the examination of the proposed regulations under (a) (technical measures of conservation) and (c) (control) at its session on 16 June 1980, and also on this occasion to begin examination of other proposals, including a proposal on quotas for 1980 which the Commission undertakes to present in good time.