



Ref. A086/1237

PRIME MINISTER

---

Cabinet: Community Affairs

You may wish to mention that at your meeting with Mr Hawke, the Australian Prime Minister, on 21 April he expressed strong concern about world trade in agricultural products and the impact on Australia of the export policies of the European Community and stressed the need to include agriculture substantively in the next GATT round of trade negotiations. The reports from Brussels of Mr Hawke's subsequent discussion with Monsieur Delors, President of the Commission, are that the atmosphere was quite good, that the regular high level consultations were reinstated and that the Commission confirmed a number of specific agricultural undertakings, eg staying out of some traditional Australian markets for beef.

2. The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 21-22 April which he and the Minister of State, Foreign and Commonwealth Office (Mrs Chalker) attended. Libya dominated the first part of the Council and the Foreign and Commonwealth Secretary was successful in persuading his colleagues of the need for further measures to curb the unacceptable activities of Libyan nationals. Steps agreed by the Council include restricting the number and mobility of Libyan diplomats in Community countries, reducing Libyan organisations in member states and excluding from the whole Community any Libyan expelled from a single member state. The major economic discussion was on the Community's tactics in handling the dispute with the United States over the impact of the admission of Spain and Portugal to the Community on American trade in cereals and oil seeds. The Council supported the Commission in trying to keep down the temperature. Under





pressure from domestic lobbies the United States Administration is over-reacting to the, as yet, unquantifiable consequences of enlargement while discounting both the long term political benefits and what it will gain in improved access to Iberian markets for industrial goods. The Community is ready to continue the dialogue both bilaterally and within the GATT. It was satisfactory that the Council agreed the mandate for the formal GATT negotiations on enlargement. At Greek instigation the Council discussed the Community's budgetary position, with the Greeks drawing attention to the need for a supplementary budget this year (this, of course, is closely linked with the agricultural prices decisions) and asking that the procedure for raising the VAT ceiling to 1.6 per cent should be set in motion. This discussion was in our view premature and unnecessary. Though the Greeks received some support from the smaller member states and Italy for their analysis, Mrs Chalker received firm backing from the Germans and Belgians in ruling out the possibility of increasing the VAT ceiling before 1988. We believe that this is also the French position. The Council also discussed the preparations for the Tokyo Economic Summit, with Mrs Chalker and Monsieur Raimond, the French Foreign Minister, both highlighting the need to keep up pressure on Japan for economic liberalisation; and agreed its approach to the joint meeting it will hold with the members of the African, Caribbean and Pacific (ACP) states on 24-25 April.

3. The Foreign and Commonwealth Secretary may also mention the Development Council which was held on 17 April, at which the United Kingdom was represented by the Minister for Overseas Development, Mr Raison. The Commission had a preliminary discussion of Commission ideas for improving the operation and effectiveness of the Community's food aid programmes; and discussed ways in which countries affected by famine could be encouraged to make the long term adjustments needed to avoid future disasters. There was also discussion on the link between aid and trade promotion.





4. The Minister of Agriculture, Fisheries and Food (if he has returned from the Agriculture Council) may report on its recent discussions on 21-23 April on the 1986 prices package. Though the Council has not so far reached a conclusion and in particular has not received a proposal from the Commission on green rates, it seems likely that Mr Jopling may be able to report the outlines of a possible agreement. Much of the discussion this week has been based on a compromise package tabled by the Dutch Presidency, which is claimed to give additional budgetary savings. Even though this will be modified, it may provide the basis for a final agreement. From our point of view it has the advantage of maintaining the price freeze and removing the positive discrimination against United Kingdom farmers which was built into the original Commission proposals on cereals and beef; it would also remove another feature we found objectionable, ie the proposal to amalgamate Northern Ireland and the Republic of Ireland into a single region for the purposes of calculating premium payments on sheepmeat; and it would introduce a three year compulsory programme of quota cuts and a Community-funded outgoers scheme for milk, both designed to bring the dairy surplus further under control. Though it would put off for further study major decisions on beef, it does not close off the possibility for the Commission on its own authority to reduce the impact of intervention for beef this year. Proposals on green rates are likely to emerge next week but the idea being floated is that there might be a new but uniform green rate devaluation of 2 per cent for cereals and 4 per cent for other products. This is relatively modest and could, of course, be helpful for British farmers. There would be nothing for farmers in revaluing countries: the Federal Republic of Germany and the Netherlands would not like this and the Germans at least would probably give some national aid. The budgetary consequences of these ideas, which are not yet formal proposals will have to be examined both in London and in Brussels.





5. It is possible that the Paymaster General may mention the informal meeting of the Social Affairs Ministers which he is attending on 23 April. This has been convened in order to discuss financial and administrative problems in connection with the European Social Fund.

6. The joint Community/ACP Council meets on 24-25 April. There is a meeting of the Economic and Finance Council on 28 April. It is possible that the Agriculture Council may resume next week to try to complete the agriculture price package: this depends on the results of the present Agriculture Council which is still in session.

RA

ROBERT ARMSTRONG

23 April 1986