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EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH 1982

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30 MAY MANDATE

Brief by the Foreign and Commonwealth Office

Objectives

1. (i) To secure agreement that Foreign Ministers be instructed to seek early, substantive conclusions on the budget;

(ii) To make clear the reasonableness of the UK case and the nature of our requirements.

(iii) To make clear that decisions on the three chapters must be implemented in parallel.

Points to Make

2. [Even if Foreign Ministers make some progress on 23 March] Disappointed at failure to settle this matter in four months since our last meeting. Want to see Community progress on a broad front. On Chapter I we attach importance to the provisional agreement we reached at our last meeting which covers a wide range of subjects where we would like to see the Community move forward. We have been working actively on most of these areas though one or two are inevitably held up pending confirmation of our agreement. On Chapter II, many of the crucial agricultural sector issues are now being addressed in this year's price fixing; and budget issue (Chapter III) still unresolved. Cannot leave these problems unresolved for very much longer without risking serious damage to Community's cohesion and effectiveness.

3. Of acute political sensitivity. Press and public interest bound to mount; danger of quite unnecessary major crisis which would be very bad for Community, particularly in present world situation.

4. To avoid this, what is needed is early, definitive conclusion to negotiations on all three chapters. They are

all inter-related, and we all along agreed that work on them should go forward in parallel. Need rapid progress on Chapter Three so that solution can be implemented in parallel with decisions on CAP and on-going work on Chapter One. It is our duty as leaders of the Community to ensure that negotiations go forward with renewed impetus.

Substantive Points on Budget - for use if appropriate

5. Method Foreign Ministers should fix method for calculating amount of compensation on lines suggested in para 3 of draft budget guidelines and agree a percentage. This should involve a refund to the UK of a fixed percentage of two gaps:-

(a) the difference between the UK's actual and GDP shares of total expenditure from the budget, and,

(b) the difference between the UK's actual and GDP shares of gross contributions to the budget.

6. Amount The corrective arrangement must match the scale of the problem. UK burden, without refunds, in both 1980 and 1981 would have been over 1500m ecu; in 1982 Commission (Thorn) have told us their estimate is 1800, and it could well be more - an intolerable burden for a less prosperous Member State. On grounds of relative prosperity it would be

equitable for UK to be net recipient. Recognise that other more prosperous Member States will not be willing to make financial adjustment required for that - so willing to remain net contributor but only on a very modest scale.

7. Duration Community needs adequate breathing space from this issue - should be at least five years though would have preferred longer. Cannot have negotiations on this every year. Obviously need a review so that we can see whether problem remains and, if so, the scale of it. What is clear is that the Community could not simply turn its back on a continuing problem.

8. Degressivity We accept that as balance of Community spending shifts and our share of receipts increases, our refunds from objective indicator would be reduced. And as overall budget increases, other things being equal, so will our adjusted contribution if compensation is calculated as a percentage of the gaps as we are suggesting. But we could not accept an arbitrary reduction of refunds, regardless of size of underlying problem. And, as we have made very clear, we could not accept guidelines which were open to that interpretation. Can see no justification for it.

CAP Prices

9. Agriculture Council will be discussing during next three days. Not appropriate for us to enter into detailed debate here.

[If nevertheless discussion ensues]

10. Must follow through Mandate discussions and take measures to control growth in surplus production and cost of disposal.

11. This means continuing policy of prudence on prices, effective measures to limit the open-ended guarantee system and a firm commitment that CAP expenditure should grow less rapidly than own resources.

12. On prices, average of 9% too high particularly for surplus products.

13. On milk, coresponsibility proposals not acceptable. Basic levy falls on consumers thereby exacerbating surplus. We need more precise proposals for dealing with any further increase in production in 1982/83. Do not rule out measures to safeguard position of small producers but not prepared to see discrimination against larger producers built into basic

market mechanism.

14. On Mediterranean acquis, changes in all three market regimes (wine, olive oil, fruit and vegetables) should be achieved together in price-fixing. Necessary preparation for enlargement.

More detailed/Defensive points on Budget

15. Need for Financial Mechanism: UK problem has two dimensions:- first, the gap between GDP share and gross contributions share as recognised in Dublin mechanism; second, gap between GDP and receipts shares as recognised in draft guidelines discussed by Foreign Ministers in January. Essential to have measures to deal with gaps defined by both these objective indicators. 1980 and 1981 figures tabled by Commission do not give full picture. Although contributions gap was fairly small (224 and 175m ecu) in 1980 and 1981, this was largely due to statistical impact of sterling exchange rate following oil price rises and we expect the gap to widen to about 700m ecu in 1982; that would be about one-third of the two gaps taken together on basis of Commission's (Thorn's) estimate of 1800m ecu. Objective indicator on its own would therefore not suffice. Moreover, it would have extremely variable and perhaps perverse results - as our GDP fell, so would our compensation. The arrangements must deal with the problem which results from

the combination of paying a disproportionate share of contributions and receiving a disproportionately small share of receipts, while we are among the poorer Member States. Imagine the same situation in a region of any of our countries: a poorer region such as Calabria or Languedoc with high contributions to the national budget and low receipts. How could such a situation be tolerated?

16. Juste Retour: UK not seeking a juste retour. Have never suggested that each Member State should get out exactly what it puts in. Accept basic financial principles of Community. What we advocate is that overall pattern of net transfers should be more closely in line with relative prosperity. That would increase Community solidarity and accord with convergence principle and principles adopted in all national taxation systems.

17. Failure to Adapt: UK problem not result of failure to adapt to Community. Massive shift in trade pattern (43% of trade with Community now compared with 30% before accession). As Commission rightly recognise, problem arises from failure of Community as a whole to develop its policies, as Six suggested they would in our accession negotiations, so that, in particular, agriculture takes smaller share of available resources.

18. <u>One Year Solution</u> [might be suggested by M Thorn]. Cannot understand this suggestion when until now discussions have been in terms of a 4 or 5 year arrangement. Most unwise to go back on what was so nearly agreed by Foreign Ministers in January. One year solution would only postpone the decisions on more lasting arrangements, leaving Community in continuing state of division and paralysis with difficult discussions going on semi-permanently.

19. <u>Financing UK Refunds</u>: We have sympathy with principle of alleviating burdens of less prosperous Member States and have always recognised special German situation. Is there not some way to finance without using up all the budget headroom? Could not agree to raising 1% ceiling, but could accept a special ad hoc arrangement.

20. <u>CAP/Budget Link</u>: CAP expenditure is a root cause of the British budget problem. The effect of the CAP is to impose substantial burdens on British consumers and taxpayers for the benefit of producers and taxpayers in other, often more prosperous, Member States, which have a higher degree of self-sufficiency in agricultural products. Decisions on agricultural prices and related measures taken in 1982 will be a crucial determinant of the level of the

UK's unadjusted net contribution in the years ahead. Many of the Commission's proposals, such as aid for small milk producers and Mediterranean agriculture, would make the UK's budget position worse. Moreover, as was clearly recognised in the Commission's report of June 1981, it is only by controlling the cost of the CAP that the Community will be able to expand its other policies, such as the Social and Regional policies, and rectify the imbalance in its expenditure. This is why, in the negotiations about Chapter Two of the Mandate, we and the Foreign Ministers, considered such matters as a prudent price policy; the future treatment of Mediterranean products; the regime for cereals; the modulation of guarantees; the treatment of milk surpluses; what , if anything, should be done to mitigate the effect of policies to contain milk surpluses on small milk producers; and a ceiling on the rate of growth of agricultural expenditure. The negotiations about these questions are now being continued in the context of the review of agricultural prices. It is clear that for all these reasons the discussions on the budget problem and on farm prices are organically linked, and that as has been agreed all along, decisions on all three chapters must be implemented in parallel.

BACKGROUND

CAP Prices

21. The Commission's proposals were published on 27 January. They have since been discussed by the Agriculture Council on 15-16 February and 15-17 March. Other Member States will be looking to reach a settlement at the Agriculture Council on 31 March-2 April. It would be best to avoid detailed discussion at the European Council, but this may not be possible.

Commission Proposals

22. These provide for price increases averaging about 9% ranging from 6-7% (cereals) to 12% (oilseeds). On milk, the proposed increase is 9%. The basic co-responsibility levy would continue at 2.5% with a lower rate of 1.5% on the first 60,000 kgs from each herd in order to help small and medium producers. If milk production increases above 0.5% in 1982, the Commission will propose unspecified measures. On cereals, a co-responsibility scheme is proposed whereby prices in the following year would be reduced by 1% for every million tonnes by which production exceeds a set target. The Commission intend also to complete negotiations on restraint of manioc imports and examine possible regulation of trade in other cereals substitutes. For

Mediterranean products, price increases include 9% for olive oil and wine and 8-10% for fruit and vegetables. Other proposals include: a green pound revaluation of four points (and by similar amounts for the Deutschmark and Dutch Guilder), reduction in the UK butter subsidy, continuation of the UK beef premium and an increase in school milk aid of 9%.

UK Attitude

23. Ministers agreed on 11 February that the UK should block the 1982 CAP price-fixing until a satisfactory settlement had been obtained on the budget, that we should argue for price increases lower than those proposed, that we should resist any attempt to propose restrictions of imports on cereals substitutes, that we should press for an outcome consistent with keeping the growth of agricultural expenditure below that of own resources, that in the context of seeking lower price increases, we should resist the precise proposal for revaluing the green pound and that we should support those seeking to include changes in the Mediterranean acquis in the price-fixing.

Other Member States' Attitudes

24. France, Ireland, Italy, Greece, Belgium and Luxembourg

have all argued for higher price increases and the less prosperous among them for special measures. Denmark wants more than 9% for livestock. The Netherlands and Germany would probably settle at around 9% provided they could get away with lower green rate revaluations than the Commission have proposed.

25. However, the EMS realignment on 21 February gave Belgium, Luxembourg and Denmark scope for devaluation of their green currency which will reduce their interest in a high price settlement. But they have been persuaded to delay any devaluation at least until 1 April. Italy can also devalue the green lire by a modest amount and Greek farmers will benefit from a transitional step towards Community prices negotiated under the Accession Treaty as well as by the common price increase agreed. But both countries will want account taken of their "special" situations.

26. France has sought to establish a clear link between the price-fixing and changes in the market regimes for wine and fruit and vegetables. We support the idea of such a link, but it must include olive oil as well. Agreement on these products now would help towards the early establishment of a common Community position for the enlargement negotiations

and avoid having to buy off the French and other Mediterranean countries twice over. In practice it will be very difficult within the next few weeks to find an agreed solution to the intractable problem of olive oil.

Foreign and Commonwealth Office

19 March 1982

Assumptions

Let Y = 100%
W = 90% Receipts
Z = 90% VAT.
V = 50% (Levies & duties)

Million ecu

Row				Relevant %	Refund to UK
1	Unadjusted Net Contribution in 1982	=	1800		
2	Objective Indicator gap in 1981	=	1370	100	1370
3	Objective Indicator gap in 1982	=	1100		
4	Excess refund		270	90	- 240
					1130
5	Gross Contribution gap in 1982	=	700		
6	VAT part in 1982	=	300	90	270
7	Duties and levies part in 1982	=	400	50	200
8	Refund to UK in 1982				1600