



PM/82/4

PRIME MINISTER30 May Mandate

Last week's second informal Foreign Ministers' meeting failed again to reach agreement on guidelines for dealing with the two most difficult issues remitted to us by the November European Council; milk and the budget. The other two issues, Mediterranean agriculture and the relative rate of increase of own resources and agricultural spending, are generally regarded as settled, although some skirmishing is still going on around them.

Foreign Ministers are to meet again on 25 January in a further effort to reach agreement and thus to clear the decks for the substantive negotiations which lie ahead both on the budget and on agriculture. I attach a note by officials, which sets out the points on which we need to take decisions at your meeting on Friday.

The budget text is now, I think, getting close to providing us with an adequate basis for achieving our objectives in the substantive negotiation which must follow. We have got clear acceptance of the need for objective indicators to gauge the size of the problem. We have a reference to the financial mechanism. There is provision for review which, while not quite what we were hoping for, is useful. The two outstanding problems are duration and degressivity. Of the two, I am convinced the latter is the more important. We should only accept a text on degressivity which enables us to resist arbitrary degressivity when the numbers are negotiated. If we can get this, I believe we could afford to settle for four years rather than five, although I would certainly make a further effort to get the latter.

The position on milk is more difficult. We have now lost the support of the Danes and the Dutch who have said that they will accept the present text. From our point of view it is far from ideal,

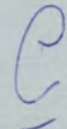
/and



and I will certainly do my very best to improve it when the discussion resumes next Monday. But the key point which we shall have to consider on Friday will be how far we can go in accepting an unsatisfactory milk text if we could get a satisfactory text on the budget.

The decision turns on the consequences we foresee of a failure to agree guidelines for the negotiations on the budget. Certainly there would be recrimination because we would be seen as responsible for failure to discharge the Mandate given to Foreign Ministers at the European Council. That in itself would not be a disaster, but we would lose the ground we have gained from others on the budget. There is also a risk that the French and others will take advantage of what we have done to hold up the negotiations on the budget figures - for example by persuading the Commission ^{not} to make a proposal. This would, in practice, make it more difficult for us to use the leverage provided by the price review. For these reasons, my tactical judgement is that it is in our interest to make a genuine effort to reach agreement next week.

I am sending copies of this minute to the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, and to Sir Robert Armstrong.


(CARRINGTON)

Foreign and Commonwealth Office, SW1
20 January 1982

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Qz.02419

20 January 1982

D H A Hannay Esq CMG
Foreign and Commonwealth Office
London SW1

Dear David,

30 MAY MANDATE

I attach the note by officials in the form agreed at the meeting in the Cabinet Office this morning. I understand that your intention is to suggest that the Foreign Secretary should send it to the Prime Minister, under a covering minute, with copies to the Chancellor and the Minister of Agriculture. It will then provide the basis for the meeting arranged for 3 pm on Friday at No 10.

Yours,

David.

D J S HANCOCK

cc: Lord Bridges) FCO
→ Mr de Fonblanque)

Mr Andrews)
Mr Stapleton) MAFF
Mr Haddon)

Mr Littler)
Mrs Hedley-Miller) H M Treasury
Mr Edwards)
Mr Fitchew)

For information: Sir Michael Butler KCMG, UKREP, Brussels

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30 MAY MANDATE

Note by Officials

1. The European Council last November identified four major issues to be resolved if agreement was to be reached on guidelines to implement the 30 May Mandate. Foreign Ministers met in December under the UK Presidency and again on 14/15 January under Belgian Presidency. Much progress has been made. A further meeting on 25 January will attempt to resolve the outstanding issues. It may be the last opportunity to agree guidelines.
2. This note sets out the present position on the four major issues and the options open to us. The sequence is that followed in the Council Secretariat text.

Milk Products

3. The text before the meeting is:-

"MILK PRODUCTS

[(1) In the milk sector the co-responsibility levy should be maintained at its present level with the existing exemptions.

(2) Account will have to be taken of the situation of small producers, for whom special measures will be provided, financed by the Community budget (*).

(3) At the same time the European Council agrees that should milk deliveries increase significantly from one marketing year to the next, the Council will take appropriate decisions to offset the additional costs this entails on the basis of Commission proposals.

(4) In addition, the European Council, aware of the need to avoid an increase in milk surpluses, invites the Council to take the necessary measures to ensure better market equilibrium.] (1)

Footnote

(*) The Commission is invited to make proposals within a financial frame of 120 MUC for the next marketing season.

Reservations

- (1) - Reservation by the UK delegation on the whole text.
- Reservation by the Irish delegation on paragraphs 3 and 4.
- Reservation by the Danish delegation on the footnote."

4. The UK has a reserve on the whole text. It does have the merit that we have succeeded in knocking out any specific reference to differentiation in the co-responsibility levy as a means of helping small farmers. But, even so, it is an unsatisfactory text for a number of reasons. The first paragraph appears to commit us to the present co-responsibility levy for an undefined period. The second paragraph commits us to special measures for small producers to be financed by the Community (the footnote specifying the amount of the intended expenditure) and without any linkage to need arising from a policy of price restraint and from modulation of the guarantee. The third paragraph would permit an increase in the milk surplus before it became operative; while the major priority of tackling the milk surplus is left to the final paragraph and is expressed in a weak formulation without any commitment to a particular form of action or any link to the more specific measures in the first two paragraphs.

5. One option Ministers may wish to consider is whether we should say on 25 January that the UK cannot go further than the text tabled at Lancaster House last December by the Presidency/Commission (Annex A). But it would only be realistic to recognise that if we take up this position there is unlikely to be agreement on guidelines.

6. Officials have considered what amendments to the new text we might try to secure in order to limit the concessions we would have to make. The suggestions are set out below with changes underlined.

a. Co-responsibility. If the text could be amended to limit its impact to a single marketing year or to leave the rate of the levy for decision by the Agriculture Council in the price fixing, or both, we would avoid any permanent commitment to the levy at its present rate. To achieve that effect, we might propose that the first paragraph be amended as follows:-

"In the milk sector the co-responsibility levy with the existing exemptions should be retained for 1982/83 at a rate to be determined by the Council."

It is possible that prolonged argument would result in this paragraph being dropped altogether which would be satisfactory to us.

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b. Small Milk Producers. One of our objectives in measures to help small milk producers is to secure an element of national financing so as to provide a constraint. It would help us if the text were amended to read:-

"Account will have to be taken of the situation of small milk producers for whom special measures will be provided, the modalities including the financing to be determined by the Council."
[Foot note deleted].

c. Measures to curtail surpluses. To ensure that measures to curb surpluses are not ruled out from consideration during this year's price fixing, we might propose that the meeting go back to the following amalgamation of paragraphs 3 and 4, on the lines of a draft at one stage tabled by Tindemans:-

"The European Council, aware of the need to avoid an increase in milk surpluses, invites the Council to take the necessary measures to ensure better market equilibrium, in order to limit budgetary costs."

In order to preserve our freedom to argue that help to small producers should be linked to measures to curb surpluses it would be desirable to have this paragraph put first.

Mediterranean Products

7. The text before the meeting is:-

"MEDITERRANEAN PRODUCTS

(1) 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 improve the existing regulations, particularly, though not exclusively, in the wine, fruit and vegetables and olive oil sectors. The European Council would emphasise the need in this latter sector for examining the problem of vegetable oil imports taking account of the international obligations of the Community, including those of the GATT.

(2) It calls on the Council to adopt the appropriate decisions very quickly, with account being taken of the need to improve the market organisations both from the point of view of producers' incomes and for the sake of efficient and economic management of the market. With regard to the proposals already presented by the Commission, the decisions will have to be taken by 31 March 1982 at the latest."

8. This text refers to the need to improve the Mediterranean regimes. It refers specifically to wine, fruit and vegetables and olive oil. However, we have always been ready to accept specification of particular regimes and there is a clear reference to the need to take account of the efficient and economic management of the market which would enable us to argue that the budgetary costs of the regimes should be held down. In response to French pressures there is now a reference to the "problem" of vegetable oil imports. From our point of view, there is no "problem." But the reference to vegetable oils, while unwelcome, provides no commitment to particular action and includes a firm statement of the need to take account of the international obligations of the Community including the GATT. No one could accuse us of bad faith if we continued to argue against measures which would constrain or tax vegetable oil imports.

9. At present there are no reserves on this text and it may be agreed without further discussion. If there were a discussion we should try to get out the reference to the "problem" of vegetable oil imports. But in the context of an overall agreement we should accept the text as it stands.

Budgetary Aspects of the CAP

10. The text which will be before the meeting is:-

"BUDGETARY ASPECTS OF THE CAP

- [(1) It will be the responsibility of the Council, acting on proposals by the Commission, to adopt, without prejudice to the aims reaffirmed in paragraph 4 of the Preamble, 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.
- (2) 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.
- (3) The implementation of these guidelines must not call into question the basic principles governing the CAP]. (1)

Reservations

- (1) Reservations by the Italian, Greek, Irish and Danish delegations."

11. For the UK this text represents a modest advance which could help us in resisting Commission and Council pressures for excessive increases in expenditure on the CAP and protect us against weaknesses elsewhere in the CAP guidelines. Italy, Greece, Ireland and Denmark all retain reserves on the text and can be expected to make further efforts to have it diluted. The reference to paragraph 4 of the preamble to the guidelines which refers inter alia to the needs of less prosperous member states was added to meet Italian concerns; but the Dutch and the Germans may try to have it removed. If so, we should support them. We should resist any further weakening whether in meeting the specific concerns of the less prosperous member states or in the overall effectiveness of the guideline.

The Budget

12. The text before the meeting is attached at Annex B.

13. The main problem with it is the reference to degressivity in the last but one sentence of paragraph (2). It is marginally better than M. Thorn's original suggestion that the corrective measures should involve "some kind of declining scale" and Sir Michael Butler has suggested (in paragraph 11 of his telegram No 166 of 18 January at Annex C) that we could accept the words subject to a formal declaration in the minutes that any element of degressivity can only be within the framework of the adjustment of Community policies. But Departments feel that this would be too risky. The Commission would almost certainly consider that the words in the text at present would give them authority to propose a scheme incorporating a declining scale, regardless of progress on adjustment. The Foreign Secretary has in any case stated that in no circumstances could he accept the new words.

14. We cannot accept any text which clearly implies arbitrary degressivity. We may not be able to get a text which clearly rules it out. But any text we do accept must leave us free to argue that the European Council has not endorsed arbitrary degressivity and that we are not committed to it. We have asked the Germans whether they would be prepared to propose either of the two texts:-

"The solution will involve an element of degressivity as the Community adapts its policies to ensure that the need for compensation is reduced."

"These measures will contain an element of degressivity as the Community succeeds, as intended, in adjusting its policies with a view to avoiding the need for compensation."

15. On duration, the other member states have agreed to four years; we have said we can accept five, having come down from our original bid for seven. Clearly we should try to get agreement to five; but officials consider that resisting four in the last resort should be given a lower priority than either an acceptable form of words on degressivity or some improvement in the text on milk.

16. The treatment of the review in the new text - namely that "the Commission will report on the application of the measures and make suitable proposals if necessary" - would be better from our point of view if it also included a commitment by the Council to act if the UK problem still existed. But the words in the text have been accepted by the others and would certainly provide an opportunity for us to make our case, and officials doubt whether it would be worth a new attempt to improve it on 25 January.

17. Paragraph (4) of the text deals with the problem of financing the refunds to the UK. It contains a commitment to give relief to Germany and to the less prosperous countries but does not specify the method. There are many legal, practical and political problems to be overcome before an agreed solution can be found. It would not be in the UK interest to create difficulties about this paragraph on 25 January.

18. For the rest, the text has achieved a good deal for us:-

- (i) it disposes of the suggestion that the solution should be arbitrary or lump sum;
- (ii) it brings the financial mechanism into the negotiations;
- (iii) it includes in paragraph (1) a reference to convergence and in paragraph (2) a reference to the relative prosperity of the United Kingdom, thus strengthening our case for arguing for a very small net contribution;
- (iv) It proposes an objective indicator in paragraph (3) which is identical to the receipts mechanism for which we argued in February 1980;
- (v) it protects us against the implication in M. Thorn's draft that we might have to wait until the budget accounts were finally settled before getting our refunds.

19. No progress was made towards agreement on figures but the Foreign Secretary was able to register two important points during the meeting on 14/15 January. The first was that, as a country below the Community average level of prosperity, we should, in equity and common sense, be a net beneficiary from the budget; but that, if that were too radical a change to bring about on this occasion, we certainly intended to remain a very modest net contributor. The second was that our willingness to work on the basis of the objective indicator in paragraph (3) of the proposed text, plus an effective financial mechanism, was contingent on its producing an outcome which, in financial terms, did not leave us in an unacceptable situation. The Foreign Secretary made it quite clear that, if that condition were not fulfilled, another method of proceeding would have to be found.

The Scope for Further Progress on 25 January

20. We shall be under great pressure to agree to the draft guidelines in their present form on 25 January. They are the outcome of nearly six months negotiations and 3 major Ministerial meeting. The Presidency and the Commission and a number of other member states will argue that they reflect a fair balance between the conflicting views of delegations and should now be accepted as a fair compromise. We may be criticized sharply for proposing new amendments. It will be difficult to get agreement on a better formula on degressivity. We are unlikely to be able to secure both that and the improvements suggested on milk. In deciding the approach to the meeting on 25 January Ministers will wish to make a judgement of how much better off we would be with guidelines than without.

Conclusions

21. Against this background, Ministers may wish to consider whether the UK should, at the resumed meeting on 25 January:-

- (i) accept the draft guidelines on the agricultural ceiling and Mediterranean agriculture and resist attempts to water them down.
- (ii) seek to amend the draft on milk to secure
 - (a) avoidance of commitment at this stage to the continuation of the linear co-responsibility levy at its present rate and beyond 1982/83.

- (b) preservation of the possibility that special assistance to small milk producers be at least in part nationally financed and be linked in some way with measures to curb milk surpluses;
 - (c) avoidance of any implication that milk production has to increase further before action is taken to curb production.
- (iii) refuse to accept the present sentence on degressivity in the budget guideline and argue as a minimum for one that, even if ambiguous, is at least consistent with our view that the solution can only be degressive to the extent that Community policies are adapted;
- (iv) try to secure agreement to a five-year duration but accept four in the last resort;
- (v) accept the rest of the budget draft guideline in its present form.

22. Ministers may also wish to consider whether, if necessary to secure an acceptable text on degressivity and in order to keep up the pressure on the Commission and other member states to negotiate seriously on the budget, the UK should accept a text on milk which is not in all respects satisfactory.

Cabinet Office
20 January 1982



M I L K

Text proposed by the Presidency and the Commission

Appropriate means to deal with the increased production of milk beyond a level to be established by the Council should be decided by the Council with effect from the 1982/83 marketing year. The Council should take into account the effect of these decisions on the incomes of small milk producers and should decide on any appropriate measures to safeguard the incomes of such producers.

DRAFT GUIDELINES ON 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 has now 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 recognised the need to seek a better balance between Community Policies and to secure harmonious distribution of Community resources in the financing of these policies, in order to create a sound basis for the further development of the Community and in order to promote convergence in economic performance. It further 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.

(2) Accordingly, and in view of the fact that the United Kingdom is not among the more prosperous Member States of the Community, 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] (1) years. Before the end of the fourth year the Commission will report on the application of the measures and make suitable proposals if necessary. (1) [Within the framework of the adjustment of Community policies with a view to avoiding compensation, this solution will also contain an element of degressivity.]

(2) These measures must not affect the Community's financial system.

(3) The amount of compensation will be determined each year, ex post facto in the light of the real size of the problem, as measured by an objective indicator without excluding if necessary the Financial Mechanism (*) (3) and on the basis of the level of compensation agreed and the methods of calculation and timing of payments adopted. With this method there will be no need for fresh negotiation each year.

Footnote

(*) "The Council asks the Commission to present before the end of February 1982 a report on the desirability of including the Financial Mechanism in the solution in order to facilitate the disbursement of the British refund."

Reservations

(1) UK reservation.

(2) The United Kingdom delegation has requested it to be recorded that this text in no circumstances can be accepted by it.
The French delegation has stated a reservation on the same text.

(3) The French delegation has objected to any reference to continuing the Financial Mechanism.

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The objective indicator can be based on the difference between the United Kingdom share in the Community gross domestic product (calculated on an average over several years, with the addition, if necessary, of clauses to prevent erratic variations) and the United Kingdom share in budget payments during the year in question.

(4) Compensatory payments are to be incorporated in the budget (1). The measures adopted will respect the principles of solidarity, which the Community intends to apply with regard to its least prosperous members, and will take appropriate account of the problem of the Federal Republic of Germany's contribution. (Compensation to the United Kingdom must have only a minor effect on the burden to be borne by Germany).

Reservation:

- (1) The Netherlands delegation stresses that it is a condition for accepting the arrangement that the cost is financed in the budget and within the existing 1% VAT ceiling.

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GRS 1100
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 FRAME ECONOMIC
 FM UKREP BRUSSELS 181222Z JAN 82
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 166 OF 18 JANUARY
 INFO EC POSTS

MY TELEGRAM NUMBER 158: ~~30~~ MAY MANDATE - INFORMAL FOREIGN
 MINISTERS MEETING ON 25 JANUARY

1. YOU MAY LIKE TO HAVE SOME COMMENTS ON THE HANDLING OF THE
 REMAINING ISSUES ON 25 JANUARY.
 2. THE MEDITERRANEAN TEXT, ON WHICH THERE ARE NO OUTSTANDING
 RESERVES, SEEMS ACCEPTABLE. NO-ONE CAN ACCUSE US OF BAD FAITH IF
 WE CONTINUE TO ARGUE OUR PRESENT LINE ON VEGETABLE OIL IMPORTS.
 3. THE TEXT ON THE BUDGETARY ASPECTS OF THE CAP SEEMS ACCEPTABLE
 TO US. THOSE WITH RESERVATIONS WILL TRY TO WATER IT DOWN. THERE
 WILL BE STRONG RESISTANCE TO THIS FROM THE GERMANS AND DUTCH. WE
 CAN SUPPORT THEM WITHOUT DIFFICULTY. BUT WE SHOULD GO WITH THE
 GERMANS IF THEY ARE PREPARED TO COMPROMISE A LITTLE.
 4. IF TINDEMANS RUNS TRUE TO FORM, HE WILL PUT ALL CONCERNED
 UNDER PRESSURE TO ACCEPT THE TEXTS ON MILK AND THE BUDGET AS THEY
 ARE. I EXPECT THAT A MAJORITY OF MEMBER STATES WILL SUPPORT THIS
 APPROACH. SO IT IS NOT GOING TO BE EASY TO SECURE FURTHER IMPROVE-
 MENTS.
- MILK
5. ON MILK WE HAVE SUCCEEDED IN KNOCKING OUT ANY IMPLICATION
 THAT DIFFERENTIATION IN THE CO-RESPONSIBILITY LEVY WILL BE USED
 FOR THE PURPOSE OF HELPING SMALL FARMERS. INDEED IF PARA 2 AND
 THE FOOTNOTE WERE ACCEPTED, THE STRONG IMPLICATION WOULD BE THAT
 OTHER MEASURES COSTING UP TO 120 MILLION ECUS WOULD BE PROPOSED.
 6. OUR SHARE OF 120 MILLION ECUS IS NOT A LOT OF MONEY IN
 RELATION TO THE UK BUDGET PROBLEM. FURTHERMORE IF THE OBJECTIVE
 INDICATOR OF THE GAP BETWEEN GDP SHARE AND BUDGET RECEIPTS IS
 USED TO SETTLE UK COMPENSATION, WE SHALL GET A VERY HIGH PROPORTION
 OF OUR NET CONTRIBUTION BACK. IN MY VIEW, THE PROGRESS ACHIEVED
 ON THE BUDGET (SEE BELOW) MAKES THIS A POINT WORTH CONCEDING.
 7. PARA 3 IS NOT IDEAL THOUGH PRETTY CLOSE TO WHAT THE AGRICULTURE
 COUNCIL AGREED LAST YEAR. WITH THE ADDITION OF PARA 4,
 I SUGGEST THAT IT IS ACCEPTABLE.

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/8. THAT

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8. THAT LEAVES PARA 1. WE COULD TRY TO KNOCK THIS OUT ON THE GROUNDS THAT THERE IS NO LONGER ANY JUSTIFICATION FOR IT. IT IS NOT RELATED TO PARA 2 (OR 3 OR 4) AND THERE IS NO REASON WHY FOREIGN MINISTERS SHOULD DECIDE ON THIS TECHNICAL POINT. BUT YOUR EXPERIENCE ON FRIDAY WHEN YOUR REPEATED EFFORTS TO DO THIS WERE NOT SUCCESSFUL MAKES THIS A DOUBTFUL AIM, PARTICULARLY SINCE DEGRESSIVITY AND DURATION ARE MORE IMPORTANT. IT SEEMS VERY UNLIKELY THAT MR WLAKER WOULD BE ABLE TO GET AGREEMENT IN THE PRICE FIXING THAT THE LEVY SHOULD GO DOWN BY 1 PER CENT THIS YEAR. TO CONCEDE THE POINT NOW IS TIRESOME BECAUSE IT REMOVES FROM HIM A BARGAINING LEVER. ON THE OTHER HAND THE TEXT DOES PRECLUDE OTHERS FROM PROPOSING THAT THE LEVY BE RAISED AND TAKEN TOGETHER WITH OTHER PARAGRAPHS SEEMS TO DISCOURAGE AN ELABORATION OF FRANCHISES. I RECOMMEND THAT ON 25 JANUARY YOU BEGIN BY ARGUING THE CASE FOR REMOVING PARA 1, BUT SWITCH FAIRLY SOON TO TRYING TO TRADE ITS ACCEPTANCE AGAINST CONCESSIONS ON DURATION AND DEGRESSIVITY.

THE BUDGET

9. WE HAVE MADE SOME SIGNIFICANT PROGRESS. THE FRENCH AND OTHERS HAVE HAD TO ABANDON THE "FORFAITAIRE" APPROACH. THE IDEA OF A BUDGET RECEIPTS MECHANISM, FOR WHICH WE ARGUED SO STRONGLY WITHOUT SUCCESS IN FEBRUARY 1980, HAS NOW BEEN VIRTUALLY ACCEPTED. THE FINANCIAL MECHANISM HAS BEEN GIVEN A BETTER CHANCE OF SURVIVAL AND IMPROVEMENT THOUGH A HARD BATTLE REMAINS TO BE FOUGHT. WE HAVE GOT INTO PARA 1 THE AIM OF PROMOTING CONVERGENCE IN ECONOMIC POLICIES AND INTO PARA 2 THE RELEVANCE OF THE FACT THAT WE ARE NOT AMONG THE MORE PROSPEROUS STATES, THUS STRENGTHENING OUR CASE FOR ARGUING FOR A VERY SMALL NET CONTRIBUTION. TO INSERT IT INTO PARA 3 WOULD NOT MAKE ANY SIGNIFICANT DIFFERENCE. WE HAVE MADE IT QUITE CLEAR THAT IF PARA 3 DOES NOT YIELD SATISFACTORY RESULTS FROM OUR POINT OF VIEW, ANOTHER WAY OF DOING THE TRICK WOULD HAVE TO BE FOUND.

10. SO I THINK THAT, IF WE CAN GET PARA 2 RIGHT, THE TEXT IS WORTH HAVING. I JUDGE THAT WE OUGHT TO BE ABLE TO GET 5 YEARS WITHOUT TOO MUCH DIFFICULTY IF WE ARE ABLE TO ACCEPT THE TEXT ON MILK. DEGRESSIVITY IS MORE DIFFICULT.

/11. ONE

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11. ONE POSSIBILITY WOULD BE TO LOBBY GENSCHER PERSONALLY IN ADVANCE TO GO BACK TO HIS MORNING PROPOSAL (THE "ZUMAL" TEXT). I DOUBT IF HE WILL. UNLESS WE CAN GET GERMAN SUPPORT, I SEE VERY LITTLE CHANCE OF MOVING THE FRENCH AND THE DUTCH WHO ARE PRETTY ENTRENCHED AND DO NOT EVEN LIKE THE SECOND GERMAN TEXT NOW IN SQUARE BRACKETS. ANOTHER POSSIBILITY WOULD BE TO SAY THAT, AFTER CAREFUL EXAMINATION, WE HAVE COME TO THE CONCLUSION THAT THE PRESENT TEXT, THOUGH A BIT OBSCURE, MEANS WHAT WE SAY IT SHOULD MEAN, IE THAT ANY ELEMENT OF DEGRESSIVITY CAN ONLY BE WITHIN THE FRAMEWORK OF THE ADJUSTMENT OF COMMUNITY POLICIES. WE CAN ADD THAT, WHEN THE TEXT COMES TO BE FORMALLY APPROVED BY THE COUNCIL, WE WILL MAKE A STATEMENT IN THE MINUTES TO THIS EFFECT. THE FRENCH AND THE DUTCH MAY WELL TRY TO CHANGE THE TEXT IN THEIR DIRECTION. IN WHICH CASE WE COULD SWING IN BEHIND THE GERMANS AND THE PRESIDENCY IN PRESSING THEM TO STICK TO THE PRESENT TEXT. I DO NOT THINK THAT THIS WOULD BE A BAD OUTCOME. OUR INTERPRETATION OF ITS MEANING WOULD BE STRENGTHENED. THE POSSIBILITY THAT THE BATTLE ON DEGRESSIVITY WOULD CONTINUE DURING THE NEXT PHASE WOULD STILL BE LEFT OPEN. BUT I DO NOT THINK THAT THIS WOULD MAKE IT SUBSTANTIALLY MORE DIFFICULT TO WIN THE NECESSARY BATTLES ON FIGURES, PERCENTAGES AND THE FINANCIAL MECHANISM.

12. ONE WORRYING ASPECT OF THE BUDGET TEXT IS THAT PARA 4 LEAVES OPEN THE POSSIBILITY OF ENDLESS ARGUMENT AND CONFUSION ABOUT HOW TO DEAL WITH THE GERMAN PROBLEM AND THE LESS PROSPEROUS MEMBERS. BUT THERE IS NO WAY THESE DIFFICULTIES CAN BE SORTED OUT IN THE NEXT WEEK AND IT WOULD BE A MISTAKE FOR US TO RE-OPEN THE TEXT IN THE SEARCH FOR GREATER CLARITY NOW.

FCO ADVANCE TO:
FCO - HANNAY DE FONBLANQUE ECD(I)
CAB - HANCOCK
MAFF- ANDREWS
TSY - EDWARDS

BUTLER

[ADVANCED AS REQUESTED]

FRAME ECONOMIC
ECD (I)

AmA

Oslo