

Britain and the European Community

Notes for Ministers

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23 MAY 1984

BRITAIN AND THE EUROPEAN COMMUNITY

(a) ACHIEVEMENTS SINCE THE GOVERNMENT CAME INTO OFFICE

- The Government has secured refunds for Britain of £2500 million since 1980, two thirds of our net contribution to the EC budget. Labour negotiated for refunds during their term too. But they received not a single ecu.
- Britain now gets a higher rate of return from the Regional and Social Funds than ever before (£375 m in 1983).
- Britain has brought about far reaching Community reform of EC finance and of EC agriculture. Thanks to Britain the Community has started the painful process of reducing agricultural spending after years of increases.

(b) BUDGET

We have negotiated refunds worth £2½ billion. But these were for one year at a time. We now want a system. We are not going to agree to any increase in own resources without getting a systematic correction of our contribution. Instead of paying too much and fighting to get some of it back, we should be paying only our fair share in the first place. After years of argument that principle is agreed. It remains to reach agreement on the figure that would establish the system. We are working to resolve that.

Britain has been too inflexible

On the contrary, we have already made a number of substantial moves in the interest of agreement. We have said that we will accept a further year's temporary refund before the new system outlined in a proposal of the French Presidency comes into effect; we have accepted the method of calculation of the size of our budget contribution favoured by our partners; and we have moved on the amount we are ready to continue paying once the new system comes into force.

What would we get under the budget system?

For the first time, we would automatically pay no more than our fair share of the Community budget. We would not have to fight for a rebate each year. If we contributed more than our equitable share each year, we would make lower VAT payments in the following year.

How much would we get back?

This is what we are still negotiating. But the key to the system is that what we pay should be what we can afford to pay.

(c) 1983 REFUNDS

Our 1983 refunds (£440 million) were agreed by EC Heads of Government in June 1983. The money is payable this year. It is in the budget. It should, on past practice, have been paid by the end of March. Two member states have however blocked the refund, pending the outcome of the present negotiations. But no-one disputes that the money is due to be paid this year. We do not believe that the Community will fail to fulfil a commitment entered into by Heads of Government in the European Council.

Why not withhold our 1983 refund?

We have made it clear to our partners that the Community's commitment at Stuttgart must be honoured. We will not agree to any increase in own resources which does not have as its counterpart a satisfactory budget settlement, including the 1983 refund. But we have decided to take no action which might damage the prospect of decisive progress in the current negotiations.

Would withholding be legal?

Do not wish to get into discussion of an action which has not been proposed by the Government. We have spoken of safeguarding our position. If the Government decided that action was necessary, it would need to make a recommendation to Parliament as to what form it should take.

/What is

What is our legal entitlement to the money?

The Stuttgart conclusions did not specify that the refunds would be paid by 31 March (though this has been past practice). There was therefore no binding obligation to pay by that date. But the Heads of Government in the European Council entered into a clear commitment to pay refunds to the United Kingdom for 1983. These refunds were written into the Community budget for 1984. We expect the agreement by the Heads of Government to be honoured. The refunds are due to be paid during the current year.

What are you doing about our 1982 refund?

We have had the main 1982 refund (£826m), but under the complex formula agreed for our payments we believe £42 million is still owing to us. We have taken this matter up formally with the Commission and the French Presidency. It remains our aim to resolve this problem in the current negotiations.

(d) INCREASE IN OWN RESOURCES

A decision to increase the Community's own resources by raising the 1% VAT ceiling established in 1970 requires the unanimous approval of all ten Member States and all ten national parliaments. We have made it clear all along that we are prepared to consider an increase in the Community's own resources provided that we get a fair and lasting settlement on budgetary imbalances, and provided that agriculture and other Community expenditure is brought under effective control. As the Prime Minister told the House of Commons on 21 March, in the absence of agreement at the March European Council, we have not agreed to any increase in own resources. The 1% VAT ceiling therefore remains.

How can an increase in own resources be justified on its merits?

We are only prepared to consider the case for increasing own resources provided that our two conditions are satisfied, including effective control of agricultural expenditure which will ensure that a progressively reduced percentage of Community expenditure goes on the CAP. But this will necessarily be a gradual process. It is not realistic to think in terms of massive

/and

and immediate cuts in CAP expenditure. An increase in own resources may still be necessary to meet realistic growth in the structural funds, limited growth of new policies and budget reliefs for the UK.

An increase in own resources would be contrary to the Government's objectives of controlling growth of public expenditure

No reason why increase in own resources should lead to increased public expenditure or higher taxes in the UK. We have made clear that we favour doing things on a Community basis only when this makes more economic sense than doing things nationally. Increased Community spending in some fields would therefore replace existing or future national expenditure.

Britain is agreeing to an increase to pay for more wasteful spending on agriculture?

No. We will not agree to an increase unless we get agreement to control spending and a fair budget deal. If there is an increase in the ceiling it will not all be taken up at once. What's more, the budget deal we are insisting on will mean that if the Community spends more money we will pay no more than our fair share - possibly less than we are paying at present.

Our VAT payments to the EC budget in 1982 amounted to 11% not 1% of Britain's VAT revenue

We have never suggested that our VAT contributions to the EC budget represented 1% of our VAT revenue. In 1982 they represented just under 1% of a notional harmonised VAT base of goods and services. But because we do not charge VAT on all goods the figure is higher as a percentage of actual VAT revenue. The system is applied in exactly the same way to all member states.

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(e) THE COMMON AGRICULTURAL POLICY

The Common Agricultural Policy has many achievements to its credit. It has raised productivity. It has dramatically increased our self-sufficiency in food. It has stemmed the drift away from the countryside. Farm land values have risen by 650% since 1970. In the ten years since we joined the EEC, UK wheat production has doubled, that of butter tripled. In the same period, food prices have risen by less than the Retail Price Index. We are not against the CAP, but we are against abuses of the CAP - above all the expensive and wasteful surpluses.

For the CAP has many failings. Its successes have been at the expense of other European policies: in 1983 agriculture took a disproportionate 65% of the Community budget. The workings of the intervention system are such that costly and wasteful surpluses of dairy products, cereals, wine and olive oil have developed. At the same time, prices have been allowed to get far out of line with world food prices.

This year, a start has been made with the reform of the CAP that is essential if we are to get the Community on to a sound basis. In March, Agriculture Ministers agreed to cut milk production, to reduce prices for the first time in the existence of the Community, and to limit the provision of guarantee payments for surplus or high-cost products. In March European Heads of Government agreed separately on new controls over spending designed to ensure that agriculture takes a diminishing share of Community expenditure in the future.

The CAP cannot be reformed overnight. The bold, if late, start that has been made is itself an achievement. The Government is now working for a sustained effort to ensure that the process continues.

/But

But the reforms are meaningless. Prices are still rising.

The fat is now coming off.

- (i) Agriculture will in future account for a diminishing share of Community spending.
- (ii) For the first time, Agriculture Ministers have agreed on cuts in prices for agricultural produce.
- (iii) For the first time, they have tackled the problem of structural surpluses by applying quotas to the dairy sector.
- (iv) They have agreed to apply guarantee thresholds to surplus, or high-cost agricultural produce.

Scrap the CAP?

Like it or not, the CAP is an integral part of the Community. We cannot scrap it. We could not do so without damaging our farmers. A return to the old system of deficiency payments is no answer. They would cost the British taxpayer an extra £2½ billion a year. The answer is not to destroy the livelihood of farmers, or put food supplies in danger. The answer is reform.

Was the Agricultural Package agreed in March unfair to Britain?

No. Europe could not go on producing 20% more milk than it needed. Even after the cut-backs agreed in March, three billion ecu (£1.78 billion) will be spent on support for the dairy sector this year.

British farmers will have to reduce their milk production by more than some of their Community colleagues, and by less than others. Mr Jopling obtained agreement on many items of importance to Britain in the dairy negotiations. Outside the dairy sector, he was able to safeguard British interests in beef and sheepmeat. And he successfully resisted pressures to revalue the green pound, which would have created hardship for our farmers.

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(f) CONTROL OF EC SPENDING/THREATENED OVERSPENDING IN 1984

In Brussels on 19/20 March, EC Heads of Government agreed that the kind of budgetary discipline applied by national governments should in future be exercised by the Community. In particular, it was agreed that expenditure would in future be determined by available finance, not the other way round. The European Council also agreed that agriculture, which accounted for 65% of Community spending for 1983, should in future take a declining share of expenditure. The Community is negotiating measures to ensure that these principles are now rigorously implemented.

Important steps were also taken in March towards controlling agricultural expenditure and limiting the creation of wasteful surpluses. The Agriculture Council meeting on 30/31 March agreed:

- (a) for the first time, to cut prices for some agricultural products;
- (b) again for the first time, to tackle the problem of surpluses by applying quotas to milk production;
- (c) to extend the system of guarantee thresholds which limits CAP payments for surplus or high cost produce.

(Further details are in the briefing note on the CAP.)

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(g) 1984 BUDGET SHORTFALL

[If the Community goes on spending as it is now, on present forecasts it will need £1½ billion more than is this year's Community budget. The Commission has proposed raising a loan from Member States of to finance the shortfall. Each Member State would contribute at its normal rate (20% in our case). The loan would carry interest at market rates and be repaid over 4 years from 1986]: We and several other Member States have serious reservations about the proposal. The Commission has been asked to look again. It is much too early in the year to talk of raising money (which would amount to busting the agreed ceiling on the Community's own resources). If there is a danger of financial problems later in the year, steps should be taken to reduce expenditure. The Prime Minister has already said there can be no question of our agreeing to finance cost overruns while the rest of the negotiations, including the budget issue, have not been settled.

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(h) NEW COMMUNITY POLICIES

The phrase Common Market is misleading. We have a Common Agricultural Policy and a Common Fisheries Policy, but no full Common Market for goods and services. Goods cross Community frontiers between one Member State and another with no duty being paid. But there are non tariff barriers which make really free trade difficult.

Britain wants to build that Common Market. We want:

- completion of the Common Market by removing non-tariff barriers to trade in industrial products;
- equal priority to be given to more open competition in services, eg insurance, where we expect British business to have a competitive edge;
- creation of a Community common transport policy which will lead to more open competition on an equal basis between the various transport modes.

But there is more to the Community than dismantling barriers to trade, vital though the task is. We want to work together in Europe where there are things we can do as a Community which each of us cannot do effectively on our own. Some examples:

Environment

The Community has an opportunity to make a real contribution to reducing pollution in the 10 Member States. Our aim is to see unleaded petrol introduced throughout the Community as soon as possible, and certainly before 1990. We shall work for agreement on a common target date in the Environment Council.

Research and Development and Industrial Cooperation

In February, the Community agreed on an imaginative, soundly-based programme of research and development in the information technologies - the ESPRIT programme (European Strategic Programme for Research and Development in Information Technology). The programme, which has a budget of £825 m over

/5 years

5 years (shared 50:50 between the Community and participating industries), will pool the research efforts of Europe's leading companies, research institutes and universities, to create new technologies capable of competing effectively with Japan and the United States. The aim is to secure a lead in the next generation of technology in about 10 years' time. In pilot projects for the scheme, British firms are project leaders in 11 of the 38 ideas under trial and are involved in over 20 of the projects. The involvement of companies ensures that the ESPRIT programme is firmly anchored in the needs of industry and that money is not wasted.

ESPRIT points the way for similar programmes of European collaboration in other key areas of industrial research. so does JET (the joint experiment in nuclear fusion technology based at Culham in Oxfordshire) and the recent UK decision to collaborate with other European countries in fast breeder reactor technology, and in the production of the Airbus 320.

If you're so keen on the environment, why not do something about acid rain?

We are giving a high priority to research on the causal links between acid rain and environmental damage, which are not yet clearly understood. We are taking a full part in international collaboration both in the Community and in the UN. On sulphur dioxide we have reduced total emissions by over 30% since 1970. We are studying the implications for us of the EC draft Directive on emissions from large industrial plants. On vehicle emissions we believe that developments in engine technology ("lean burn") - in which Britain is in the lead - offer a better way forward than catalytic converters.

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(i) BENEFITS OF MEMBERSHIP TO INDUSTRY

Steel

The British steel industry is passing through an extremely difficult phase. No doubt at all that its plight would have been even worse had Britain not been a member of the European Coal and Steel Community (ECSC). There have been many tangible benefits, for example:

. The Community's prices and production quota regime ("the Davignon Plan") has prevented disorderly collapse of the European steel industry and has provided a breathing space in which the restructuring, essential for its long term viability can take place. Within the Community framework, the Government is in a much stronger position to press other Member States to bear their share of the sacrifices, to match the capacity reductions which BSC has already made.

. The EC's collective negotiating strength vis-à-vis the USA has meant that much better deals have been achieved than Britain could have hoped for alone, eg, over access to the US market for British steel products.

. The Community has given substantial assistance to people made redundant in the steel industry, to date well over £100,000,000. ECSC loans have helped to promote new investment in steel.

Small Businesses

With the encouragement of HMG, the Community is undertaking a series of sensible and cost effective programmes to assist small businesses, for example:

. Money for the training and retraining of staff (Social Fund)

. Loans from the European investment bank and from the "New Community Instrument".

. Grants to assist investment in energy saving, tourism, etc.

/Coal

Coal

The ECSC provides low interest loans for investment in coal production. Recent important examples include:

. £500,000,000 to finance the Drax B Coal Fire Power Station (4000 new jobs created).

. £190,000,000 for the NCB to finance the new mine at Selby.

The ECSC also makes grants to assist redeployment, retraining, early retirement and redundancy payments. Under the present Government, the UK's share of these grants has risen from around 60% to about 80%.

Substantial progress has been made in the past year towards a Community Solid Fuels Policy to promote the economic consumption and production of coal. The UK industry would be a major beneficiary of such a policy, which would help to assure the establishment of a viable coal industry in Britain.

(j) HARMONISATION OF POLICIES: LOSS OF NATIONAL IDENTITY

The Community is made up of independent states each with its own history, culture and traditions. The French are no less French, Italians no less Italian, etc., as a result of being members of the Community since 1958. We, likewise, have preserved our national identity, while continuing to work for the development of the Community.

Community obsessed with harmonisation for harmonisation's sake

Do not accept that. The Community seeks harmonisation only when this is beneficial for all Member States. We resist any proposals for harmonisation where no clear benefit results. Purpose of harmonisation is to remove barriers to trade in goods and services, thus enabling our firms to realise the full potential of a market of some 270 million people.

We attach particular importance to the programme for harmonisation of technical standards for industrial products. This will make it easier for our exporters to export to other Member States because they will be assured of market access. It will also enable us to be sure that goods imported from other Member States meet our strict national safety requirements.

(k) TRANSPORT

Why is there no transport policy?

There will be if we get our way. A number of Member States are reluctant to relax their grip on this heavily protected sector. We want to reduce waiting time at frontiers, which costs the Community millions of pounds a year and, in general, to remove non-tariff barriers to free trade. We also want to make air travel cheaper and easier. There is no reason, other than the dead hand of protectionist bureaucracy, why it should cost more to fly from London to Paris than it does to fly from Washington to New York. We have put forward a firm proposal to make it easier for airlines to compete in the market place to the benefit of the consumer.

/CHANNEL

Channel Tunnel

The Government is considering the implications of the recent report by banks on the feasibility of financing a fixed link. We intend to give financial institutions and other interested parties time to make their own assessment. We will need to talk to our French colleagues. The Government's position is that it is for the Market to make a judgement on the viability of this project. It should not be financed or guaranteed against commercial risk by the British taxpayer. The banks' report has also been submitted to the Commission. We should be prepared to look carefully at any proposals for Community support which may emerge.

(1) UK/EC TRADE

The Community is by far the UK's main world market, taking 44% of UK visible exports in 1983 (compared with 33% in 1974) compared with 17% to North America and Japan put together.

The Community market numbers over 270 million people, 5 times as big as the home market. While oil and food are main growth areas in UK exports to the Community, UK exports of manufactured goods have also risen, from 29% of our world manufactures exports in 1972 to 38% in 1983.

UK/EC Trade in Manufactured Goods - Increasing Deficit

[NB: In 1983 our trade in manufactures with the Community was in deficit by £8,045 million on an Overseas Trade Statistics basis] It is a regrettable fact that our trade balance with the Community has been worsening for many years. But this is not the result of Community membership. The trend dates back to well before we joined. This emphasises the need for us to make our manufactures more competitive both at home and abroad. The Government is committed to the creation of conditions which will encourage competitiveness. We have privileged access to markets in the EC and EFTA. Experience shows that those who tailor their products to the demands of these markets do well.

UK deficit on trade in manufactures with the EC, but in surplus with the rest of the world

We need to compare like with like. The fairest comparison is with other developed countries, where our trade shows a similar pattern: imports of manufactures have been growing faster than exports. This stems particularly from our improved oil balance, which has enabled us to import more. But it remains essential to improve our competitiveness in domestic and foreign markets to take advantage of the potential export growth as world trade expands.

/Trade

Trade in Oil and Invisibles

The UK had a surplus of £6.7 billion (on a Balance of Payments basis) last year in our trade with the Community in oil. The latest figures for invisibles are for 1982, when there was a surplus on private sector trade with the Community of £749 million.

UK Trade Deficit with Japan

Last year, the UK's visible trade deficit with Japan was £2.6 billion. We are most concerned about this imbalance, which is increasing. Along with our Community partners we shall continue to press the Japanese to make fundamental changes in their trading practices which are needed to reduce this imbalance. Active steps have been taken to encourage Japanese inward investment.

Inward Investment

Since 1975, UK has enjoyed a marked increase in inward investment from the USA. EC states have also increased their inward investment in the UK since UK accession. On average we receive a third of all US non-oil industry investment in the EC. Between 1979 and 1982, over 280 new US investment projects were undertaken in the UK, creating over 37 thousand jobs. In the same period, German companies initiated over 80 projects worth almost 3000 new jobs.

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(m) THE EUROPEAN MONETARY SYSTEM (EMS)

The EMS was set up in March 1979 with the aim of creating a zone of monetary stability in Europe. The essential components of the EMS are:

- (a) a European currency unit (ecu), in which the European Community now transacts its business;
- (b) an exchange rate and intervention mechanism;
- (c) a credit mechanism;
- (d) measures designed to strengthen the economies of the less prosperous Member States in the EMS.

The United Kingdom is a member of the EMS, but does not participate in the exchange rate mechanism. Greece is not a member of the EMS. All other Member States are members of both the system and the ERM.

When will the United Kingdom join in the Exchange Rate Mechanism?

We have always said that we will join when the time is right. As a widely-traded petro-currency sterling tends to behave differently from other EMS currencies (they would tend to depreciate when oil prices increase, while sterling would appreciate). If we were to join at the wrong time this could bring strains in the system. But the question of joining is kept under review.

What about the use of the Ecu?

The British Government would be happy to see the use of the ecu expanded. But in Britain this is a question for the market. Unlike the situation in several Member States, there are no exchange controls in this country which inhibit the market from acting in what it judges to be its own best interest.

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(n) SOCIAL POLICY (UNEMPLOYMENT)

Unemployment is a problem throughout the Community. We therefore welcome general agreement in Community to tackle this problem by fostering economic conditions that will lead to sustained growth. We support the EC Council Resolution on a Community Action Programme to combat unemployment, in particular the emphasis on training and small firms. We also support the Council Resolution on the Promotion of Employment for young people recently adopted, which calls for increased efforts over the next five years to create additional job opportunities for young people. In this context, the European Social Fund makes a major and welcome contribution to the training needs of school leavers and unemployed people. In 1983 £321 million from the Fund went to schemes in the UK, more than any other Member States; of which £241 million went to schemes for young people.

Too much time and effort wasted by Community on unnecessary and useless social proposals like Vredeling? [Employee consultation]
Some Commission proposals in social field are unrealistic. British Government favours consultation between social partners but this should be on a voluntary basis. Member States' national traditions differ. Government will continue to resist proposals which would have an effect on industry's costs and will work to ensure that Commission take proper account of our views. Business too has an important role here. Various lobbying channels open to business for influencing Commission and European Parliament.

(o) COMMON FORMAT PASSPORT

The UK and its Community partners decided in principle in 1974 that national passports in the Community should have a common format. Making national passports of Member States distinguishable at a glance from those of non-Community countries, should help to speed up the passage of passport holders across borders both inside and outside the Community. There will, however, be no change to the status and privileges of the British passport holder. The passport will remain a British passport.

When will the passport be introduced?

[If pressed] the Government cannot yet say when it will introduce the common format. The main practical factor is our commitment to introduce machine readability at the same time as the common format passport, which is a complex matter, both administratively and technically. So there is likely to be some delay on the Community target date of January 1985.

What changes to the passport does the CFP involve?

The UK passport will be smaller than the present passport and its colour will be burgundy red. It will incorporate the words "European Community" on the cover and information on the identification page will be given in all the Community languages. Traditional features such as the Royal coat of arms on the cover and the customary wording inside will not change. The passport would remain a UK passport.

Will the CFP take the place of the UK passport?

The CFP will be a British passport in a common format. The CFP will not be a Community passport and its issue will remain a national prerogative. Its introduction will involve no change in the nationality or other entitlements of the holder. Its validity as a travel document will be no different from that of the present passport. Once the change has been introduced, people will get the new passport as their old one expires.

/Will

Will the CFP change the formalities required for travel by EC citizens between Member States of the Community?

No. The common format should however result in quicker identification of Community travellers and thus help to speed up their passage across frontiers.

(p) EUROPEAN PARLIAMENT

(i) European Union

We all want to work for a united Community - one that speaks with a powerful voice in world affairs; one where there are no barriers to trade; one where our collective economic and political strength is used to maximum effect. That is a far cry from unrealistic dreams of a federal Europe - which are not on the agenda.

(ii) European Parliament's Draft Treaty on European Union (Spinelli Proposals)

The European Parliament is entitled to express its views. Despite its title, the draft treaty is mostly about rather detailed issues. We believe the Community should concentrate on implementing the existing Treaties before we start drafting a new one.

Are Member States obliged to act on Parliament's proposals?

There is no obligation on Member Governments to act on the European Parliament's proposals.

What is Government's view of proposal to phase out Member States' right of veto after 10 years?

It remains the Government's view that when a Member State considers its very important interests to be at stake, the discussions should be continued until unanimous agreement is reached.

What about proposed increase in powers of the Parliament?

The powers of the Parliament are laid down in the existing Community Treaties and we see no need to change them.

(iii) Genscher/Colombo Solemn Declaration

The Government regard the Solemn Declaration, signed on 19 June 1983, as a useful reaffirmation of the Community's longer term objectives.

/What

What does the Solemn Declaration say about majority voting/-
Luxembourg Compromise?

The Solemn Declaration refers to the importance of applying the decision-making procedure laid down in the Treaties. There is no specific reference to majority voting or the Luxembourg Compromise.

Will it affect our veto?

No. And to ensure that there could be no possible misunderstanding, we recorded in the minutes our view that when a member state considers its very important interests to be at stake, discussions should be continued until unanimous agreement is reached. Four other member states made similar statements.

Effect of Solemn Declaration on powers of Community Institutions?

The Solemn Declaration will not result in any increase in the powers of Community institutions, which will remain as laid down in the Treaties.

(iv) Uniform Electoral Procedure

After extensive discussions, the Council of Ministers concluded last year that it would not be possible to reach agreement on a uniform electoral procedure in time for the 1984 European Parliament elections. Member States undertook, however, to do their best to reach agreement on a uniform procedure in time for the 1989 elections.

Will the uniform procedure be based on proportional representation?

This will depend on negotiations in the Community.

What is Government's view of proportional representation for European Parliament elections?

The Government have not yet taken a view on this question.

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(v) Votes for British Citizens Resident in the Community

Because of disruption to our legislative programme as a result of the 1983 General Election, it was not possible to introduce legislation to extend the franchise before the 1984 elections. We nevertheless intend to introduce legislation in the next session of Parliament to extend the franchise to British citizens resident abroad, for both UK and European elections, for a period of 7 years from the date of their last registration in the UK. All UK citizens resident in the Community will ultimately be covered for European elections by the franchise provisions of the uniform electoral procedure when this is eventually agreed in the Community.

(vi) European Parliament and Northern Ireland (The Haagerup Report)

The European Parliament has no responsibility for dealing with the political situation in Northern Ireland. We welcome the recognition in the Resolution adopted by the Parliament on 29 March 1984 that it has no competence to make proposals for changes in the constitution of Northern Ireland. We note the Resolution's concentration on economic and social issues of proper concern to the European Community. We welcome its condemnation of violence and those who condone it and its expression of support for the continuing mutually-beneficial work of the Anglo-Irish Intergovernmental Council.

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(g) ENLARGEMENT OF THE COMMUNITY

Strong support for further enlargement of Community with accession of Spain and Portugal.

Benefits for EC

Consolidation of democracy in Greece, Spain and Portugal - something we have all hoped for in the past and to which the Community can make a real contribution. Fresh impetus to Community development. A broader external role for EC, particularly in Latin American and Portuguese speaking Africa.

Direct Benefits to UK

Increase of 47 million people in Community's internal market. In particular, removal of full Spanish protectionist barriers by end of transitional period.

Timing

Community working to complete negotiations by end of year so that Spain and Portugal can join as they wish by 1 January 1986.

Difficulties?

Outstanding questions for both Spain and Portugal include difficult areas of Social Affairs, Agriculture, Fisheries, Institutions, Own Resources, and for Spain, transitional arrangements for industrial tariffs. We hope these dossiers will be at least substantively completed by the autumn.

Spanish Tariffs

Negotiations continue on the industrial chapters. The Community wants to see the rapid dismantlement especially of the highest tariff barriers. If Spain to have industrial transitional period longer than 3 years we will press for sharp reduction in tariffs in sensitive sectors important for UK industry.

EC/Spain: Gibraltar

The restrictions on movement which exist between Spain and Gibraltar are incompatible with the obligations which Spain will

/assume

assume as a member of the Community. Agreement has been reached between the Community and Spain that in the context of the External Relations chapter, the application of Community obligations in respect of external trade means, from accession, the elimination of all obstacles to trade between Spain and Gibraltar except as permitted by exceptions and derogations in accordance with Community law.

[If pressed]

We are confident that the EC and Spain can also reach agreement in due course in the context of the Social Affairs chapter as it relates to the free movement of persons.

[If pressed further]

We fully support Spanish accession; but it would be inconceivable for Spain to join the Community and not allow ordinary traffic across its frontiers with Gibraltar.

(r) EC AID

The European Community and its Member States provide more than a third of all the aid given by developed countries to the developing world and almost half the total aid to the least developed countries. Since Britain joined the Community on 1 January 1973, the proportion of her development aid channelled through Community has steadily increased, and now accounts for approximately 20% of the UK's aid budget.

Why cannot Community food "mountains" be used to feed hungry people in the third world?

The European Community does in fact already use much of its surplus foodstuffs to provide a substantial programme of food aid to developing countries, eg in 1982 about £280 million worth of food - mostly cereals, skimmed milk-powder and butter oil - were provided to about 40 developing countries. As well as its regular food aid programmes the Community also provides emergency food aid in response to famines or other disasters anywhere in the world and has recently made additional food aid allocations in response to the drought in sub-Sahara Africa.

Why is the Community cutting back on food production when people in the third world are starving?

Although there will always be cases, eg man-made or natural disasters, when emergency food-aid relief from Europe will be appropriate, this can never be a long-term solution to the problem of the food shortages in developing countries. European food is costly to produce, store and transport to countries where there is a food shortage. In the Government's view this is not the most efficient way to use limited aid resources. A more effective and longer term answer would be to divert some of the vast sums currently being spent in producing and disposing of surplus European food to help increase agricultural production in the countries where this is most needed. We have urged this also on our European partners and much of our own bilateral aid is designed towards this end.

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(s) EC/USSR AGRICULTURE

Why subsidise cheap wine/food exports to the Soviet Union?

The Soviet Union is free to buy agricultural exports from EC at world prices like any other third country, and has done so for years - and during the life of the last Labour Government. There have been no preferential export refunds or special subsidies to enable them to buy in this way. We have always opposed any such special arrangements for the Soviet Union.

CAP Reform?

What clearly is absurd is that the Community should have to sell such large quantities of agricultural products which are available for sale to third countries at prices far below those paid by EC consumers. Not a new problem: has affected all Governments since our accession to the EC. But it is a feature of the CAP that under this Government, we have at last begun to reform. The March Agriculture Council made a start with agreement on fixing prices. A lot more needs to be done, and we hope that this will lead to firm measures to bring CAP expenditure under control. Simply refusing to sell to one particular third country would just increase the cost of disposing of CAP surpluses. Our main concern must be to eliminate the problem by reducing the surpluses.

Wine at 7p a litre?

We should get this in perspective. It is misleading to compare this bulk export price with the retail prices of a bottle of wine in the UK, which includes many other costs - bottling, warehousing, excise duty, etc. And the wine is poor quality for which there is no world market, and which is virtually unsaleable on the retail market. It is still cheaper for the EC to export this wine than to buy it up for distilling. But it is true that there would be no need to sell it in bulk if there were no EC surplus. We have always argued that this surplus should be reduced and production brought more into line with consumption.

The Conservative Government promotes British interests from a position of strength. Our European partners recognise that we mean business. Labour have changed their minds five times already about membership of the Community. The Alliance would throw away the veto which gives us the power to protect vital British interests within the Community. Conservatives believe in Europe; only the Conservatives can get Britain the best deal in Europe. It is vital that every Conservative votes on 14th June.

Labour are running true to form in the European elections, with their scare about Value Added Tax on food. On the same day that Mrs Barbara Castle set this in orbit, I used the words "Poppycock and Nonsense". I repeat those words now. The record of the Conservative Government on food prices is good.

Between 1974 and 1979, under Labour, food prices rose even faster than prices in general, which themselves more than doubled. From 1979 to 1984, the rise in food prices was substantially less than the rise in the Retail Price Index itself.

	RPI	FOOD
February 1974 - May 1979	+ 112%	+122%
May 1979 - January 1984	+ 59%	+ 43%