



PM/82/3

PRIME MINISTER

The 30 May 1980 Mandate: Next Steps

1. You will wish to know where matters stand on the mandate, which is next due to be discussed at the informal meeting of Foreign Ministers on 14/15 January. As requested by the last such meeting in December, M Thorn has now produced proposals for revised draft guidelines on the four outstanding points: milk, Mediterranean agriculture, CAP expenditure and the budget. I attach a consolidated text of the draft guidelines at Annex A; and the full text of the rather long and discursive letter in which M Thorn explains why his draft says what it does at Annex B.

2. This minute describes the main features of M Thorn's proposals and the approach I propose to take towards them at the informal Foreign Minister's meeting. I understand that both the Chancellor of the Exchequer and the Minister of Agriculture have been consulted on the briefing, which has been prepared by officials under Cabinet Office chairmanship, and that they are content with the approach described below.

3. M Thorn's proposals do not as they stand offer a basis for agreement. From the United Kingdom viewpoint they are in many respects unsatisfactory, though they also contain some helpful features on which we can build. The position on each of the four main heads is set out below.

Milk

4. M Thorn's proposals go too far in committing the Council to a progressive mechanism for applying the milk coresponsibility levy in order to help small producers while failing to provide a firm commitment to specific measures to discourage surplus production.

/5. I shall





5. I shall argue that we should agree on a less specific but balanced text such as was put to Foreign Ministers in December by the Presidency and Commission (Annex C) and which would leave the Council to take the specific decisions. The Dutch and Danes are likely to support our criticisms.

#### Mediterranean agriculture

6. The proposed text is not unsatisfactory. It speaks of the need to take account of improving the functioning of the market organisation for the sake of efficient and economic management as well as for producers. I shall counter efforts by Italy and Greece to make the text more favourable to their producers and be ready to agree it in the context of an overall agreement.

#### Agricultural Expenditure

7. The text proposed consists of the German formula on the rate of growth of agricultural expenditure proposed at the European Council plus a declaration concerning its implementation suggested by the Commission. It has some weaknesses and I shall support any efforts, by the Germans for example, to tighten it up. But even in its present form, it would if adopted certainly help to constrain the Council and Commission when taking decisions affecting the rate of growth of agricultural expenditure and I shall be ready to accept it.

#### Budget

8. M Thorn's text on the budget has the following features compared to the four essential requirements which we agreed to press for at the last Foreign Ministers' meeting: -

- a) there is a clear reference to preventing the recurrence of unacceptable situations;
- b) general application. Although paragraph 2 picks out the UK specifically to receive compensation, this is explained as a consequence of the general statements

/in paragraph 1





- in paragraph 1 which include the need to prevent unacceptable situations for any Member State;
- c) the text clearly says that the corrective arrangement should be based on an objective indicator but it does not specify relative prosperity for this purpose. It proposes the Commission's own FEOGA mechanism as the objective indicator;
  - d) on duration it specifies four years with a review after three. It does not include a statement of the aims of the review. (As you know, we proposed a review after seven years.)

In addition, it includes: -

- e) an unacceptable form of words on degressivity;
- f) no mention of the financial mechanism; and
- g) it says that compensation should be paid "when final figures are available". This would mean - possibly inadvertently - an eighteen month delay, since the Commission does not produce its final accounts for expenditure in a given year until June in the next but one year.

9. I propose to make it clear from the start that the text is not acceptable as it stands and to seek amendments sufficient to protect our position on our four essential requirements.

10. It might be possible to amend suitably, or have deleted, the unacceptable references in the Commission text on duration, degressivity (on which the Germans may suggest a helpful formula whereby lower budget refund payments were matched by increasing payments under other programmes), objective criteria (where I would insist on the Commission's scheme being supplemented by an improved financial mechanism, with relative prosperity included as an objective indicator, or have the whole of the

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passage deleted) and the timing of payments (where I would agree to payments being calculated ex post facto but leave the precise pattern of payments to be negotiated subsequently). However, I am not optimistic that we shall be able to get agreement to such changes.

11. In sum, M Thorn's proposals on milk and the budget are loaded against the United Kingdom and we cannot accept them as they stand. While I shall therefore insist on changes, I cannot be optimistic about the prospects for agreement at this meeting. We may therefore be obliged, as at the European Council and the December meeting, to seek a purely procedural decision which will keep up the momentum of the negotiations without commitment on substantive points. I suggest that we take stock of the position again when the outcome of the meeting is known.

12. I am copying this minute to the Chancellor of the Exchequer and the Minister of Agriculture and to Sir Robert Armstrong.

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(CARRINGTON)

13.1.82.



THORN'S DRAFT GUIDELINESMILK PRODUCTS

The guarantee in the milk sector should be adapted: the present co-responsibility levy can be retained but modulated in such a way that deliveries below a certain level qualify for a reduced rate. This modulation should be arranged so that all producers are liable, although existing total exemptions will continue to apply. The reduced rate of levy will be fixed for tranches of milk delivered.

At the same time the European Council agrees that should the increase in milk deliveries from one marketing year to the next exceed a certain rate (to be determined by the Council), the Council will take appropriate steps to offset the additional costs this entails (for example, a levy on the increased production, partial suspension of intervention, alteration of the intervention price, application of a progressive basic levy, or some other appropriate means).

MEDITERRANEAN AGRICULTURE

In view of the importance of Mediterranean agricultural products for the development of the Mediterranean regions, the European Council is agreed on the urgent need to review the existing regulations, particularly, though not exclusively, those for wine, fruit and vegetables and olive oil.

It calls on the Council to adopt the appropriate decisions very quickly, with account being taken of the need to improve the functioning of the market organizations both for producers and for the sake of efficient and economic management. With regard to the proposals already presented by the Commission, the decisions will have to be taken by 31 March 1982 at the latest.



BUDGETARY ASPECTS OF THE COMMON AGRICULTURAL POLICY

It will be the responsibility of the Council, acting on proposals by the Commission, to adopt the necessary decisions on implementation of the above guidelines to ensure that the rate of growth of agricultural expenditure will rise less rapidly than the Community's own resources. It will be the responsibility of the Council and the Commission to manage agricultural expenditure within that framework.

The implementation of these guidelines should be evaluated as an average over several years in the case of erratic development of the conditions under which the Common Agricultural Policy is executed.

BUDGET

1. On 30 May 1980 the Council requested the Commission to examine the development of Community policies, in particular with a view to preventing the recurrence of unacceptable situations for any of the member states. The European Council considered the Community's budget situation on the basis of the report drawn up by the Commission pursuant to the Mandate of 30 May 1980. It recognized the need to seek a better balance between Community policies in order to create a sound basis for the further development of the Community. It considered that its conclusions on the development of Community policies and the adjustment of the Common Agricultural Policy were the first major steps in this direction, but it recognized that the measures currently being prepared would not have any appreciable effect for some time.

2. Accordingly the European Council adopted the principle of measures to grant the United Kingdom financial compensation, to come into force from the 1982 financial year. They will apply for four years and will involve some kind of declining scale. They will be reviewed after three years. They will not affect the Community's financial system.



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3. The amount of compensation will be determined each year, when final figures are available, in the light of the real size of the problem, as measured by an objective indicator, and on the basis of the rate of compensation agreed. With this method there will be no need for fresh negotiation each year.

The objective indicator may be based on the difference between the United Kingdom's share of gross Community product (calculated as the average of several years) and the United Kingdom's share of payments from the EAGGF guarantee section in the year in question.

4. The compensation for the United Kingdom will be entered in the budget. As an exceptional and temporary measure, the corresponding revenue will be provided by contributions from the member states under Article 200 EEC, determined on a special (political) scale which will be adopted by the Council, acting unanimously in accordance with Article 200 (3).

The scale will respect the principle of solidarity, which the Community intends to apply with regard to its least prosperous members, and will take account of Germany's problem concerning the Community budget (Germany will pay a distinctly smaller contribution than its normal share would have been).



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TELEGRAM NUMBER 49 OF 8 JANUARY 1982  
INFO SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN  
LUXEMBOURG ATHENS

30 MAY MANDATE

FOLLOWING IS TEXT OF LETTER FROM THORN TO YOU, DATED 8 JANUARY:

BEGINS

MY LORD,

ON 15 DECEMBER YOU ASKED ME TO SUBMIT TO YOU, WITH RESPECT TO THE POINTS STILL OUTSTANDING IN OUR WORK ON THE MANDATE OF 30 MAY, PROPOSALS CAPABLE OF PRODUCING AN OVERALL SOLUTION.

THE PROPOSALS I NOW SUBMIT ARE A FOLLOW-UP TO THE DISCUSSIONS WE HAD IN LONDON ON 14 AND 15 DECEMBER. I HAVE PREPARED THEM WHILST BEARING IN MIND THE GENERAL THRUST OF THE WORK SO FAR CARRIED OUT ON THE MANDATE AND THE ANXIETY THAT WE ALL FEEL TO CREATE THE CONDITIONS FOR NEW PROGRESS IN THE COMMUNITY.

I REGARD IT AS BOTH URGENT AND ESSENTIAL TO BRING MATTERS TO A SUCCESSFUL CONCLUSION AT OUR NEXT MEETING. WE MUST TAKE THIS OPPORTUNITY TO COMPLETE WHAT IS A VITAL COMPONENT FOR THE DEVELOPMENT OF THE COMMUNITY. SUCCESS IN OUR COMING MEETINGS WILL, IN ADDITION, ALLOW US TO CONFIRM THE RESULTS EARLIER ACHIEVED IN OTHER FIELDS AND GIVE EFFECT TO THE GLOBAL APPROACH THAT WE HAVE ADOPTED FROM THE OUTSET. FAILURE TO TAKE THIS OPPORTUNITY WOULD, GIVEN THE PRESENT POLITICAL AND ECONOMIC BACKGROUND AND THE MAJOR DEADLINES THAT WE FACE, LEAD TO TENSIONS WHICH THE COMMUNITY MUST AT ALL COSTS AVOID.

I AM SENDING YOU THE DOCUMENTS IN GOOD TIME SO THAT YOU CAN CONDUCT YOUR PREPARATION IN THE BEST POSSIBLE CONDITIONS. I AM AT YOUR DISPOSAL IN THE DAYS BETWEEN NOW AND THE MEETING TO GIVE YOU FURTHER PARTICULARS.

I MUST ALSO DRAW YOUR ATTENTION TO THE POINTS OF CONCERN VOICED BY THE PRIME MINISTER AND FOREIGN MINISTER OF GREECE WITH REGARD TO THE SITUATION OF THEIR COUNTRY. THE GREEK GOVERNMENT HAS NOT YET FINISHED STUDYING THE DESIDERATA IT INTENDS TO LAY BEFORE US, AND NOT HAVING HAD WORD OF THESE WE HAVE NOT BEEN ABLE TO PRO-  
NOUNCE ON THE SUBJECT.

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FINALLY, I WOULD STRESS THAT THE GUIDELINES PROPOSED ARE IN ACCORDANCE WITH THE SPIRIT OF THE PROPOSALS PUT FORWARD BY THE COMMISSION THROUGHOUT THE PROCEEDINGS FOLLOWING THE MANDATE OF 30 MAY.

YOURS FAITHFULLY,

GASTON E. THORN

ANNEX

BRUSSELS, 8 JANUARY 1982

AT THE END OF THEIR MEETING ON 15 DECEMBER LAST, THE FOREIGN MINISTERS ASKED THE PRESIDENT OF THE COMMISSION TO REVISE THE PROPOSED GUIDELINES FOR SETTLING THE FOUR ISSUES REFERRED TO THEM BY THE EUROPEAN COUNCIL (MILK PRODUCTS, MEDITERRANEAN PRODUCTS, BUDGETARY ASPECTS OF THE COMMON AGRICULTURAL POLICY, AND BUDGETARY MATTERS IN GENERAL).

IN THIS PAPER I HAVE, OF COURSE, CONFINED MYSELF TO THESE FOUR ISSUES, TAKING MY CUE FROM THE VERY FULL DISCUSSIONS WE HAD IN DECEMBER. I WOULD POINT OUT, HOWEVER, THAT, EVEN WHEN AGREEMENT IS REACHED ON THESE FOUR ISSUES, THERE WILL STILL BE ONE OR TWO PROBLEMS OUTSTANDING. AS INDICATED IN THE REPORT BY THE SECRETARY-GENERAL OF THE COUNCIL, THESE ARE THE TEXT ON CEREALS, ARRANGEMENTS FOR PRODUCTS OTHER THAN CEREALS AND MILK, AND THE PASSAGE ABOUT NATIONAL AIDS IN AGRICULTURE, WHICH WAS NOT FULLY DISCUSSED AT THE EUROPEAN COUNCIL.

#### 1. MILK PRODUCTS

1. LENGTHY DISCUSSIONS AT THE EUROPEAN COUNCIL AND OUR SUBSEQUENT MEETING IN LONDON HIGHLIGHTED TWO MAJOR PREOCCUPATIONS:

- ACTION TO BE TAKEN IN THE EVENT OF A SHARP INCREASE IN MILK PRODUCTION (THE POSSIBILITY OF A MECHANISM TO DISSUADE PRODUCERS);
- THE PROBLEM OF SMALL PRODUCERS.

AGREEMENT IS CONDITIONAL ON A COMPREHENSIVE DECISION PROVIDING SATISFACTORY SOLUTIONS ON BOTH POINTS.

2. IN THE FIRST PLACE, I FEEL I AM RIGHT IN SAYING THAT WE ARE LARGELY IN AGREEMENT ON THE NEED TO RETAIN THE PRESENT CO-RESPONSIBILITY LEVY, TOGETHER WITH THE EXISTING EXEMPTIONS.

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3. SECONDLY, I COULD SEE THAT EVERYONE WAS CONCERNED ABOUT THE POSSIBILITY OF AN EXCESSIVE INCREASE IN MILK PRODUCTION. THERE MAY WELL BE STRONG OPPOSITION FROM SOME OF US TO PRODUCTION LEVELS BEING TAKEN INTO ACCOUNT. BUT WE ALL RECOGNIZE THAT BEYOND A CERTAIN RATE OF INCREASE DISINCENTIVES WILL BE NECESSARY. THE EUROPEAN COUNCIL SHOULD ENDORSE THIS LINE AND ISSUE A FIRM DIRECTIVE ON THIS BASIS TO GUIDE FORTHCOMING DISCUSSIONS IN THE AGRICULTURAL COUNCIL.

IDEALLY, THIS DIRECTIVE SHOULD GIVE A PRECISE INDICATION OF THE TYPE OF MEASURES THAT MIGHT BE ENVISAGED. BUT OUR DISCUSSIONS TO DATE HAVE CONVINCED ME THAT WE ARE NOT IN A POSITION TO DECIDE. ADDED TO WHICH, IT IS NOT AT ALL CERTAIN THAT ANY SIGNIFICANT DIFFICULTIES WILL ARISE DURING THE CURRENT MARKETING YEAR.

I WOULD THEREFORE SUGGEST THAT THE EUROPEAN COUNCIL ADOPT A DIRECTIVE SETTING A PRECISE OBJECTIVE FOR THE AGRICULTURAL COUNCIL BUT LEAVING THE MINISTERS FREE TO WORK OUT WAYS AND MEANS. TO MY MIND THE RESOLUTION ADOPTED BY THE AGRICULTURAL COUNCIL ON 31 MARCH 1981 AS PART OF THE 1981/82 PRICE PACKAGE WOULD PROVIDE AN EXCELLENT BASIS FOR THIS DIRECTIVE. INDEED MY PROPOSED TEXT IS BASED ON THAT RESOLUTION. ACCEPTANCE AND ENDORSEMENT OF THE RESOLUTION BY THE EUROPEAN COUNCIL WOULD ENHANCE ITS VALUE AND GIVE IT THE AUTHORITY NEEDED TO GUARANTEE IMPLEMENTATION IN PRACTICE.

4. AS FAR AS SMALL PRODUCERS ARE CONCERNED, THE COMMISSION RECOGNIZES THAT THERE IS A GENUINE PROBLEM. THIS STEMS IN PART FROM THE PRUDENT PRICE POLICY PURSUED BY THE COUNCIL IN RECENT YEARS AT THE COMMISSION'S INSTIGATION. THE PROBLEM COULD WELL BE AGGRAVATED BY THE INTRODUCTION OF DISINCENTIVES.

IT SEEMS TO ME THEREFORE THAT WE MUST MEET THE OBJECTIONS PUT SO FORCEFULLY BY A NUMBER OF OUR COLLEAGUES. BEARING IN MIND THE VARIOUS SUGGESTIONS PUT FORWARD (BY OUR GERMAN COLLEAGUE IN PARTICULAR), I HAVE CONSIDERED THE POSSIBILITY OF A MECHANISM WHICH, WHILE ALLAYING THE CONCERN VOICED BY SOME OF YOU, WOULD DRAW ON EXPERIENCE GAINED IN APPLYING EXISTING MEASURES, WOULD RULE OUT ALL DISCRIMINATION AND WOULD BE REASONABLY PROGRESSIVE. I THEREFORE SUGGEST THAT WE ABANDON TOTAL EXEMPTION FROM THE CO-RESPONSIBILITY LEVY FOR THE FIRST TRANCHE OF PRODUCTION AND ALLOW ALL PRODUCERS A PARTIAL REDUCTION AS IS ALREADY THE CASE FOR PRODUCERS IN LESS-FAVoured AREAS.

THIS REDUCTION WOULD APPLY BY TRANCES OF PRODUCTION TO MAKE IT PROGRESSIVE. FOR INSTANCE WE MIGHT CONSIDER - THOUGH THIS IS NOT A FORMAL PROPOSAL - REDUCING THE CO-RESPONSIBILITY LEVY TO 1 PER CENT FOR THE FIRST 30 000 KG AND 2 PER CENT FOR PRODUCTION BETWEEN 30 000 AND 60 000 KG (THE LIMIT NOW APPLICABLE IN LESS-FAVoured AREAS), WITH THE FULL 2.5 PER CENT LEVY APPLYING TO PRODUCTION IN EXCESS OF 60 000 KG.



THE GUARANTEE IN THE MILK SECTOR SHOULD BE ADAPTED; THE PRESENT CO-RESPONSIBILITY LEVY CAN BE RETAINED BUT MODULATED IN SUCH A WAY THAT DELIVERIES BELOW A CERTAIN LEVEL QUALIFY FOR A REDUCED RATE. THIS MODULATION SHOULD BE ARRANGED SO THAT ALL PRODUCERS ARE LIABLE, ALTHOUGH EXISTING TOTAL EXEMPTIONS WILL CONTINUE TO APPLY. THE REDUCED RATE OF LEVY WILL BE FIXED FOR TRANCHES OF MILK DELIVERED.

AT THE SAME TIME THE EUROPEAN COUNCIL AGREES THAT SHOULD THE INCREASE IN MILK DELIVERIES FROM ONE MARKETING YEAR TO THE NEXT EXCEED A CERTAIN RATE (TO BE DETERMINED BY THE COUNCIL), THE COUNCIL WILL TAKE APPROPRIATE STEPS TO OFFSET THE ADDITIONAL COSTS THIS ENTAILS (FOR EXAMPLE, A LEVY ON THE INCREASED PRODUCTION, PARTIAL SUSPENSION OF INTERVENTION, ALTERATION OF THE INTERVENTION PRICE, APPLICATION OF A PROGRESSIVE BASIC LEVY, OR SOME OTHER APPROPRIATE MEANS).

## II. MEDITERRANEAN AGRICULTURE

CONCERN HAS BEEN EXPRESSED ON A WIDE VARIETY OF POINTS DURING OUR WORK. WE ALL AGREE THAT A DECISION MUST BE QUICKLY REACHED AFTER A REVIEW OF THE REGULATIONS ON MEDITERRANEAN PRODUCTS. WE HAVE NOTED THAT THIS MUST COVER THE THREE MAJOR PRODUCTS, BUT THAT THERE ARE ALSO SOME SPECIFIC PROBLEMS, NOTABLY FOR THE NEW MEMBER STATE, GREECE.

I THINK IT RIGHT THAT WE SHOULD STATE QUITE CATEGORICALLY THAT WE WANT TO IMPROVE THESE REGULATIONS FOR THE BENEFIT OF THE PRODUCERS. IT IS EQUALLY RIGHT, AND NOT CONTRADICTORY, THAT WE SHOULD STRIVE FOR MORE EFFICIENT MANAGEMENT OF THE MARKET ORGANIZATIONS, SO AS TO ENSURE THAT THE FUNDS ALLOCATED TO THEM ARE USED TO GOOD EFFECT.

I WOULD THEREFORE SUGGEST THE FOLLOWING TEXT, FROM WHICH I HAVE DELIBERATELY EXCLUDED ALL TECHNICAL DETAIL, ESPECIALLY SINCE THE WORK ON THE COMMISSION'S PROPOSALS HAS BARELY BEGUN.

OUR FRENCH COLLEAGUE HAS URGED THAT REFERENCE BE MADE IN THE TEXT TO THE PROBLEMS CONCERNING IMPORTS OF VEGETABLE OIL (IN CONNECTION WITH THE PRODUCTION OF OLIVE OIL).

I WOULD REMIND YOU THAT ONE OF THE GUIDELINES SUBMITTED TO THE EUROPEAN COUNCIL CONCERNS THE POLICY FOR IMPORTS OF AGRICULTURAL PRODUCTS IN THE LIGHT OF COMMUNITY PREFERENCE. IT IS ALREADY EXPRESSLY STATED THAT THIS POLICY COVERS MEDITERRANEAN PRODUCTS. THE PROBLEMS CONCERNING IMPORTS OF VEGETABLE OIL SHOULD BE DEALT WITH IN THIS FRAMEWORK.



DRAFT TEXT

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IN VIEW OF THE IMPORTANCE OF MEDITERRANEAN AGRICULTURAL PRODUCTS FOR THE DEVELOPMENT OF THE MEDITERRANEAN REGIONS, THE EUROPEAN COUNCIL IS AGREED ON THE URGENT NEED TO REVIEW THE EXISTING REGULATIONS, PARTICULARLY, THOUGH NOT EXCLUSIVELY, THOSE FOR WINE, FRUIT AND VEGETABLES AND OLIVE OIL.

IT CALLS ON THE COUNCIL TO ADOPT THE APPROPRIATE DECISIONS VERY QUICKLY, WITH ACCOUNT BEING TAKEN OF THE NEED TO IMPROVE THE FUNCTIONING OF THE MARKET ORGANIZATIONS BOTH FOR PRODUCERS AND FOR THE SAKE OF EFFICIENT AND ECONOMIC MANAGEMENT. WITH REGARD TO THE PROPOSALS ALREADY PRESENTED BY THE COMMISSION, THE DECISIONS WILL HAVE TO BE TAKEN BY 31 MARCH 1982 AT THE LATEST.

### III. BUDGETARY ASPECTS OF THE COMMON AGRICULTURAL POLICY

THE TEXT I PROPOSE REFLECTS THE VIEWS OF A LARGE MAJORITY OF MY COLLEAGUES. IT CONTAINS ALL THE GUIDELINES WHICH THE EUROPEAN COUNCIL WILL HAVE TO ISSUE FOR AGRICULTURAL POLICY, INCLUDING A DIRECTIVE ON MEDITERRANEAN PRODUCTS. THE COST OF THE NEW MEASURES TO BE TAKEN FOR THESE PRODUCTS IS THEREFORE COVERED BY THIS TEXT.

THE IMPACT OF ITS ADOPTION BY THE EUROPEAN COUNCIL WILL BE PRIMARILY POLITICAL; IT IS NOT A LEGAL INSTRUMENT AFFECTING THE RULES GOVERNING THE COMMON AGRICULTURAL POLICY. THE COMMISSION BELIEVES THAT THE IMPLEMENTATION OF THE POLICY GUIDELINES CURRENTLY BEFORE THE EUROPEAN COUNCIL WILL HELP TO REDUCE THE GROWTH OF AGRICULTURAL EXPENDITURE. THE COUNCIL AND COMMISSION WOULD THUS BE ABLE TO ACHIEVE THE POLITICAL OBJECTIVE SET THEM BY THE EUROPEAN COUNCIL WITHOUT UNDERMINING THE PRINCIPLES AND RULES OF THE COMMON AGRICULTURAL POLICY.

DRAFT TEXT

IT WILL BE THE RESPONSIBILITY OF THE COUNCIL, ACTING ON PROPOSALS BY THE COMMISSION, TO ADOPT THE NECESSARY DECISIONS ON IMPLEMENTATION OF THE ABOVE GUIDELINES TO ENSURE THAT THE RATE OF GROWTH OF AGRICULTURAL EXPENDITURE WILL RISE LESS RAPIDLY THAN THE COMMUNITY'S OWN RESOURCES. IT WILL BE THE RESPONSIBILITY OF THE COUNCIL AND THE COMMISSION TO MANAGE AGRICULTURAL EXPENDITURE WITHIN THAT FRAMEWORK.

THE IMPLEMENTATION OF THESE GUIDELINES SHOULD BE EVALUATED AS AN AVERAGE OVER SEVERAL YEARS IN THE CASE OF ERRATIC DEVELOPMENT OF THE CONDITIONS UNDER WHICH THE COMMON AGRICULTURAL POLICY IS EXECUTED.

### IV. BUDGET

1. OUR MEETING ON 14 AND 15 DECEMBER FOCUSED MAINLY ON THE UK PRESIDENCY'S PAPER OF 15 DECEMBER AND ON THE COMMISSION'S PAPER OF 26 NOVEMBER. I HAVE ENDEAVOURED IN MY REPORT TO REFLECT AS MANY AS POSSIBLE OF THE SUGGESTIONS PUT FORWARD DURING OUR DISCUSSIONS.

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2. AT THE MEETING BOTH OUR FRENCH COLLEAGUE AND OUR BELGIAN COLLEAGUE CAME UP WITH NEW PROPOSALS TO WHICH I HAVE GIVEN SPECIAL ATTENTION.

3. THE BELGIAN PROPOSAL IS TO COMPENSATE BOTH THE UNITED KINGDOM AND GERMANY BY INCLUDING SPECIAL APPROPRIATIONS IN THE COMMUNITY BUDGET TO FINANCE PROJECTS IN THE TWO COUNTRIES CONCERNED. THIS WAS THE PROCEDURE ADOPTED IN THE COMPROMISE OF 30 MAY 1980.

IF, AS THE COMMISSION WANTS, THE COMMUNITY ALSO INTENDS TO ENSURE THAT THE LEAST PROSPEROUS MEMBERS OF THE COMMUNITY (GREECE AND IRELAND IN PARTICULAR) BEAR ONLY A SMALL SHARE OF THE COSTS ENTAILED, A COMPLICATED SYSTEM OF PAYMENTS AND REIMBURSEMENTS INVOLVING A LARGE NUMBER OF MEMBER STATES WOULD HAVE TO BE WORKED OUT. A PROCEDURE OF THIS TYPE APPLIED ON SUCH A LARGE SCALE WOULD SERIOUSLY DISTORT THE OPERATION OF THE OWN RESOURCES SYSTEM.

A FURTHER DRAWBACK WOULD BE THE HEAVY BURDEN ON THE BUDGET. CALCULATIONS SHOW THAT TO OFFSET VARYING PROPORTIONS OF THE COSTS FALLING TO THE LEAST PROSPEROUS COUNTRIES AS WELL AS A SUBSTANTIAL PART OF THE GERMAN CONTRIBUTION, THE COMMUNITY BUDGET WOULD HAVE TO CARRY A SUM ALMOST DOUBLE THE NET AMOUNT THE UNITED KINGDOM ACTUALLY RECEIVED. THE RESULTING STRAIN ON THE BUDGET WOULD BE DIFFICULT TO BEAR AS LONG AS THE PRESENT 1 PER CENT VAT LIMIT IS MAINTAINED.

4. THE FRENCH PROPOSAL IS FOR A POLITICAL RULE THAT SUMS PAID OUT OF THE COMMUNITY BUDGET IN EACH NET CONTRIBUTOR STATE UNDER THE COMMON POLICIES SHOULD INCREASE MORE RAPIDLY THAN THAT STATE'S VAT CONTRIBUTIONS.

QUITE APART FROM THE FACT THAT THE CONCEPT OF "NET CONTRIBUTOR" IS NOT COMPATIBLE WITH COMMUNITY BUDGET LAW, THE RESULT OF SUCH A RULE WOULD BE TO INTRODUCE THE IDEA OF "FAIR RETURN" (AT LEAST FOR NET CONTRIBUTORS) INTO DISCUSSIONS ON ANY NEW POLICIES.

THIS APPROACH WOULD ALSO BE INCONSISTENT WITH THE PHILOSOPHY ADVOCATED IN THE FIRST CHAPTER OF THE MANDATE, NAMELY THAT THE MAJOR OPERATIONS FINANCED FROM THE COMMUNITY BUDGET SHOULD BENEFIT THE LEAST PROSPEROUS COUNTRIES, AND THUS BE PAID FOR BY THE RICHEST COUNTRIES, SOME OF WHICH ARE NET CONTRIBUTORS. I THEREFORE DO NOT SEE HOW WE COULD USE THIS FORMULA.

5. MY FIRST AMENDMENT TO THE COMMISSION'S INITIAL TEXT IS TO SPECIFY HOW LONG THE COMPENSATORY MEASURES FOR THE UNITED KINGDOM SHOULD LAST. MY FEELING IS THAT A FOUR-YEAR PERIOD IS WHAT MOST OF US WANT. A PERIOD OF THIS LENGTH, COMBINED WITH A REVIEW PROCEDURE AFTER THREE YEARS, WOULD SEEM TO GO MOST OF THE WAY TOWARDS SATISFYING THE UNITED KINGDOM.

MOST OF US ARE IN FAVOUR OF SUCH MEASURES BEING ON A DECLINING SCALE. THE BRITISH ARE NOT AGAINST THIS PRINCIPLE: WHAT THEY DO OBJECT TO IS THE AUTOMATIC APPLICATION. I SEE NO REASON WHY WE SHOULD NOT AGREE NOW THAT THERE BE SOME KIND OF DECLINING SCALE ELEMENT AND LEAVE THE PRACTICALITIES FOR LATER.



6. A NUMBER OF US HAVE REQUESTED THAT DETAILS BE GIVEN CONCERNING THE OBJECTIVE INDICATOR WHICH THE COMMISSION INTENDS TO USE TO CALCULATE THE AMOUNT OF UK COMPENSATION. I HAVE OPTED FOR THE FORMULA ADVOCATED IN OUR JUNE 1981 REPORT, BASED ON THE "EAGGF IMBALANCE", WHICH IS THE MAIN SOURCE OF THE UK PROBLEM. AS WE STRESSED IN OUR REPORT, THE NATURE AND STRUCTURE OF AGRICULTURAL PRODUCTION IN THE UK ARE SUCH THAT IT INEVITABLY OBTAINS LESS FINANCIAL BENEFIT FROM THE CAP THAN OTHER MEMBER COUNTRIES. THIS IS AN OBJECTIVE FACT, WHICH IS IN NO WAY AN INDICTMENT OF OUR AGRICULTURAL SYSTEM; IT IS THEREFORE QUITE REASONABLE TO TAKE IT INTO ACCOUNT EVEN ALTHOUGH UK REVENUE FROM THE EAGGF IS NOT THE SOLE YARDSTICK FOR ASSESSING THE ADVANTAGE DERIVED BY BRITISH AGRICULTURE FROM THE COMMON AGRICULTURAL POLICY.

AN ALTERNATIVE WOULD BE TO BASE THE OBJECTIVE INDICATOR ON THE PAYMENTS THAT THE UK RECEIVES FROM THE BUDGET AS A WHOLE (SECTIONS WHICH CAN BE BROKEN DOWN) FOR THE YEAR IN QUESTION RATHER THAN JUST ON ITS SHARE OF EAGGF PAYMENTS - ALTHOUGH I PERSONALLY WOULD PREFER THE LATTER. CALCULATIONS FOR 1980 AND 1981 SHOW THAT THIS INDICATOR WOULD PRODUCE MUCH THE SAME RESULTS.

7. COMPENSATIONS FOR THE UNITED KINGDOM WILL BE ENTERED IN THE BUDGET AND FINANCED THROUGH THE BUDGET. THIS IS A POINT WHICH MANY OF US REGARD AS EXTREMELY IMPORTANT - AND RIGHTLY SO. IN ITS JUNE 1981 REPORT, THE COMMISSION MADE SOME INITIAL SUGGESTIONS AS TO HOW THIS OBJECTIVE COULD BE ATTAINED BUT THE SERIOUS RESERVATIONS SOME OF US HAD LED ME TO PROPOSE A DIFFERENT FORMULA AT THE LONDON MEETING. I WOULD CONFIRM WHAT I SAID THEN AND PROPOSE THAT, QUITE EXCEPTIONALLY, THE REVENUE REQUIRED TO COVER COMPENSATION FOR THE UNITED KINGDOM SHOULD BE PROVIDED BY CONTRIBUTIONS FROM MEMBER STATES BASED ON ARTICLE 200 EEC ACCORDING TO A SPECIAL SCALE TO BE DECIDED AS PROVIDED FOR IN THAT ARTICLE.

THE COUNCIL DECISION OF 21 APRIL 1978 DID NOT REPEAL ARTICLE 200 EVEN THOUGH THE DECISION HAD TO BE APPROVED BY NATIONAL PARLIAMENTS. IN IT THE COUNCIL DID NO MORE THAN STATE THAT IN FUTURE THE BUDGET WOULD BE FINANCED FROM OWN RESOURCES. IT NOW APPEARS, AS OUR ANALYSIS OF THE BELGIAN PROPOSALS IN PARAGRAPH 3 ABOVE SHOWS, THAT, WITHOUT NEW OWN RESOURCES, IT WOULD BE IMPOSSIBLE - OR AT ANY RATE EXTREMELY DIFFICULT - TO FINANCE BOTH COMPENSATION TO THE UNITED KINGDOM UNDER THE POLITICAL CONDITIONS DESIRED BY THE COUNCIL AND THE MEMBER STATES AND THE COMMUNITY'S NORMAL EXPENDITURE. HENCE THE TEMPORARY AND EXCEPTIONAL USE OF ARTICLE 200.

WHILE THE COMMISSION IS PREPARED TO MAKE USE OF ARTICLE 200 TO COVER COMPENSATION TO THE UNITED KINGDOM BECAUSE OF THE SPECIAL FEATURES OF THIS EXPENDITURE, IT WOULD NOT PERMIT ITS USE FOR NORMAL COMMUNITY PURPOSES, EITHER TO SPEND ON COMMON POLICIES OR TO LAUNCH NEW POLICIES. SUCH EXPENDITURE MUST BE FINANCED FROM OWN RESOURCES AND THE COMMISSION CLEARLY STATED IN ITS JUNE 1981 REPORT THAT THESE SHOULD BE INCREASED IF REQUIRED FOR THE COMMUNITY TO ATTAIN ITS POLITICAL OBJECTIVES.



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THE SCALE LAID DOWN IN ARTICLE 200(1) HAS NOT BEEN ALTERED TO TAKE ACCOUNT OF THE TWO ENLARGEMENTS OF THE COMMUNITY. THE COUNCIL THEREFORE ACTING UNANIMOUSLY IN ACCORDANCE WITH ARTICLE 200(3), WOULD HAVE TO ADOPT A NEW SCALE TO COVER THE EXCEPTIONAL EXPENDITURE ON COMPENSATION TO THE UNITED KINGDOM - BUT THIS EXPENDITURE ALONE.

8. THE SCALE ADOPTED WOULD BE BASED ON POLITICAL CONSIDERATIONS REFLECTING THE REQUIREMENTS WE HAVE AGREED ON DURING OUR WORK. THE MAIN ONE IS THAT THE BURDEN ON THE LEAST PROSPEROUS COUNTRIES SHOULD NOT BE TOO GREAT AND THAT, IN PARTICULAR, GREECE AND IRELAND SHOULD MAKE ONLY VERY SMALL CONTRIBUTIONS. WE HAVE ALL SEEN THAT THERE IS A VERY REAL PROBLEM FOR GERMANY WITH THE COMMUNITY BUDGET. GERMANY HAS SAID THAT IT IS PREPARED TO MAKE A LARGE CONTRIBUTION TO THE FINANCING OF THE COMMUNITY, ESPECIALLY IF THIS IS FOR THE BENEFIT OF THE LEAST PROSPEROUS COUNTRIES. HOWEVER, FOR GERMANY TO PAY A LARGE SHARE OF THE COMPENSATION TO THE UNITED KINGDOM WOULD, IN THE PRESENT ECONOMIC CIRCUMSTANCES, CAUSE THE GERMAN GOVERNMENT POLITICAL PROBLEMS WHICH WE UNDERSTAND. ONE OF THE FORMULAS SUGGESTED BY OUR GERMAN COLLEAGUE IS THAT GERMANY SHOULD PAY A DISTINCTLY SMALLER CONTRIBUTION THAN ITS NORMAL SHARE WOULD HAVE BEEN.

DRAFT TEXT

1. ON 30 MAY 1980 THE COUNCIL REQUESTED THE COMMISSION TO EXAMINE THE DEVELOPMENT OF COMMUNITY POLICIES, IN PARTICULAR WITH A VIEW TO PREVENTING THE RECURRENCE OF UNACCEPTABLE SITUATIONS FOR ANY OF THE MEMBER STATES. THE EUROPEAN COUNCIL CONSIDERED THE COMMUNITY'S BUDGET SITUATION ON THE BASIS OF THE REPORT DRAWN UP BY THE COMMISSION PURSUANT TO THE MANDATE OF 30 MAY 1980. IT RECOGNIZED THE NEED TO SEEK A BETTER BALANCE BETWEEN COMMUNITY POLICIES IN ORDER TO CREATE A SOUND BASIS FOR THE FURTHER DEVELOPMENT OF THE COMMUNITY. IT CONSIDERED THAT ITS CONCLUSIONS ON THE DEVELOPMENT OF COMMUNITY POLICIES AND THE ADJUSTMENT OF THE COMMON AGRICULTURAL POLICY WERE THE FIRST MAJOR STEPS IN THIS DIRECTION, BUT IT RECOGNIZED THAT THE MEASURES CURRENTLY BEING PREPARED WOULD NOT HAVE ANY APPRECIABLE EFFECT FOR SOME TIME.

2. ACCORDINGLY THE EUROPEAN COUNCIL ADOPTED THE PRINCIPLE OF MEASURES TO GRANT THE UNITED KINGDOM FINANCIAL COMPENSATION, TO COME INTO FORCE FROM THE 1982 FINANCIAL YEAR. THEY WILL APPLY FOR FOUR YEARS AND WILL INVOLVE SOME KIND OF DECLINING SCALE. THEY WILL BE REVIEWED AFTER THREE YEARS. THEY WILL NOT AFFECT THE COMMUNITY'S FINANCIAL SYSTEM.

3. THE AMOUNT OF COMPENSATION WILL BE DETERMINED EACH YEAR, WHEN FINAL FIGURES ARE AVAILABLE, IN THE LIGHT OF THE REAL SIZE OF THE PROBLEM, AS MEASURED BY AN OBJECTIVE INDICATOR, AND ON THE BASIS OF THE RATE OF COMPENSATION AGREED. WITH THIS METHOD THERE WILL BE NO NEED FOR FRESH NEGOTIATION EACH YEAR.



CONFIDENTIAL

THE OBJECTIVE INDICATOR MAY BE BASED ON THE DIFFERENCE BETWEEN THE UNITED KINGDOM'S SHARE OF GROSS COMMUNITY PRODUCT (CALCULATED AS THE AVERAGE OF SEVERAL YEARS) AND THE UNITED KINGDOM'S SHARE OF PAYMENTS FROM THE EAGGF GUARANTEE SECTION IN THE YEAR IN QUESTION.

4. THE COMPENSATION FOR THE UNITED KINGDOM WILL BE ENTERED IN THE BUDGET. AS AN EXCEPTIONAL AND TEMPORARY MEASURE, THE CORRESPONDING REVENUE WILL BE PROVIDED BY CONTRIBUTIONS FROM THE MEMBER STATES UNDER ARTICLE 200 EEC, DETERMINED ON A SPECIAL (POLITICAL) SCALE WHICH WILL CH WILL BE ADOPTED BY THE COUNCIL, ACTING WHICH WILL BE ADOPTED BY THE COUNCIL, ACTING UNANIMOUSLY IN ACCORDANCE WITH ARTICLE 200(3).

THE SCALE WILL RESPECT THE PRINCIPLE OF SOLIDARITY, WHICH THE COMMUNITY INTENDS TO APPLY WITH REGARD TO ITS LEAST PROSPEROUS MEMBERS, AND WILL TAKE ACCOUNT OF GERMANY'S PROBLEM CONCERNING THE COMMUNITY BUDGET (GERMANY WILL PAY A DISTINCTLY SMALLER CONTRIBUTION THAN ITS NORMAL SHARE WOULD HAVE BEEN).

ENDS

FCO ADVANCE TO (DESKBY) -  
FCO - HANNAY DE FONBLANQUE FRY ECD(1)  
CAB - ELLIOTT  
MAFF - ANDREWS  
TSY - EDWARDS HANCOCK

FCO PASS SAVING COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN  
LUXEMBOURG ATHENS

BUTLER

[REPEATED AS REQUESTED]

[ADVANCED AS REQUESTED]

FRAME ECONOMIC  
ECD(1)

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