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PRIME MINISTER

Preparations for the European Council

A problem has arisen in preparing the negotiating position which Mr. Franklin and Sir R. Armstrong will take to Paris on Monday.

You will recall that it was agreed last night that we should be prepared to show a willingness to consider ways in which we could offer the French some limited help on the CAP if they were clearly prepared to reciprocate on the budget guidelines. The limited help was to take the form of amendments to some of the draft conclusions on the Mandate to be put before the European Council next week.

Officials, including officials from MAFF, met this morning. The result of their deliberations is at Flag A. This was of course referred back to Mr. Walker.

Mr. Walker's reaction is at Flag B. As you will see, he feels strongly that the proposal agreed by officials on the possibility of limited exemptions from the co-responsibility levy for small producers should not be put to the French at this stage. Indeed, Mr. Walker thinks that "we should be taking a stance of strong hostility". Officials take the view that important though the gestures we are making on cereal substitutes and export contracts are (and Mr. Walker has no problem with these) the French will certainly notice the omission of any reference to milk.

Mr. Franklin and Sir R. Armstrong leave early on Monday morning. Clearly you could not overrule Mr. Walker, even supposing you were inclined to do so, without a meeting. However, it seems to me that he is going too far in arguing that Messrs Armstrong and Franklin should show strong hostility.

A reasonable mid-point between the position agreed by officials and that taken by Mr. Walker might be for Messrs Armstrong and Franklin to make no reference to milk in their initial presentation; for them to say in response to any French comment that they would have to seek instructions on the question; and for them to ask what the French would be prepared to do on the guidelines in the

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event that we were to make a move on the co-responsibility levy. Our team will of course in the circumstances have to stress the extreme difficulty for us in making any such gesture.

Agree that Sir R. Armstrong and Mr. Franklin may take the line in the preceding paragraph?

Agree also that they may float the other fall back texts at Flag A over the French? Am. A.

I also attach (Flag C) the Draft conclusions: this is the document which Lord Carrington mentioned last night. The paragraph references in the draft at Flag A are to this text. I have arranged for a 'touch in' with Sir A. Butler + Mr Franklin on Tuesday.

20 November 1981

EUROPEAN COUNCIL

30 MAY MANDATE

REPORT BY THE PRESIDENCY

1. The members of the European Council will find in the annex the text of draft conclusions on the Mandate.
2. This text takes the form of operational guidelines for the future development of a number of Community policies.
3. So far as Chapter I (Development of Community Policies other than the Common Agricultural Policy) and Chapter II (Common Agricultural Policy) are concerned, the texts presented are a set of operational guidelines based on the recent discussion of the Council (Foreign Affairs) and the Mandate Group. So far as Chapter III (Budgetary Problems) is concerned, differences are still too wide to enable the circulation of draft operational guidelines.
4. The texts circulated have been established by the Presidency, with the co-operation of the Commission. They contain a number of passages in square brackets where clear disagreements still exist.
5. The points which appear to require discussion at the European Council are:

CHAPTER I: DEVELOPMENT OF POLICIES OTHER THAN THE CAP

- (i) New Community Instrument: increase in size and transformation into European Fund (Para 9).
- (ii) Regional Fund: concentration of quota section in less prosperous member states (Para 23).

CHAPTER II: COMMON AGRICULTURAL POLICY

- (i) Criteria for price policy: (Para 3).
- (ii) Cereals: cereals prices and limitation of imports of substitute products (Para 7(a)).
- (iii) Milk: Control of milk production beyond guarantee threshold through modulation of guarantee arrangements (Para 7(b)).
- (iv) Mediterranean Agriculture: future arrangements for wine, fruit and vegetables, olive oil (Para 10(a) - (c)).
- (v) Exports: long term contracts for exports of agricultural products (Para 12(b)).
- (vi) Budgetary Aspects: growth rate of agricultural expenditure (Para 18).

CHAPTER III: BUDGETARY PROBLEMS

- (i) Unacceptable situations: nature and member states affected.
- (ii) Means of preventing unacceptable situations: criteria for determining size of correction, duration of arrangement, means of financing.

Subject: MANDATE OF 30 MAY

Draft conclusions of the European Council prepared by the
Presidency (Second Revise) _____

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PREAMBLE

- Not necessary -

Final.

the Soc. Sci. with Community

1. The European Council recalled the fundamental objectives of peace, freedom and progress on which were based the original decision to establish the Community and to put behind them the excesses of economic and political nationalism which had been the cause of great suffering to their nations. The history of the last thirty years had shown the major contribution which the Community had made to the achievement of these objectives.

X

Collaboration and integration between their economies were now realities which no Government could disregard. The welfare and progress of each of their peoples was more than ever dependent on the harmonious development of the Community itself and of the other nations in it.

2. It recognized that developments on the international scene, both in the economic and in the political fields made it essential to strengthen the role of the Community and of its ten Member States acting in concert at all levels.

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If this did not happen, there was a real risk of a process of regression in which national interests would prevail over the general interest of the Community. Moreover the Community and its Member States increasingly had responsibilities towards the outside world, in particular to the peoples of the Third World for whom it provides the largest market and also the largest source of official Government aid.

3. It was in this overall context that the European Council reviewed the development of Community policies in conformity with the Decision of 30 May 1980 and on the basis of the Commission's report of June 1981.

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4. It concluded that, despite the important progress made, the Community's development had been uneven, as the Commission had recognized in its report. 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 needed now to build on the achievements of the common agricultural policy and the tariff-free market by removing the remaining obstacles to the development of trade and by finding effective answers to the current social and economic problems which faced all Member States, concentrating its resources where they are most needed. The harmonious development of the Community required that the Community instruments and mechanisms be developed which permit action geared to the situation and specific needs of the least-prosperous Member States in an effort to tackle their structural problems.

5. It therefore decided to give a renewed impetus to the development of Community policies on a broad front.

The following chapters set out the framework within which it agreed that this renewal of the Community should be carried forward.

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

Overall Community economic strategy

This is a very bad action

*1-11-81
P. M. de la...*

1. The European Council agreed that an overall economic strategy in the Community is essential to combat unemployment and inflation. ^{and to encourage convergence.} Priority should be given to encouraging productive investment and raising competitiveness as a basis for creating durable jobs, bringing about sustainable economic growth and reducing unemployment. At the same time the Community should pursue the reduction of its dependence on external sources of energy, in particular oil.

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2. In addition to measures taken at a world-wide level in pursuit of these common objectives, the European Council underlined the contribution that Community policies can make especially in all the areas set out below.

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A. Employment policy

*1-11-81
What?*

3. The European Council agreed that as a complement to macro-economic policy decisions effective action in the social field to alleviate unemployment should be taken at both the Community and the national level.

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4. At the Community level full use should be made of all appropriate Community instruments and policies, as set out in succeeding sections of these conclusions.

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5. It agreed that the Council (Social Affairs) should review as a matter of urgency the various existing means of consulting the social partners with a view to making them a more effective channel for a genuine dialogue. (See also paragraphs 18 and 19.)

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B. Economic policy

6. The European Council agreed that the achievement of the Community's overall objectives would require stronger economic disciplines and concertation. The Community should ensure, through a careful comparison of national policies, that the main economic and sectoral objectives of the Member States are consistent with the maintenance and strengthening of the Community as well as with the object of consolidating the EMS. It therefore called for a more effective coordination of national economic policies and invited the Commission and the Council (ECOFIN) to make fuller use of the machinery set up for that purpose and to consider whether it needed strengthening.

C. Monetary policy

7. The European Council welcomed the success of the EMS in creating a zone of currency stability in Europe. It agreed that it should be further developed both as a key element in progress towards economic and monetary union and the creation of a European Monetary Fund, and to encourage a more stable international economic environment. It invited the Council (ECOFIN) to take stock during 1982 of the preparatory work done on these matters and in particular to take the necessary steps:

- in which - decision*
- to achieve greater concertation of national monetary policies;
 - to encourage the use of the ECU for Community loans and on financial markets by both public and private borrowers;
 - to seek improvements in monetary co-operation with the Community's principal partners, in particular insofar as exchange rate and interest rate policies were concerned.

D. Borrowing and Lending policy

8. The European Council welcomed the moves recently made to expand the scope of the Community's financial instruments, (EIB, ECSC, EURATOM and the NCI) in order to promote investment

X including investments in infrastructure as part of a progressive industrial and economic strategy. While recalling the need to maintain the ability of the Community and its Member States to borrow on suitable terms in the international and domestic capital markets, it agreed that there should be expansion as appropriate of these instruments to further agreed Community policies.

- X 9. [The European Council decided to transform the new Community instrument for loans into a European Fund to increase investment in infrastructure, industrial renewal and self-sufficiency in energy in the Community and agreed that the Fund's loan capacity should forthwith be increased by 3 billion ECU to be raised on the market at a rate corresponding to the needs.] *Ortoli facility.*

E. External economic policy

- 77 ✓ 10. The European Council agreed that, given the importance of the Community's external trade, it should seek to develop its external economic policy on the basis of common positions. In this way it would give effect to its special responsibility as the principal world trader and to its commitment to the open trading system. It underlined that, in view of the serious economic problems faced by all, genuine reciprocity was necessary. This required both a strengthened dialogue with the Community's main industrial partners and recognition of the needs of the developing countries.

F. Common Market and Industrial Strategy

11. The European Council recognized that the changes which had come about in recent years as regards both the structure of world markets and energy costs require a major industrial response. There was therefore a need for an industrial strategy at the Community level in order to develop industry, make it competitive and create productive jobs in Europe.

(i) Internal market and competition policy

The European Council recognized that the completion of the internal market, in accordance with the Treaties, would make an important contribution to solving the economic problems currently facing Member States, in particular by facilitating industrial co-operation and restructuring at the European level. A closely linked objective was the enforcement of proper conditions of competition, in particular transparency and effective control in the field of State aids, which would stimulate innovation and durable employment and enhance the international competitiveness of Community industry. Accordingly it called for a further intensive effort to secure decisive progress in 1982 concentrating on the following:

- (a) an effective competition policy including stricter discipline regarding aids, both single and cumulative, distorting competition;
- (b) progress towards establishing a common legal framework for Community industry, where this would bring tangible economic benefits for Community industry;
- (c) the effective implementation of the liberalization within the Community of public purchasing arrangements, in particular for high technology products, in order to take full advantage of a market on a continental scale;
- (d) the creation of a free market for services as provided for by the Treaties. An important objective is the early adoption of measures to give effect to the freedom to provide insurance services within the Community;
- (e) progress in equivalence of professional qualifications;

- (f) the simplification of formalities and procedures to reduce frontier delays affecting the free movement of goods within the Community on the Benelux model;
- (g) a renewed effort to harmonize existing technical provisions and certification procedures as well as to prevent the proliferation of new national measures, where these create real or potential barriers to trade. A decision should be taken before the end of 1981 on the treatment of third country products, in order to enable those Directives affected by this problem to be adopted.

12. The European Council welcomed the decisions which had been taken by the Community in the steel sector and noted the vital importance for the future of the Community's textile industry of a satisfactory outcome to the current negotiations on the MFA.

(ii) Innovation, research and development

13. The European Council, conscious that the Community had lagged behind American and Japanese competition, agreed that Member States and the competent authorities of the European Community should expand and concert their research and development effort in order to promote industrial restructuring and innovation. The Community's efforts should be concentrated in areas where the Community has a comparative advantage and should be focussed to support agreed policy objectives. It welcomed the priority given

by the Council (Research) to the principle of a common strategy consisting of increased concertation of national and Community policies on the basis of common objectives and requested the Commission to prepare more detailed proposals. These proposals should be examined by the Council (Research) in March 1982 and decisions should be taken not later than July 1982.

14. It welcomed the adoption by the Council of the regulations on micro-electronics, and invited the Commission to consider with Member States other appropriate actions with a view to securing the wider benefits which would follow from the development of high technologies and other industries of the future.
15. It noted the Commission's communication on innovation emphasizing the key role which the successful application of innovation by industry, including small and medium enterprises, could have in ensuring the healthy development of the Community; and invited the Commission to bring forward specific practical proposals so that decisions could be taken before the end of October 1982.

(iii) Energy Policy

16. The European Council considered that the Community's energy strategy must be based on common objectives to be achieved by co-ordinated action on the part of the Member States, observing collective discipline, and by action on the part of the Community when this will lead to greater efficiency for the Community as a whole.
17. It agreed that priority should be given to the following points:

- 9 -
- (a) monitoring the progress of Member States towards agreed Community objectives including those for energy saving, on the basis of annual reports by the Commission and appropriate recommendations;
 - (b) investment on an economic basis in the production and efficient use of energy should be brought up to a high level, where appropriate, with the support of Community instruments. Community action should be fitted into the framework of efforts at the national level to attain agreed Community objectives. It noted that the Commission would rapidly complete its examination of energy investments, including those on the rational use of energy, and make specific proposals during the first quarter of 1982;
 - (c) a common approach to pricing policy based on economic principles and transparency in the energy market;
 - (d) an effective and united Community response to limited shortfall in oil supplies and the attendant dangers of disproportionate oil price increases. The Community should ~~also~~ pursue its consultations with other industrialized countries, whose participation was necessary for the effectiveness of the action;
 - (e) a balanced and co-ordinated approach in relations on energy matters with third countries. It reaffirmed its support for the establishment of an energy affiliate to the World Bank as one suitable instrument for this;
 - (f) research and development in the energy sector should continue to receive priority and be focussed on essential projects where action at the Community level was necessary. Demonstration projects chosen in the light of the evaluation of existing programmes and designed to promote the industrial application of new techniques should also be continued.

G. Social Policy

18. The European Council emphasized the importance it attached to the concerted use of all appropriate Community instruments to encourage better living and working standards for the men and women making up the Community work force. It underlined that a coherent approach should be taken both at national and at Community level to promote access for school-leavers to education, vocational training, other forms of training or work-experience, instead of being unemployed. Particular attention should be given to developing the employment potential, especially in small and medium-sized enterprises and co-operatives, by easing the process of expansion, innovation and development of new technology. This implied also a renewed effort in the field of training.
19. The European Council underlined the need for consideration at the Community level of different aspects of the re-organization of working time, taking account of the competitive position of the Community. The Commission's forthcoming proposal for a Community initiative on part-time and temporary work and flexible retirement should be examined by the Council as a matter of urgency in closer consultation with the social partners.
20. It considered that the review of the Social Fund, which should be completed by 1 July 1982, provided an occasion to make it more effective and more relevant to present day conditions. It agreed that the financial resources of the Fund should continue to grow in real terms and that, while the Fund should continue to support a major effort in the field of vocational training, it should also in future concentrate more on the need to ensure better access to the labour market for the young. It should also encourage occupational mobility where problems were caused by industrial restructuring following Community decisions.

21. The Fund's resources should continue to be particularly directed towards areas of greatest need, including those suffering from the decline in traditional manufacturing industries.

H. Regional policy

22. The European Council agreed that it was essential to maintain and develop the Community's efforts in the regional sphere so that all Community policies and instruments could play their full role in promoting convergence. It stressed the value of a better co-ordination of national regional aids and Community efforts.
23. With regard to the review of the European Regional Development Fund, on which decisions should be taken not later than 1 April 1982, the European Council agreed that the financial resources of the Fund should continue to grow in real terms and that the quota section of the Fund should concentrate its activities on regions of greatest need [of the less-prosperous Member States]. The non-quota section, whose operations, while not subject to geographical limitations, might give preference to the less-prosperous Member States, could be increased and should be particularly directed to deal with structural imbalances caused by problems of industrial decline or by the effects of certain Community policies.

I. Transport

24. The European Council considered that the development of a unified internal market implied a need for positive action in the transport field to improve communications, particularly in the more remote areas of the Community. This action should aim to increase the efficiency and freedom of circulation of goods and passengers between Member States,

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while taking account of the diversity of Member States' transport requirements, of the desirability of evolving a coherent European transport policy and of the Community's relations with third countries. It invited the Council (Transport) to intensify their work in this field and to speed up the rate of progress on the Commission's proposals, notably those first put forward in 1976 on aid for transport infrastructure. It also agreed that the Commission proposals on air services and air fares should be examined in a positive spirit.

Implementation

- 9 25. The European Council requested the Council to take the necessary decisions in all these areas. It agreed that it would itself review the progress made at the June 1982 meeting of the European Council, on the basis of a report by the Commission.

I THE COMMON AGRICULTURAL POLICY

1. The European Council affirmed the fundamental role of the common agricultural policy in the Community, and agreed on the need for the policy to continue to develop in harmony with other policies, at the same time fully respecting the objectives of the Treaty, notably Article 39, and the principles of unity of the market, Community preference and financial solidarity.
2. Taking full account both of its considerable achievements and of the problems which have manifested themselves and persist, it concluded that the common agricultural policy should in future be developed in conformity with the guidelines set out in the following paragraphs.
3. The Community should pursue a prudent price policy, having regard in particular to the need:
 - (a) to ensure a fair standard of living for the agricultural community;
 - (b) to achieve in some sectors a greater market equilibrium by tackling the problem of structural surpluses;
 - (c) to aim, progressively and in real terms, to reduce the difference between the level of Community support prices for appropriate products and the level of comparable support prices for similar products in the main competitor countries.]
4. Monetary compensatory amounts should be phased out in conformity with the conclusions of the Council on 5/6 March 1979 and of 6/7 May 1980.
5. The Commission is invited to study the particular problem for farm incomes arising from differential rates of inflation and to report by 1st April 1982.

6. The following paragraphs lay down for certain products guidelines for arrangements to adjust the level of guarantee when production in an individual sector exceeds an agreed guarantee threshold. The modalities for other sectors will vary depending on the circumstances, taking into account the Commission's memorandum of 23 October 1981.

Modalities for products

7. The following modalities should be adopted:

- (a) Cereals The Community's prices for cereals should be progressively reduced in real terms so as to achieve a better hierarchy of agricultural prices. This would reduce the gap between Community support prices and comparable support price levels in main competitor countries. This policy will reduce and in the long term remove the competitive advantage enjoyed by imports of products which substitute for cereals.] [Discussion with the principal third country suppliers should be undertaken by the Community, where necessary, to stabilize the volume of imports of such substitutes in the short and medium term.]

The modulation of guarantees for cereals should take the form of a reduction in the intervention price if production exceeds the guarantee threshold.

- (b) Milk Modulation of the guarantee should be achieved:

- (i) [by continuing the existing co-responsibility levy at its present level] [with a general exemption for a certain quantity of milk from each herd in order to assist the incomes of small producers.]

- (ii) [by the introduction of a supplementary levy on additional deliveries of milk to dairies so that producers participate in the cost of disposing of production in excess of the guarantee threshold.]
- (iii) [through a special levy applied on intensive milk production.]
- (iv) [by a reduction in the intervention price if production exceeds the guarantee threshold.]

Structural Policy

- 8. The European Council recognizes^{sed} the need for an active policy for improving agricultural structures, adapted to the particular needs of individual regions. The problems of less-favoured agricultural regions, including some Mediterranean areas, which are heavily dependent on rural occupations for employment, merit special attention.
- 9. The European Council noted the Commission's intention to present, by the end of 1982, proposals for integrated programmes, to take account of the special problems affecting the less-advantaged regions in the Mediterranean countries.

Mediterranean agriculture

- 10. The European Council agreed that there is an urgent need to review the existing provisions for olive oil, wine and fruit and vegetables. The Council should carry forward urgently, with a view to taking decisions not later than 1st April 1982, its examination of the Commission's suggestions

for amending the acquis in the context of enlargement, having regard to the related paragraphs in the Commission's memorandum of 23 October 1981 and these guidelines. [They should also have regard to the following considerations:

- (a) for wine, the Council should rapidly decide on the changes in the wine regime needed to improve the market balance while safeguarding the incomes of producers in this sector;
- (b) for fruit and vegetables, the Council should decide the necessary changes in the market regime, taking account of the need to afford a fair level of support for producers;
- (c) for olive oil, the Council should decide the necessary changes in the market regime, taking account of the budgetary and other implications arising from future enlargement of the Community.]

Export and Import Policy

- 11. The Community should continue to co-operate, for appropriate products, with other major trading partners with a view to achieving greater stability in world markets.
- 12. In its policy concerning trade in agricultural and processed agricultural products, including Mediterranean products, the Community should have regard to Community preference, to the Community's international obligations, and to the good management of the markets and the budget. In particular:
 - (a) There should be an active export policy.

- (b) [The Council should adopt framework agreements for the multi-annual supply of products to importing countries, specifying in each case the products and provisions to be included.]
- (c) The Commission should monitor the level of imports of products which could affect the Community markets.

National Aids

13. The European Council noted that national aids represent a significant proportion of the overall expenditure on agriculture within the Community. Aids to agriculture complement in some cases the Community's expenditure on agriculture; but they can also singly or cumulatively distort competition and encourage surplus production. The Member States must therefore ensure greater respect for the Community rules and procedures concerning national aids, and the Commission should ensure that these provisions are more strictly observed by applying the necessary disciplines and sanctions. The Council should adopt, on a proposal from the Commission, a regulation specifying which aids are to be notified, which are prohibited, and which are authorized.
14. The Commission ^{was} ~~is~~ invited to submit to the Council a study of the economic impact of national aids, taking account of their consequences for agricultural production, incomes and financial solidarity.

Budgetary aspects

15. The European Council welcomed 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.

16. It invited the Council and Commission to build on this achievement by strengthening effective management and financial control to ensure the most efficient use of the Community's financial resources. The effectiveness of all measures under the CAP should be kept under review.
17. If the above guidelines are implemented, agricultural spending in the years ahead will continue to grow less rapidly than the Community's own resources.
18. [It should be the objective to reduce the proportion of the budget taken by agricultural expenditure to not more than 60 per cent in 1983. This category of expenditure should therefore for the time being grow markedly less rapidly than the Community's own resources.]
- [The rate of growth in agricultural guarantee expenditure shall be not more than 2/3 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.]

Implementation

19. The European Council accordingly invited the Commission to make the appropriate proposals, and the Council to take the necessary decisions, to ensure that the adaptations outlined in the preceding paragraphs enter into force from the 1982/83 season.

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. It confirmed the necessity, taking account of the situation and interests of all Member States, of avoiding the emergence or recurrence of an unacceptable 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. It reaffirmed the basic principles of the Community's financial arrangements and in particular the own resources decision. It noted that until now a preponderant share of the Community budget had been devoted to expenditure on the CAP. It stated as its 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 enable the budget 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 it recognized 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. It therefore agreed that from 1982 the measures based on the following operational guidelines should be applied]:

(Operational guidelines on budgetary problems to be agreed.)