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QZ.02334

PS/FOREIGN AND COMMONWEALTH SECRETARY

30 MAY MANDATE: PREPARATION FOR THE EUROPEAN COUNCIL

OD Committee has agreed that in the 30 May Mandate negotiations we should work towards an agreement at the November European Council on the budget and on CAP reform as well as the future development of other Community policies within the 1 per cent VAT ceiling.

2. The Mandate Group has held a series of meetings and the Foreign Affairs Council will discuss all these issues on 26 October. The British Presidency has said that, in order to make further progress, we will table the first draft of conclusions for the European Council on Tuesday, 27 October in time for discussion at the meeting of the Group on 28 October. A copy of the proposed text is attached. It has been cleared at official level with all the Departments principally concerned.

3. As a Presidency document it necessarily, as far as possible, takes account of views expressed by all member states and reflects agreement where it has so far been reached. At the same time the text is designed to safeguard and promote our national objectives wherever possible. On non-agricultural policies (Chapter I) there are a few points where the text includes square brackets but this is generally where decisions are expected in the near future. In Chapter II, on CAP reform, it has been necessary to include alternative texts covering the range of opinion. Chapter III reflects the lack of consensus on how to deal with the budget problems. Apart from an introductory section which, if adopted, would be helpful to our case, it summarises what has been put on the table by, respectively, the Commission, the UK, the Germans and the French.

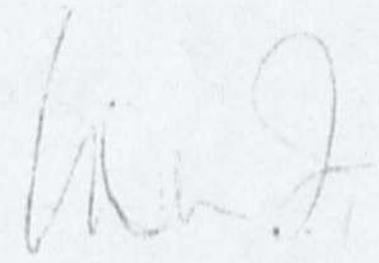
4. The draft text has been discussed with the Commission and when we table it we shall make it clear that it takes account of Commission views. In the ensuing discussion, we will of course be free to defend the United Kingdom viewpoint and criticise that of other member states.



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5. I should be grateful for the Secretary of State's authority to table this draft text, subject to any minor changes which may seem necessary as a result of the discussion in the Foreign Affairs Council on Monday.

6. I am copying this minute to the Private Secretaries to the members of OD(E), the Secretaries of State for Environment, Industry, Transport, Energy and Employment. I am also sending a copy to Mr Alexander at No 10.



M D M FRANKLIN  
Cabinet Office

23 October 1981



DRAFT CONCLUSIONS OF THE EUROPEAN COUNCIL

I. DEVELOPMENT OF COMMUNITY POLICIES (OTHER THAN THE CAP)

1. The Heads of State and Government considered the development of Community policies in the light of the Commission's report called for by the agreement of 30 May 1980.

2. The European Council considered that despite the important progress already made, the Community's development had been uneven as the Commission had recognised in its report. A fresh impetus to the development of its policies was needed. If the Community was to live up to the hopes and aspirations of the people of Europe, and to recover its dynamism, European integration must be strengthened and diversified. The Community must now build on the achievements of the Common Agricultural Policy and the tariff-free market by expanding its activities in other areas, by removing the remaining obstacles to the development of its trade and by finding effective answers to its current social and economic problems.

3. The European Council therefore agreed on the importance of giving a renewed impetus to the development of Community policies on a broad front.



They recognised that only such an impetus could enable the Community effectively to contribute to solving the major economic and social problems currently confronting the Member States.

#### Overall Community Economic Strategy

4. The European Council discussed in detail the present social and economic situation of the Community which must be clearly seen in the context of the international economic situation. It welcomed some modest signs of an up-turn in the Community economies, but expressed the greatest concern at the present unemployment and inflation levels.

5. The European Council therefore agreed that the essential need for economic recovery and reductions in unemployment called for priority to be given to reducing inflation, encouraging productive investment and raising competitiveness. At the same time, it is essential that the Community pursue the reduction of its dependence on external sources of energy.

6. At the Community level, productive investment could be stimulated through the development of the Community's financial instruments (EIB, ECSC, Euratom



and the NIC). The European Council welcomed the moves which have recently been made to expand the scope of these instruments through the doubling of the EIB's issued share capital and the renewal of the New Community Instrument. The European Council agreed that in due course there should be further expansion consistently with the preservation of the Community's ability to borrow on suitable terms in the international and domestic capital markets. The Council welcomed the constructive Commission proposals for greater co-ordination between the structural funds and the borrowing and lending instruments and for greater use of interest rate subsidies. It considered that the practical implications should be studied urgently. It also agreed that lending policies should pay particular attention to assisting small and medium size enterprises in the Community.

7. The achievement of these overall investment objectives will have to be accompanied by stronger economic disciplines. The Community can contribute through a policy of concerted action to achieving growth at the highest sustainable level. Moreover, a more active co-ordination of national economic policies is necessary in order to ensure their compatibility



with economic and monetary objectives established at a Community level. The Council invited the Commission and the Ecofin Council to ensure that such co-ordination was achieved, in making better use of the existing machinery.

#### Monetary Policy

8. The European Council welcomed the success of the EMS in creating a zone of currency stability in Europe. It should be further developed, over time, as a key element in progress towards eventual economic and monetary union. The European Council agreed that the EMS also had a role to play in encouraging the development of a more stable international economic environment. They stated their determination to see that the necessary steps are taken to:

- achieve greater concertation of national monetary policies
- encourage the use of ECU both for Community loans and on financial markets
- seek improvements in monetary co-operation with the Community's principal partners.

9. Another essential factor was the success of the anti-inflationary policies being pursued not only in



the Community but in other industrialised countries. The European Council noted with concern the continuing high level of interest rates in many countries and expressed the view that all countries should recognise the effects of their domestic policies on others. Community countries for their part will, to this end, seek continuing close contacts with the other major industrialised countries.

#### Internal Market and Competition Policy

10. The European Council believes that the completion of the internal market, in accordance with the Treaties, would make an important contribution to the solution of the economic problems currently facing Member States, in particular by facilitating industrial cooperation and restructuring. A closely linked objective is the need to enforce proper conditions of competition, in particular transparency in the field of state aids, which would stimulate innovation and permanent employment and enhance the international competitiveness of Community industry. Accordingly the Council called for the initiation in 1982 of a further intensive effort, beginning with the areas listed below:

- (a) The elimination of aids distorting



competition was essential to the proper functioning of the internal market. The Commission was encouraged to continue to pursue vigorously its responsibilities under the Treaties to ensure fair competition, in particular by enforcing strictly the existing aids codes in certain sectors. They should present new proposals without delay, where circumstances so required, for strengthening the rules of competition.

(b) The Commission and the Council were encouraged to review the progress made so far towards establishing a common legal framework for Community industry and to give priority particularly to proposals which will demonstrably result in tangible economic benefits for Community industry while taking account of the interests of both the environment and consumers.

(c) The creation of a free market for services as provided for by the Treaties should be pursued vigorously. [An important objective is the early] [The Council welcomed the recent] adoption of measures to give effect to the freedom to provide insurance services within the Community. More progress should be made on the harmonisation of



professional qualifications. The simplification of the present complex and restrictive procedures governing air services and air fares in the Community should lead to increased competition which will benefit the consumer and deserves special attention.

(d) Customs and tax collection procedures should be simplified to reduce frontier delays affecting free movement of goods within the Community. The Council was invited to examine urgently the proposals submitted by the Commission for simplification in the customs, fiscal and statistical fields.

(e) The fragmentation of the internal market should be rectified through greater efforts to harmonise existing technical standards and certification procedures where these create real or potential barriers to trade and through improved procedures to inhibit the proliferation of new restrictive standards at national level. Decisions should be taken urgently on the treatment of third country products, where relevant.

11. The Council is requested to take the necessary major



decisions in these areas as soon as possible. The European Council will review progress at its second session in 1982 on the basis of a report from the Commission with the object of completing the main work by the end of 1982.

#### Industrial Policy

12. The European Council reaffirmed the value of action at Community level to promote the strength and competitiveness of the Community's industry. They recognised that the major changes which have come about in the previous decade as regards both the structure of world markets and energy costs necessitates major industrial readjustments. In this context they welcomed the major decisions which had been taken by the Community in the steel sector and they noted the vital importance for the future of the Community's textile industry of a satisfactory outcome to the current negotiations on the MFA. At the same time, they emphasised that measures were needed to give a boost to technological innovation and to an ambitious policy of research and development.

13. The European Council took note of the Commission's Communication on Innovation and emphasised the key role which the successful application of innovation by industry could have in ensuring the healthy development of the



Community. They invited the Council to give its views rapidly on the policy recommendations outlined by the Commission so that the Commission could thereafter bring forward specific practical proposals.

14. [The European Council welcomed the adoption by the Council of instruments on micro electronics and telecommunications, which it saw as a significant step towards the development of a Community policy in this field in accordance with the Commission's communication on new technology.] It reaffirmed its belief that the Community should pay particular attention to the development of high technology enterprises which are fundamental to ensuring the competitive position of the Community industry. The European Council invited the Commission to consider with Member States other areas where action by the Community would be appropriate.

15. The European Council recognised the contribution which Research and Development could make to improving competitiveness in both new and traditional industries. It called for an expansion in the research efforts of the Community and Member States in the context of industrial restructuring and innovation, covering areas of high priority where action at Community level would be



beneficial. It welcomed the current review of the Community's research and development effort and urged that science and technology policy should be closely integrated with the Community's other policies.

#### Social and Employment Policy

16. The Council emphasised that the battle against inflation was a key element in improving the grave unemployment situation currently afflicting the Community. Direct action in the social field to alleviate employment problems should also be considerably strengthened.

17. The means used should be greater complementarity in the social policies of Member States; a steady increase in the resources of the Social Fund, which should grow faster than the general budget as a whole if it was to achieve its objectives; and intensified use of the existing machinery for consulting the social partners.

18. Tackling the problem of unemployment among young people should be given top priority in the review of the Social Fund. Support for vocational training should continue to be the major element in the Fund. As part of the review of the Fund, consideration should be given to the Fund's role in job creation, particularly in the context of the young and



of the long-term unemployed. The Fund's resources should be concentrated in areas of greatest need, including both under-developed regions and areas experiencing severe unemployment, in particular those suffering from the decline in traditional manufacturing industries. The Council welcomed the Commission's intention to propose simpler and speedier operating methods.

#### Regional Policy

19. The economic prospects make it essential to maintain and extend the Community's efforts in the regional and social sphere so that Community instruments can play their full role in promoting convergence. The Council believed that the co-ordination of national regional policies was particularly important. It was also important to take into consideration the regional impact of other policies before they were finalised. (to be completed in the light of further Commission papers).

#### Energy Policy

20. The European Council agreed that a coordinated approach in pursuit of common objectives provides an effective framework for the Community's Energy strategy. The European Council noted that major objectives in the field of energy have already been defined and urged the Commission to report regularly on progress towards their attainment, and to make proposals for further action as circumstances



required.

21. In particular, the Council agreed on the need for priority to be given to the following points:

(a) Investment on an economic basis in the production and efficient use of energy should be maintained at a high level. The Commission should complete its examination of energy investments and make proposals as to where action at Community level might be appropriate.

(b) A coherent common approach to pricing policy based on economic principles and transparency in the energy market was essential to the attainment of the Community's energy objectives. The Council welcomed the Commission's intention to submit proposals to improve price transparency.

(c) The Community should be ready to provide an effective and united Community contribution to planning for limited short-falls in oil supplies and the attendant dangers of disproportionate oil price increases. The Council welcomed the progress made in this matter by energy Ministers and invited them to pursue their consultations with other industrialised countries, whose participation was essential to effective action.

(d) The Community should continue to seek a balanced and coordinated approach in its relations on energy matters with third countries. The Council attached importance



both to security and diversification of supply and to energy cooperation with the developing countries to help them meet their needs and to help reduce pressures on world oil supplies.

(e) Research and development in the energy sector should continue to receive priority within a coordinated and comprehensive research programme, and be focussed on essential projects beyond the resources of Member States and of private enterprise. Programmes to promote the industrial application of new techniques should also be continued.

#### Transport

22. The European Council took the view that the development of a unified internal market implied a need for positive action in the transport field to improve communications in the EC. This action should aim to increase the efficiency and freedom of circulation of goods and passengers between Member States, while taking account of the diversity of Member States' transport requirements and of the Community's relations with third countries. Transport Ministers should intensify their work in this field and should speed up the rate of progress on the Commission's proposals first put forward in 1976 on aid for transport infrastructure.



## II. THE COMMON AGRICULTURAL POLICY

1. The European Council considered the future development of the Common Agricultural Policy in the light of the Commission's Report on the Mandate of 30 May 1980 (Com(81)300/3) and subsequent discussion in the Mandate Group, the General Affairs Council and the specialist Councils. It noted that over the 20 years of its application the Common Agricultural Policy had helped to provide security of food supply, increased productivity and improved farm incomes during a period of profound social change in European agriculture. It therefore reaffirmed its commitment to achieving the objectives of the Treaty through a common policy based on the unity of the market, Community preference and financial solidarity.

2. The European Council also took note of the problems to which the Commission has drawn attention, in particular that the Community is now more than self-sufficient for most major products and that sound market management and budgetary constraints call for improved control of the unwelcome effects of the operation of market organisations. It noted with satisfaction the economies in Community expenditure



which have recently been achieved, and endorsed the Commission's conclusions that adjustments are both possible and necessary. The Council agreed that, in order to continue to accomplish the Community's internal objectives and to fulfil its external obligations, adjustments to the operation of the policy should be made in accordance with the following guidelines:-

(a) Having full regard to the objectives of the CAP as set out in Article 39 of the Treaty and the need to deal with the problem of structural surplus, the Council should pursue a rigorous price policy which reflects market realities ,

[Alternative A.

designed to align common prices progressively over a defined period with the level of prices]

[Alternative B

designed in the case of certain products to give full weight to the level of prices]

for similar products in other comparable markets.



[The European Council agreed that the gap between Community cereals prices and those in the USA would be progressively reduced by 1988].

(b) In view of the urgent necessity of implementing for individual commodities measures to control and as soon as possible reduce surplus production and to contain the increased cost of certain regimes, the Council should adopt, on the basis of proposals by the Commission, production thresholds and appropriate measures to limit the Community's guarantees once these thresholds are attained. The methods of limiting the guarantee will vary from product to product. They should be framed in a way to deter increased production without imposing a new burden on consumers and without

[Alternative A.  
discriminating between different categories of  
producers]

[Alternative B.  
placing undue burdens on small farmers]



(Further elaboration on milk and cereals and Mediterranean products in light of latest Commission paper).

[(c) To the extent justified to reinforce policies under guidelines 1 and 2, direct measures to support the incomes of certain farmers might be envisaged]

(d) In order to promote the orderly international marketing of products, the Community should, for appropriate commodities, liaise with other major exporters with a view to achieving greater stability of world markets. The Community should continue to pursue an active export policy for agricultural and processed agricultural products consistent with its international obligations and with the objective of limiting the costs of disposal of production which is surplus to domestic requirements. [The Council should adopt, on appropriate proposals from the Commission, framework agreements with individual importing countries relating to multi-annual supply of agricultural products consistent with budgetary constraints and international obligations. The Council should consider in each case the commodities to be covered and the specific



provisions of the agreement].

(e) [Alternative A.

The European Council invites the Commission to continue to monitor the level of imports of commodities which could affect the market for Community produce and report as appropriate to the Council. The improvement to be secured in the hierarchy of prices through a policy of particular restraint in the cereals sector should achieve a higher level of usage of domestic cereals production on Community markets.]

[Alternative B.

Levies should be introduced on imports of cereals substitutes. In the case of products not consolidated in GATT tariff quotas should be established corresponding to average imports, with a deterrent levy to apply to imports beyond the quotas].

(f) The problem in less favoured agricultural regions, particularly those regions including some Mediterranean areas which are heavily dependent on rural occupations for employment, merit special



consideration. The Council should consider promptly, on the basis of the guidelines laid down in sub-paragraphs (a) and (b) above, the proposals which the Commission has made for the adjustment of the Mediterranean acquis in the context of enlargement. The Council noted the intention of the Commission to present proposals for integrated programmes by the end of 1982.

(g) National aids to agriculture can distort competition, encourage surplus production and add to the budgetary costs, thus undermining the operation of the Common Agricultural Policy. The Council welcomes the Commission intention to strengthen the rules and procedures relating to the control of aids in the agricultural sector so that stricter discipline is achieved, particularly in relation to those aids which singly or cumulatively have a substantial effect on the market in particular sectors.

(h) The European Council welcomes the substantial reduction in the rate of growth in agricultural guarantee expenditure in the last 2 years. This has been achieved in part as a result of sound management of expenditure and careful regard by the Council and



Commission to the costs of price and other decisions which have contained the growth of agricultural expenditure. The European Council urges the Council and the Commission to maintain and strengthen effective financial control over all agricultural expenditure and to ensure that the expenditure is cost-efficient. Provided these guidelines are implemented, agricultural spending in the years ahead should continue to grow [markedly] less rapidly than the Community's own resources, making it possible to release additional resources to reinforce Community solidarity in other sectors.

[Alternative A.

It shall be the firm objective for the future that the proportion of the budget taken by agriculture be reduced to X% over Y years].

[Alternative B.

The rate of growth in agricultural guarantee expenditure shall be not more than X% of the rate of growth of the own resources base. It will be the responsibility of the Council, acting on proposals by the Commission, to adopt the necessary decisions to ensure that agricultural expenditure remains within



that limit. It will be the responsibility of the Commission to manage agricultural expenditure within this limit].

3. The European Council requested the Commission to apply these guidelines so that they would begin to take effect in 1982. To this end the European Council invited the Commission to make the necessary proposals, and the Council to adopt the necessary Regulations in the context of the 1982/83 Agricultural Price Fixing.



### III. BUDGETARY PROBLEMS

1. The European Council reviewed the Community's budgetary arrangements on the basis of the report from the Commission and in accordance with the agreement of 30 May 1980. They confirmed the necessity, taking account of the situation and interests of all Member States, of avoiding the emergence or recurrence of an unacceptable budgetary situation for any Member State and in this way of ensuring that a sound basis was provided for the Community's future development and enlargement. The European Council reaffirmed the basic principles of the Community's financial arrangements and in particular the own resources decision. They noted that until now a preponderant share of the Community budget had been allocated to expenditure on the CAP. They stated as their firm intention that the further development of Community policies, to which their decisions on expanding Community activity in such areas as social, regional and industrial policy had given renewed impetus, combined with the application of the agreed guidelines to the CAP, should bring about a better balance in the budget and enable it to contribute to the objective of economic convergence. It would at the same time help to reduce the likelihood



of unacceptable budgetary situations for individual Member States. This process would however take time and they recognised that it would therefore be necessary to make provision for dealing with the problems which would remain until the desired results were achieved by these means. The European Council therefore agreed that from 1982 the following measures shall be applied:-

[Approach A

Community solidarity requires that a remedy should be found to the United Kingdom's unacceptable situation, which is mainly caused by the UK's relatively low level of receipts from the FEOGA Guarantee Section. The UK should therefore receive a fairly high level of compensation calculated by comparing its share of Community GNP with its share of FEOGA guarantee expenditure, using a reference period of several years. This compensation should be financed if possible through the budget on the basis of the own resources system. If this were impracticable however it could be financed by abatements in the receipts of other Member States from the FEOGA guarantee section. In establishing the abatement percentages account should be taken of the need for solidarity between the more



prosperous and less prosperous Member States. (The Commission has also undertaken to report by the end of this year on the existing financial mechanism in order that this mechanism continue in being if it is needed.) These arrangements should apply for a limited period but long enough for the effects of the new guidelines on the development of Community policies and the CAP to be felt, and should be subject to review]

[Approach B

The effects of the budget on individual Member States should in future be consciously decided on the basis of defensible and objective criteria, notably relative prosperity and population size. In taking these decisions the Community should ensure that the outcome of the budget conforms with the principle that resources should flow from more prosperous to less prosperous Member States and so contribute to the goal of economic convergence between Member States. The necessary corrective payments should be made without affecting the own resources system or undermining the operation of agreed Community policies. These payments will continue until such time as the development of Community policies renders them unnecessary to avoid unacceptable situations.]



[Approach C

No member state should make an unlimited net contribution to the Community Budget; and any net contribution should be determined by reference to relative ability to pay.]

[Approach D

If and when a need for a budget corrective mechanism were demonstrated, this should be only for countries with GDP per head well below the Community average. Any payment would take the form of a lump sum and be limited in time and degressive.]