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EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

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Foreign and Commonwealth Office
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EUROPEAN COUNCIL, ATHENS

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GENERAL BRIEF

Brief by Foreign and Commonwealth Office

INTRODUCTION

1. The European Council will follow six months of intensive negotiation on the remit from Stuttgart. The main issues which have been discussed at six Special Councils since June have been, as laid down by Stuttgart:

(i) Measures to ensure greater budgetary discipline and effective control of agricultural and other Community expenditure.

(ii) Measures to avoid the constantly reoccurring problems of certain Member States and to assure a more equitable sharing of the burden of financing the Community budget.

In addition, discussion has also focussed on the development of new Community policies and on reform of the structural funds. In the background has been the realisation that the Community is bumping up against its own resources ceiling. Stuttgart laid down that a decision on the extent and timing of the Community's own resources requirements would be taken at the end of the negotiation. We have made clear throughout that the two conditions laid down by the Prime Minister at Stuttgart must be satisfied if any increase in own resources was to be agreed. The Prime Minister said in Stuttgart on 18 June:

"I would be prepared to consider an increase in own resources provided that we reached agreement on an effective control of the rate of increase of agricultural and other expenditure and provided that it is accompanied by an arrangement to ensure a fair sharing of the financial

Conditions for increase in own resources

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burden so that no country has to pay a share disproportionate to its relative national wealth."

Documentation

2. In addition to the usual Commission report on the Economic and Social Situation (Brief No 11), the Council will probably have before it two documents (i) a Presidency text containing draft conclusions for the Athens Summit and (ii) a covering paper, probably drafted by the Commission, summarising areas of consensus and remaining areas of disagreement.

3. The Presidency text will be the final version of a text which has been the subject of detailed negotiation in the Special Councils. It will cover all the main areas under discussion: Future Financing of the Community, CAP, Budgetary discipline, New Policies, Structural Funds and Enlargement. Some of the text (notably on New Policies and Structural Funds) is likely to be broadly liveable with. The CAP text will probably contain a forest of square brackets representing alternative texts put forward by member states (including ourselves). The text on budget imbalances is likely to reflect a fair degree of consensus on the framework for agreement, but will reflect lack of agreement on the key issue namely the measurement and extent of the UK refund. A separate brief, analysing the Presidency text will follow.

4. The following paragraphs summarise developments on the main subjects under negotiation as well as our aims. They are followed by a summary of the contents of the remaining briefs. A separate table summarising our objectives at Athens is attached. (See Reference A.)

The Negotiations/UK Aims at Athens

Future Financing of the Community (Brief No 4)

1. Most of our partners have been prepared to accept that Britain shoulders an inequitable budget burden, that a resolution is needed to this problem and that the resolution should be lasting, rather than ad hoc. For reasons of self interest, masquerading as Community principle, most of them are not prepared to accept our concept of net contributions and therefore to acknowledge the full extent of the burden. Our proposal for a safety net setting a limit on a Member State's budgetary burden (expressed as a small percentage of GDP, related to a Member State's relative prosperity in the enlarged Community) remains the only proposal on the table which adequately compensates for both elements in our budgetary burden, namely the expenditure share on the one hand and the contributions share on the other.

2. Most of our partners are prepared to contemplate some compensation for the expenditure share element in our net contribution but not for the contributions gap. Various proposals have been put forward. These are summarised in the main brief on Future Financing. Broadly speaking they provide for compensation for the receipts gap but they do not allow for 100% compensation even of that gap as measured. There have also been attempts, notably by the French and the Commission, to redefine allocated expenditure so as to minimize the apparent burden on the UK.

3. The only serious attempt to try to deal with the contributions side of the budgetary burden has taken the form of a Commission proposal for modulated VAT (whereby, if CAP guarantee expenditure exceeded 33% of the total budget, CAP guarantee expenditure above the threshold would be financed by a new key based in part on a Member State's share of agricultural production). This proposal would not provide direct compensation for our own resources share (our burden

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of levies and duties). On past form however it would produce approximately the same amount of refund for the UK as a system based on direct measurement of the levies and duties burden. Partly for this reason, Member States, with the exception of Germany, have resisted it. The Commission have talked of putting forward a new proposal for modulated VAT not based on agricultural spending, but have so far not done so.

4. We have continued to insist that there must be full measurement of the budget burden. We have indicated that our safety net proposal is the only proposal that provides an adequate single mechanism for achieving the necessary result. We have, however, also indicated willingness to consider other proposals which covered both parts of the burden. There have been some signs that our partners were beginning to look at such an approach. As far as our receipts gap is concerned, the main ideas mooted so far have been for measurement based on a gap between GDP/Expenditure share; or population share/expenditure share or VAT/expenditure share. While the VAT/expenditure share is likely to be the most consistently favourable measurement of the receipts gap it would not on its own give us an adequate refund. We could probably secure agreement on compensation for the VAT/Expenditure share gap but only on condition that we accepted this as a complete answer to our problem.

5. Against this background we shall wish:

(i) to make clear that agreement at Athens depends upon satisfactory resolution of our budget problem.

(ii) to indicate that the problem can only be settled on the basis of a durable mechanism which fully reflects (both in measurement and compensation) the nature of our budget burden.

(iii) to indicate that there are already a number of points of consensus, notably agreement on the need for a lasting solution; recognition that arrangements must

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reflect ability to pay; implementation on the revenue side of the budget ie getting away from ad hoc expenditure arrangements.

(iv) to describe our safety net proposal and to point out that it is the only mechanism on the table which adequately deals with the whole of the problem.

(v) to indicate that now, as before, we are willing to look at alternatives provided they adequately cover both sides of the problem.

(vi) to suggest (if this seems tactically right in the light of ministerial responses) urgent work on the basis of a scheme which would give Britain and France a net contribution of between 400 and 500 mecus each in the first year and Germany a net contribution of 2 000 mecus.

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Control of Community Expenditure (Brief No 4a)

1. There has been agreement throughout the negotiation on the need to control Community spending overall and agricultural spending in particular. At the outset, there were sharp differences between those (notably ourselves and the Netherlands) who wish to ensure a clear legally binding arrangement to control the growth of agricultural spending and others who were prepared to embrace a political commitment to the control of agricultural and other expenditure but were not willing to see this couched in binding language. Our own proposal for a strict financial guideline would ensure that CAP expenditure would grow at a markedly lower rate than Community spending as a whole. This would be achieved by incorporating in the Community's budgetary procedures a strict financial guideline specifying that the rate of increase in FEOGA spending in a year, as compared with the corresponding position in the original budget adopted for the preceding year, should not exceed a given fraction of the rate of increase in the Community's own resources base.

2. Although treated as a root and branch attack on the CAP by many of our partners our proposal has led to considerable tightening of arrangements proposed by others including the Commission. These proposals do not yet go far enough in our direction. However the French Government have now put forward proposals for the control of all Community spending, including agriculture. The French have consistently argued that it is illogical to curb only the growth of agricultural spending and that, as so often is not the case at present, finance should determine expenditure and not expenditure finance. The proposals now tabled by the French Government would involve the annual fixing of a total expenditure ceiling. Within the overall ceiling there would be a limit for agricultural expenditure on a three year moving average to take account of fluctuations in the weather and world

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markets.

4. Against this background, our aims at Athens will be:
 - (i) to build on the French text to ensure that it adequately covers CAP expenditure.
 - (ii) to work for language including a firm statement that the rate of growth of CAP expenditure will in future be lower than the rate of growth in the own resources base.
 - (iii) to ensure if possible that whatever text emerges on the control of expenditure includes legally binding arrangements.
 - (iv) to make clear that, in the absence of legally binding arrangements reached at Athens, we would need to be satisfied on the final shape of any implementing text and the commitments in it before we could agree to any increase in own resources.

CAP (Brief No 5)

1. This along with Community financing, is the most vexed issue in the negotiation.

a) Milk

Milk which accounts for some 30% of the CAP budget is the main product in contention. All are agreed on the need to curb surplus milk production and there is growing consensus that the major new means of achieving control will be through a milk super-levy which will be imposed at 75% of intervention rates for all milk produced above a certain threshold. There has been widespread disagreement about the year that should be chosen as the basis for establishing the threshold. The Commission want to set the threshold so as to achieve a limit on production of 97,000^{million} tonnes. Other Member States wish to establish different limits either to increase the total production, or, in our case, to establish a base year more favourable to our own producers (ie 1983-84). A number of countries, most notably the Irish, are insisting on exemptions which would weaken the impact of the super-levy. We have continued to insist that the super-levy must be accompanied by a rigorous price policy ie a freeze for 4 years.

b) Cereals

There is general agreement within the Community on the need progressively to narrow the gap between Community cereal price and world cereal prices. We have argued that this would in itself increase Community cereal production thereby reducing imports of cereal substitutes. Most other Member States want negotiations with the United States linking Community willingness to align its cereal prices with US undertakings to reduce exports of cereal substitutes, and threaten action under the GATT in the event of failure to agree. The US have made it clear that they would retaliate in these circumstances. We have been prepared to authorise

bilateral talks with the Americans but could not contemplate action under the GATT which would be self-defeating.

c) MCAs

The main argument is between the French and the Germans. The French argue that German positive MCAs give the Germans a competitive advantage in agricultural trade which costs the French some 400 mecus a year. The Germans have indicated willingness to give up their positive MCA in future in exchange for linking the green rate to the strongest European currency. The French remain opposed to this on the basis that it would create a Deutschmark zone in Europe and would be inflationary (an objection which we share). We will wish to continue to point out the arguments against the German proposal. We shall also wish to resist proposals for recalculation of MCAs (which would be disadvantageous to the UK) and to seek wording which will cover in general terms the position of variable MCAs (of the kind enjoyed by the UK).

d) Oils and Fats Tax

Germany, Denmark and the Netherlands share our opposition to the tax. The issue will go to the European Council. We will wish to kill off the proposal there.

e) Other Products

The Danes have tabled a long list of sectors requiring action on the grounds that action in the dairy sector should be balanced by action in other sectors. While we can agree to much of this list it includes the sheepmeat regime of which Britain is the main beneficiary. We shall wish to give general support to the principle of control of other sectors but not to jeopardise our own benefits from the sheep meat regime.

Our aims at Athens will be:

- (i) to establish a mechanism which will effectively hold the rate of FEOGA expenditure below that of own resources.

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(ii) to ensure commitment to a rigorous price policy, implementation of effective guarantee thresholds whenever production exceeds or threatens to exceed the possibility of remunerative outlets and restraint in expenditure on all products, Mediterranean as well as Northern.

(iii) to institute effective measures to cut back milk production, including a price freeze for four years.

(iv) to secure a commitment to narrowing the gap between Community cereals prices and prices on other markets.

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Other Policies (Brief No 6)

1. The Stuttgart Declaration expressed the European Council's determination to "develop and make more effective Community action in research, innovation and the new technologies". At an early stage the UK put forward proposals for priorities in the field of Community development which we subsequently narrowed down to a list of priorities for decision at Athens. These cover the internal market, transport, solid fuels and the environment. On transport we want liberalisation of lorry quotas and improved frontier procedures including agreement on a single administrative document. We wish to see deregulation of the European air transport industry on the basis of proposals now being drafted by the Commission. We are looking for completion of the internal market through the removal of non-tariff barriers. In particular, we wish to see a liberal insurance regulation removing the present national controls which prevent EC nationals from operating on the London insurance market. We wish to see the Community give the same priority to solid fuels as it has so far given to oil and nuclear energy. On environment we wish to see a firm commitment to the introduction of unleaded petrol by 1990 at the latest.

2. The European Council will be asked to take a decision on one major project namely the ESPRIT programme for Community research and development in the field of the new technologies. Britain has supported this proposal and British firms have played a major and successful role in the pilot project. All other Member States have now indicated their agreement to a 5-year programme, with a mid-term review, and a total budget of 700 mecus.

Review of the Structural Funds/IMPs (Brief No 7)

1. Consideration of reform of the structural funds is centred on the role of the Regional Development Fund. The main elements in the Commission's proposals have been:
 - a) greater concentration on programme rather than project assistance;
 - b) greater Commission say in determining how funds should be spent;
 - c) abolition of the national quota section of the ERDF (which accounts for 95% of current spending) in favour of indicative brackets indicating the kind of take up from the fund that Member States could expect.

2. While we can go along with most of these proposals, at least on a experimental basis, further discussion is needed before a new framework for the ERDF can be put in place.

3. Our main problem on the structural funds has been to resist Greek attempts to secure agreement on Integrated Mediterranean Programmes for Greece, France and Italy. These programmes, which could cost 6½ million mecus over the period 1985-1990, are designed to provide assistance to Mediterranean countries to help them to cope with the impact of enlargement of the Community to include Spain and Portugal. Most of the proposals put forward in fact show that IMPs would duplicate the role of the existing structural funds. We have also argued that it is quite illogical to provide a scheme which excludes Spain and Portugal who, as new Mediterranean members, would suffer even more adverse effects from enlargement than the existing members. We have consistently argued that the full implications of how IMPs would operate in the enlarged Community must be looked into and that they could only be considered under overall consideration of structural funds ie they should not be considered as a separately financed programme, but as a distinctive element of the structural funds covered by overall structural fund financing.

SUMMARY OF REMAINING BRIEFS

GREEK MEMORANDUM (Brief No 8)

Stuttgart invited the Council of Ministers to examine specific proposals, in response to the Greek Memorandum, with a view to "concrete decisions" before Athens. Progress has been slow. Not all the proposals have yet emerged from the Commission. Those that have (ie Greek IMP, and proposals in the social, agricultural and transport fields) are facing opposition from member states (including UK) concerned at the budgetary implications. Papandreou is expected to argue that member states should not link decisions on Greek Memorandum proposals with decisions on post-Stuttgart negotiation. Our view is that it is not possible to divorce revenue from expenditure. We are also concerned at Greek dilatoriness in dismantling import restrictions both fiscal and non-fiscal as required under the Treaty of Accession. Commission response to Greek Memorandum specifically refers to effort required from Greece to integrate. Commission should monitor progress on this, and report to the Council.

STEEL (Brief No 9)

The Germans may well raise steel, linking a satisfactory settlement to the steel problem (which takes account of German interests) with a solution to the budget problem. We should seek to avoid such linkage and to keep discussion of steel matters to a minimum. But if raised we shall want to stress our overriding concern that the Community does not get distracted from the essential task of capacity reductions

ENLARGEMENT (Brief No 10)

We shall wish the European Council to give Spain and Portugal a positive signal. This could best take the form of a date for the conclusion of the substantive negotiations ie the summer break 1984.

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ECONOMIC AND SOCIAL SITUATION (Brief No 11)

Growth in the Community has been slow. We shall wish to confirm the need for firm policies as the key to broad and sustainable recovery.

POLITICAL COOPERATION (Brief No 12)

The four subjects for discussion under Political Cooperation are: the Middle East (including Iran/ Iraq), East/West Relations, Latin and Central America and Cyprus. Of these the Middle East is likely to require most attention though it is also possible that Mr Pananderou will choose to make a major issue of Cyprus. Most of the Ten have welcomed the UK suggestion that the European Council should make a statement on Lebanon, urging all parties to make the necessary compromises for progress on national reconciliation and the withdrawal of foreign forces. We wish to ensure that any statement concentrates on these key issues, though we can accept suggestions from others (Greece, France) that the need for progress on the wider Arab/ Israel issues should also be covered. The Presidency may also propose follow-up diplomatic action by the Ten. This is worth considering, provided a sensible mandate for Presidency action can be agreed.

On Iran/Iraq, France will probably call for a statement endorsing UN Security Council Resolution 540. Others will agree. Our objective is to ensure that any such statement is balanced and encourages follow up by the UN Secretary General.

On East/West Relations our aim is to encourage partners to maintain a consistent and coordinated policy and to avoid overreaction at a time when the Russians are stepping up their propaganda. We will wish to explain the importance we attach to sensible and realistic dialogue. We will also wish to resist any tendency to exaggerate the significance for East/ West relations of the Soviet walkout from the Geneva

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talks.

There is likely to be considerable support for an EC initiative towards Central America. We should resist this. We cannot compete with US influence in the area, and there are other regions where EC aid would be better spent. On US policy, our view is that the best way for the Ten to exercise influence is private persuasion, not public condemnation.

There may also be pressure for a statement criticising Chile's human rights record. We see no case for singling Chile out in this way.

On Cyprus (see separate brief No 12A) the Greeks may well renew pressure for stronger action against the Turkish Cypriots in response to the Turkish Cypriot Declaration of Independence. We have - as do most of our partners - a strong preference for maintaining the status quo on the inclusion of Northern Cyprus in EC aid and preferential trade arrangements under the EC-Cyprus agreement; to accept Greek and Cypriot demands for the effective exclusion of Northern Cyprus from these benefits would allow the Cyprus Government to exercise a veto over the restoration of these benefits in the future - something which we have always been careful to avoid. The Commission has been instructed to send representatives urgently to Nicosia to talk to the Cyprus Government. This should help other member states to stave off any Greek demands for a tougher list from the European Council; given our special position, we should play no more prominent a role in opposing the Greeks than we have to to get a result satisfactory to us. We can, however, accept a Council statement on Cyprus along the lines of those already made by the Ten. The Greeks appear to have dropped earlier demands for action against Turkey, which would have been unacceptable to us and to many other member states.

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Argentina

The Council offers an opportunity for us to encourage those partners who are sending senior representatives to the inauguration of the new Argentine President to urge the Argentines to accept that our approach to the improvement of relations is the only realistic one.

CONTINGENCY BRIEFS

INTERNATIONAL TRADE ISSUES (Brief No 13)

If discussion develops on International Trade Issues (rollback, EC/ Japan, EC/US) the main objective will be to urge Thorn to approach his meeting with Secretary of State Shultz on 9 December (the EC/US Ministerial Consultations) in a positive spirit, as Shultz appears to be doing, and to find ways of handling EC/US problems (notably on agriculture) in such a way as to avoid confrontation - retaliation in the overheated atmosphere of a US election year. Conclusions reached by the European Council on Commission proposals for an oils and fats tax and for control on imports of cereal substitutes - both sore points for the US - will be important in this context.

GREENLAND (Brief No 14)

Discussion is not expected but Denmark may take opportunity to record its dismay at lack of progress on Greenland's application to withdraw from full membership and assume associated status under Overseas Countries and Territories (OCT) arrangements. Talks are stalled on crucial issue of fish. Latest Commission proposals do not offer Greenland the full liberty which it is seeking to manage its fisheries to its own best advantage. They nevertheless represent a fair and legitimate basis for negotiation in view of the importance of Greenland waters to the balance of

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opportunities provided in the Common Fisheries Policy (CFP). Denmark is in a virtual minority of one on nearly all points. In view of Greenland's important strategic geographical position in the Western Alliance, our overall interest lies in a mutually satisfactory agreement at the end of the day. Our immediate interest however, without jeopardising our strategic interest, is to preserve the CFP. This can best be done by continuing to offer general support to the Commission's proposals.

INSTITUTIONAL IMPLICATIONS OF ENLARGEMENT (Brief No 15)

It is unlikely that this subject will be raised but, if it is, the Prime Minister will wish to reiterate the importance we attach to early consideration of the issues and remind her colleagues of our proposal for a Commission of 12 after enlargement.

ENVIRONMENT (Brief No 16)

Our main priority is to secure a date (1990 at the latest) for the introduction of unleaded petrol throughout the Community.

ANNUAL REPORT ON EUROPEAN UNION (Brief No 17)

The European Council will be invited to take note, hopefully without discussion, of the Foreign Ministers and Commission annual reports on progress towards European Union, and agree that they be transmitted to the European Parliament, subject to any necessary updating by officials to take account of the European Council's conclusions.

Foreign and Commonwealth Office
1 December 1983

Checklist of UK objectives for Athens European Council

A: Things we want settled at Athens

Budget

- (i) Reform of the Community's financial system to deal with budget imbalances by setting limits on countries' net contributions on basis of relative prosperity.
- (ii) Application of reformed system with effect from 1984 budget year.
- (iii) Settlement of 1982 risk-sharing dispute.
- (iv) No linkage with 1983 refunds agreed at Stuttgart.
- (v) Effective control of Community expenditure.

CAP

- (vi) Establishment of strict financial guideline to hold rate of growth of FEOGA guarantee expenditure markedly below that of Own Resources.
- (vii) Commitment to rigorous price policy, to implementation of effective guarantee thresholds whenever production exceeds or threatens to exceed the possibility of remunerative outlets and to restraint in expenditure on all products Mediterranean as well as Northern.
- (viii) Effective measures to cut back milk production, including a price freeze for 4 years.
- (ix) Commitment to narrowing the gap between Community cereals prices and prices on other markets.

Other Policies

- (x) A package including solution of the third country problem on Community standards; commitment to early adoption of a single administrative document for customs clearance and adoption of the Common Commercial Policy Regulation.
- (xi) Setting a date for the elimination of lead in petrol.
- (xii) Commitment to early adoption of a genuinely liberal non-life insurance regime.
- (xiii) Timetable for abolition of quotas for road haulage vehicles.
- (xiv) Commitment to early progress in liberalising structure for setting air fares.

(xv) Agreement on the ESPRIT programme subject to financial feasibility.

(xvi) Decisions on solid fuels policy (coal).

Structural Funds

(xviii) Agreement that reform of the structural funds must be considered as a package, of which proposal for IMPs (a major element in the Greek Memorandum) is an integral part.

B: Things we could accept at Athens

Budget

(i) Increase in own resources ceiling to [x] on condition that A(i) and A(v) were satisfactorily settled.

CAP

(ii) Super-levy on milk subject to there being no significant exemptions, no unfair discrimination against the UK, and an appropriate base arrangement [ie 1983 -] and on condition that prices were frozen for 3 to 4 years.

(iii) A mandate to the Commission to discuss with the US stabilisation of exports of cereals substitutes so long as there was no commitment to unbinding the tariff on these products.

(iv) Changes in the arrangements for dismantling MCAs provided that they were not inflationary and did not add to the costs of the CAP.

Other Policies

(v) Agreement to follow up French ideas on industrial cooperation.

Structural Funds

(vi) Outline agreement on the Regional Fund.

(vii) Commitment to early progress on review of Structural Funds, including IMPs, together with some minor benefits to Greece under the Greek Memorandum.

C: Things we will resist

Budget

- (i) Short term solution.
- (ii) Solution which did not deal with both elements of the burden ie expenditure gap/own resources gap.
- (iii) Arbitrary redefinition of the allocated budget.
- (iv) A substantial rate of contribution above the limit.

CAP

- (v) A deal on MCAs which links agricultural prices to the strongest currency.
- (vi) Abolition or discriminatory treatment of special arrangements of benefit to the UK, in particular the butter subsidy and sheep arrangements.
- (vii) The oils and fats tax.
- (viii) Unilateral action under GATT against import of cereal substitutes.

Structural Funds

- (ix) Any binding commitment to Integrated Mediterranean Programmes beyond further work (or substantial concessions to demands in the Greek Memorandum).

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BRIEF 3
REFERENCE B.

EUROPEAN COMMUNITIES
THE COUNCIL

Brussels, 30 November 1983 (01.12)

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SECRETARIAT NOTE

Subject: Preparation of the European Council meeting in Athens
- New policies

The document annexed hereto, which takes stock of the discussions held within the Council, including the Special Council, is hereby circulated to delegations, as agreed at the last Special Council meeting.

It should be noted that discussions hitherto have not enabled a consensus to be worked out on a number of points.

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NEW POLICIES

The European Council feels that special priority must henceforth be given to new policies. The aim will be to ensure the international competitiveness of Community undertakings by coherent development in the field of research, innovation and new technology. These policies will be implemented in such a way as to ensure that all the Member States benefit equitably.

The efforts to be made by the Community in these areas must be based on a favourable environment; this means that practical steps will have to be taken to strengthen the internal market from the financial and monetary standpoint also, to encourage co-operation between undertakings and to develop certain policies such as energy, transport and the environment.

1. Research and development, and new technologies

(a) In view of its impact on the socio-economic development of the Community, the European Council has decided to develop the research and development policy, in accordance with the following conditions:

- joint consultation at Community level with a view to ensuring the convergence of the Member States' national research and development policies and capacities;
- encouragement for European research and development efforts (whether at national or Community level) which are aimed at broad objectives defined jointly in a scientific and technical framework and are in line with the Community's essential requirements, in particular from the point of view of industrial competitiveness and cost-effectiveness;
- the strengthening of a European scientific network which is dynamic and of high quality.

(b) To this end, the European Council is determined to develop a Community strategy for science and technology on the basis of the objectives and criteria of the 1984-1987 framework programme and to emphasize the importance of this strategy by deciding to double Community research and development appropriations over the period 1984-1987 (i.e. 3 750 million ECU at 1982 values for the 1984-1987 framework programme) to allocate to this programme adequate resources, substantially greater than those spent up to now on research and development to the extent that this is possible within the limites of the Community reserves available, where appropriate by means of transfers.

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- c) The European Council undertakes to have concrete decisions on the 1984-1987 multiannual programme for the Joint Research Centre, adopted by the end of the year in order to ensure that the ISFRA Centre will continue to have large-scale projects in the future in accordance with the guidelines drawn up by the Council.
- d) As Community action is needed to speed up technological developments in European industry, the European Council has selected three initial sectors for the purpose: information technology, telecommunications and biotechnology.

(1) The European Council expresses its satisfaction at the progress achieved by the Council in complementing the ESPRIT programme, which, as it said in Stuttgart, might well serve as a model, and approves its aims and the financial estimate: 750 million ECU over 5 years. 7

The European Council takes the view that ESPRIT, as a strategic programme of European dimensions, should be allocated substantial financial backing of the order of 600-700 million ECU over five years if financing can be guaranteed within the resources available - where appropriate by means of transfers - and calls on the Commission to submit concrete covering proposals to the Council. 7

It notes that this constitutes an essential first step towards improving the competitiveness of the information-technology industry, to which the following should also contribute:

- encouragement for the grouping of undertakings;
- the creation of favourable conditions for the formulation of common standards;
- promotion of the use of products and services involving advanced technology.

It agrees that, for a major programme of this type, a thorough review should be carried out at the half-way stage.

- (ii) For telecommunications, because of their impact on the economy, the development of information technology, and hence the competitiveness of our industries, a reinforced Community approach must be defined.

The European Council calls on the Council to continue its deliberations in order to work out the necessary Community strategy. To this end, the Commission is requested to submit a proposal on the basis of the outcome of the proceedings of the Working Party on Telecommunications. The European Council wishes to have the first decisions before it as soon as possible.

- (iii) With regard to biotechnology, the European Council considers that a favourable environment should be created at Community level, enabling this sector to develop and reducing the fragmentation of the efforts currently being made in regard to research, development and training.

The Commission is requested to submit at the beginning of 1984 an action programme for biotechnology based on the objectives stated in its communication of 29 September. The European Council wishes to have the first decisions before it at its second meeting in 1984.

- (e) The European Council also stresses the advisability of promoting the joint use of major installations and specialized equipment.

It asks the Council and the Commission to examine, in a spirit of pragmatism and flexibility, formulae that will enable undertakings, research bodies and Member States which so desire to undertake, with Community participation, projects or programmes of common interest.

It recognizes, in addition to the measures already undertaken by the Ten at Community level, the advantage of inviting non-Community countries to participate in joint measures where such participation corresponds to a particular interest of the Community.

The European Council is determined to intensify efforts to stimulate the effectiveness of the Community's scientific and technical potential, in particular by encouraging closer co-operation between the industrial partners; these efforts must seek inter alia to bring about greater mobility for researchers and the promotion of advanced Community projects and teams, e.g. on the basis of the experimental project to stimulate scientific and technical activities which the Council adopted in 1983.

In the same spirit, the Community asks research bodies in every Member State to make room for other Member States' researchers on a reciprocal basis wherever practicable.

In addition, the European Council asks the Council and the Commission to ensure that when science and technology measures and projects are implemented particular attention is paid to the role that can be played by SMUs in this connection, by encouraging their innovatory function.

2. Co-operation between undertakings

The European Council underlines the prime importance of the economic environment for encouraging co-operation between undertakings. It asks the Council, the Commission and the Member States to provide accompanying conditions favourable to co-operation, including a stable and improved investment climate. The gradual elimination of continuing obstacles to capital movements would represent a major contribution in this connection.

- (i) In competition policy, the European Council takes note of the Commission's initiatives aimed at facilitating research and development agreements and exploiting their results; it notes that the Commission is prompted in this regard by its concern to improve competitiveness between undertakings on an international scale, and it accepts the need to assess the agreements concluded between them at national or Community level in a pragmatic manner, taking full account of the impact of international competition, while conforming to the basic objectives of competition policy.
- (ii) In the tax and legal fields, the European Council attaches priority to removing obstacles to co-operation between enterprises and therefore calls on the Council to endeavour to take positive decisions enabling it to report on the progress achieved on the proposals relating to the European economic interest grouping, taxation affecting co-operation and capital markets for its second meeting in 1984.

It also asks the Member States and the Commission to examine jointly the various national tax provisions in order to establish the extent to which they constitute an obstacle to co-operation between undertakings; it asks the Commission to make all appropriate proposals in the light of that examination, within the very near future.

- (iii) In the field of financing, it confirms that existing Community financial instruments (funds and loans), in carrying out their tasks and pursuing common objectives, must try to promote co-operation between undertakings, including SMUs, especially in the new technologies sector.

To this end the European Council:

- invites the EIB to examine favourably the possibility of giving practical effect to this guideline from its own resources,
- requests the Commission to provide a follow-up within its terms of reference and to make any proposal it deems appropriate for implementing it.

Moreover, with a view to greater mobilization of financial resources in order to promote the dissemination of advanced technologies, the European Council:

- calls on the Council to take a decision by 1 April 1984 on the proposal on the financing of innovation in small and medium-sized undertakings,
- asks the Commission to identify, in close co-ordination with the Member States, ways and means of improving the flow of risk capital to undertakings.

Finally, the European Council agrees that the effort to give fresh impetus to the Community through projects permitting European industry to face up to the challenge of the new industrial revolution must go hand in hand with an effort to inform and consult the workers and employers likely to be directly affected.

It requests the Commission to examine this question and to report back to the Council in due course.

3. Strengthening the internal market

Having stressed in Copenhagen and Stuttgart the priority nature of the strengthening of the internal market with a view to providing undertakings with an environment favourable to the development of their activities, the European Council notes with satisfaction the agreements reached on several measures to simplify formalities in trade within the Community, the guidelines evolved on developing a European standardization policy, and the resumption of work to eliminate technical barriers to trade.

It stresses that this action must be continued, developed and completed.

- (a) As regards the elimination of technical barriers to trade, it requests that the recent resumption of proceedings take concrete form through the adoption, in the first two months of 1984, of the Directives currently being examined; it decides here and now to create a new instrument providing protection against unlawful commercial practices and asks the Council to adopt the Regulation in question also in the first two months of 1984.
- (b) As regards standardization, it requests the Commission, after consulting the bodies concerned, to take the initial steps necessary to implement the following principles recently agreed on (*) by the Internal Market Council and to submit a progress report before the Second European Council meeting in June 1984:

(*) general and specific Greek reservations

- agreement by the Member States to keep a constant check on the technical regulations which are applied - whether de jure or de facto - on their territory so as to withdraw those which are obsolete or unnecessary;
- agreement by the Member States to ensure the mutual recognition of the results of tests and the establishment, where necessary, of harmonized rules as regards the operation of the certification bodies;
- agreement to early Community consultation at an appropriate level, in accordance with the objectives of Directive 189/83/EEC, where major national regulatory initiatives or procedures might have adverse repercussions on the operation of the internal market;
- extension of the Community practice in matters of technical harmonization of entrusting the task of defining the technical characteristics of products to standards, preferably European but if necessary national, where the conditions necessary for this purpose, particularly as regards health protection and safety, are fulfilled;
- a very rapid strengthening of the capacity to standardize, preferably at European level, with a view to facilitating, on the one hand, harmonization of legislation by the Community and, on the other, industrial development, particularly in the field of new technologies; this could in specific circumstances involve the Community in introducing new procedures to improve the drawing up of standards (e.g. standardization bureaus, ad hoc committees). The adoption of European standards would be submitted to European standardization bodies for approval.

In the high technology sectors, the European Council requests the relevant authorities to identify subjects where common specifications and standards will make it possible to properly exploit the Community dimension and the opening up of public works and supply contracts, so that the necessary decisions can be taken.

(c) As regards the simplification of formalities in trade within the Community, it requests that

- decisions be taken before 30 June 1984 concerning the introduction of a single document and the 14th VAT Directive;
- the Commission study even greater simplification of trade formalities within the Community for the various sectors concerned (transport, taxation, health and plant health controls, etc.), and make any appropriate proposals in the near future.

(d) In the services and freedom of establishment sector, the European Council requests that

- a decision be taken before 30 June 1984 concerning the Directive on insurance other than life assurance;
- there should be immediate resumption of the examination of the proposals for Directives which are pending on the right of establishment and freedom to provide services in the professions;
- in the coming six months, the Transport Council take a series of specific decisions on the harmonization of conditions of competition and gradual liberalization in the field of air and road transport, with the aim, in the latter sector, of abolishing as soon as possible all quota arrangements by means of suitable transitional measures; it requests the Council to

.../...

report back for its second meeting in 1984 on the implementation of this guideline.

- (e) As regards the legal environment of undertakings, it requests that decisions be taken before 30 June 1984 on the 8th Directive on the auditing of company accounts and the Directive on product liability.

Finally, the European Council would point out that the harmonious functioning of the Community, and in particular its internal market, requires, in addition to the measures to be taken concerning free movement of goods, establishment and the freedom to provide services, that existing controls and obstacles to the free movement of persons be simplified, without prejudice to internal security requirements.

.../...

4. Economic, monetary and financial area

The European Council notes that greater stability and better predictability of the economic climate and buoyant investment constitute the necessary preconditions for a vigorous and lasting economic recovery. The Community can and should contribute more to such stabilization by continuously developing its action in the monetary and financial areas.

A potentially successful Community strategy requires a further intensification of efforts towards greater convergence of the economic policies of the Community and the Member States. Individual countries have already embarked on promising approaches. The reduction of price increase rates to a low level is the surest guarantee for the stability of exchange rates and balance of payments equilibrium. This objective must be incorporated into a broader strategy aimed at lasting growth and progressively permitting the permanent reduction of unemployment, the approximation of standards of living and the reduction of regional differences.

To encourage productive investment, thereby creating jobs and improving competitiveness, it is essential that there be a policy aimed at renewing and strengthening the potential of the economy.

(a) ECU and European monetary system

The EMS has become an essential point of reference in the conduct of economic policies at Community level. It constitutes an essential instrument of integration, the development of which towards the aims laid down at its inception together with the participation of all the Member States will permit the necessary progress to be made towards convergence of economic performance, monetary stability and growth.

The European Council has reaffirmed that the ECU is the central element and the pillar of the EMS. It has noted with satisfaction the spontaneous growth in the private use of the ECU and the efforts made to establish a multilateral clearing system for inter-bank operations in ECU. It invites Member States to investigate the possibilities of removing exchange controls or other restrictions impeding the private use of the ECU.

The European Council also requests the Council (ECO/FIN) and the Commission to reconsider the possibility of strengthening the European Monetary System and to report to it on their proposals in this respect on the fifth anniversary of the creation of the system.

(6) European financial integration

The European Council has agreed that it is necessary to encourage greater use of the savings available in the Community to finance investment.

In this regard it was noted that the financial fragmentation of the Community was incompatible with this objective.

The European Council therefore considers that long-term capital movements must be liberalized gradually but significantly.

The European Council has asked the Council (ECO/FIN) and the Commission to continue studying the ways and means necessary to establish a large-scale and efficient risk capital market at Community level.

(c) Stabilization of the international monetary system

The European Council expects that, in conformity with point V of the Williamsburg communiqué, the conditions for improving the international monetary system, and in particular for contributing to the stabilization of exchange markets, will be identified.

In this regard it is pleased with the (ECO/FIN) Council's decision to adopt a common position on the priority questions to be examined and, if possible, to formulate common proposals so that Europe can fully play its role in organizing international monetary co-operation in a more efficient way.

5. Environment

The European Council affirms the importance it attaches to special attention being given in developing new policies to specific measures to combat dangers to the environment.

As a first practical step, it has agreed that lead will be eliminated from petrol as soon as possible as a pre-requisite for the reduction of vehicle exhaust limit values; it therefore requests the Environment Council to fix before June 1984 the timetable and arrangements for implementing this agreement, on the basis of the proposal requested from the Commission.

6. Energy

The European Council wishes to stress the importance it attaches to a Community energy policy being established such as will make the European economy more competitive on the international market. It is essential in this context to be able to count on adequate energy supplies being available on a long-term basis. The Council emphasizes and reasserts, in this connection, that the present situation on the world energy market does not justify any relaxation of the long-term efforts that have begun in the Community to make the necessary changes in the energy situation.

The European Council expresses its satisfaction at the agreement reached by the Energy Council on 4 November on the role the Community should play in energy matters. This role involves in particular defining long-term energy objectives along the lines of those defined for 1990.

The Community's energy programme should be multiannual in form, which will permit dovetailing between Member States' schemes and those of the Community and enable more efficient use to be made of the sums expended, which should be commensurate with the priority accorded this sector in the context of Community development.

The European Council undertakes to have adopted, before the end of the year, a specific decision on demonstration projects (overall budget in a multiannual framework) and a specific approach on solid fuels (including coking).

7. Convergence

The European Council notes that certain branches of industry in certain regions or certain Member States of the Community are less well placed than others to benefit from all of the measures and projects envisaged.

It instructs the Commission to examine this question in detail and to submit a programme of action during the first half of 1984.

6. New technologies, employment and social policy

The European Council requests the Council and the Commission to prepare, during the first half of 1984, a medium-term action programme on the organization of the European Social Area.

This programme must in particular:

- make employment the focal point of Community social policy and in particular implement a European programme for the social and professional integration of young people;
- adopt a framework policy for the adjustment of working time;
- improve co-operation and consultation on social protection;
- encourage co-operation regarding demography and the migration of the labour force;
- finally, restart the social dialogue, in particular at European level, between the Council, the Commission and both sides of industry concerning both macro-economic policies and sectoral policies and the consequences of technological progress for employment and social policies.

The creation of a European Social Area should, at a time of overall reform of the Community, become a factor encouraging workers to support the construction of Europe and contributing to the development of a European identity in relation to the outside world.

Brussels, 30 November 1983 (01.12)

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RESTRICTION

NOTE

from : Presidency
dated: 30 November 1983
to : European Council in Athens, 4-6 December 1983

To assist the European Council's discussions, the Presidency and the Commission have endeavoured to pinpoint, in each area of the Stuttgart Declaration, the major political problems to be settled by the Heads of State or Government in Athens.

I. Common agricultural policy

1. Commercial policy

Does the European Council approve the Presidency's draft overall compromise as set out on page 2?

2. Milk

Assuming the European Council approves the system of quotas and super-levy, the following questions arise:

- (a) The European Council should decide on the level of the Community guarantee threshold and choose the reference period to be used for determining the guaranteed quantities per producer.

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- (b) The European Council should consider whether there can be special arrangements for the special situation with regard to milk production.
- (c) The European Council should adopt a position on whether or not the decisions on milk should, as from this meeting, be supplemented by the three provisions set out on page 5.

3. Cereals

Does the European Council approve the overall proposal for the cereals sector as set out on page 6?

4. Other products

The European Council should decide on the options set out on page 6 of the Presidency's report, given that the actual decisions on the products concerned will enter into force at the same time as the other provisions covered by this section after they have been cast in the form of legislation.

5. Tax on oils and fats (page 7)

Does the European Council intend to introduce a non-discriminatory tax at a moderate and stable rate on non-milk-based oils and fats?

6. Monetary compensatory amounts (pages 8-9)

The European Council should examine the problem of monetary

compensatory amounts from the threefold aspect of:

- future MCAs
- existing MCAs
- method of calculation.

7. The European Council should check whether the measures it has thus agreed permit adequate control of agricultural spending, particularly in financial years 1984 and 1985.

II. Structural Funds

The European Council should adopt a position on the following two questions:

- Is the European Council ready to enter into a financial commitment immediately (doubling of the Funds between now and 1990) or does it intend to issue a guideline (substantial increase - in real terms - in the light of available financial resources and real requirements)? (page 12);
- Is the European Council ready to decide to implement in the present Community, before June 1984, integrated Mediterranean programmes involving an additional financial effort of limited duration? (page 13).

III. New policies

1. Is the European Council prepared to accept the figure given for the ESPRIT programme and the financial guideline for the Research and Development framework programme? (pages 16-17)
2. Can the European Council accept the Presidency's arrangement for the monetary question? (page 20).

IV. Enlargement (page 23)

The European Council should set a target date by which the bulk of the negotiations should be completed.

.../...

V. Financial problems

1. Budgetary discipline (pages 23-24)

The European Council should issue a guideline on the budgetary discipline to be observed, on the understanding that the detailed provisions will then be adopted by the Council.

2. Budgetary imbalances

(a) Can the European Council accept the general guidelines set out by the Presidency on pages 24 and 25 and the Presidency's compromise solution based on those guidelines?

(b) If the European Council does not adopt the Presidency's compromise: is it prepared, when assessing budgetary imbalances, to take into account the "revenue" side, in whole or in part, as well as the "expenditure" side?

(c) Does the European Council consider that all the Member States (except the beneficiary) should participate in accordance with the usual scale of contribution in the financing of the compensation granted to one Member State?

(d) On the basis of the guidelines it has adopted, the European Council will be in a position to express its views on the various proposals set out in the Presidency's report.
(page 26)

.../...

3. Own resources (page 26)

Is the European Council prepared, in the light of the conclusions reached on the problems mentioned above, to determine the extent and timing of the Community's requirements in terms of own resources?

VI. Does the European Council agree that the legal decisions on implementation of the foregoing guidelines and decisions of principle should be taken by specific dates to be determined?

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30 November 1983

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

FUTURE FINANCING OF THE COMMUNITY

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. (i) To secure a fair and lasting solution to the problem of budgetary imbalances to ensure that no Member State has to bear a financial burden disproportionate to its relative national wealth.
- (ii) To ensure that whatever new financial arrangements are agreed must take effect in respect of 1984.
- (iii) To refuse to consider principle of increase in own resources until our two conditions have been met in full.

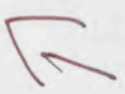
POINTS TO MAKE

Budgetary Imbalances

2. We agreed at Stuttgart that a major objective of this negotiation was to find a solution which would avoid the constantly recurrent problems between Member States over the financial consequences of the Community's budget. Simply must take decisions now. Absolute condition which must be satisfied before UK could possibly consider case for new own resources. Must solve problem of unfair budgetary burdens once and for all so that we can set development of Community off to a new start.
3. Note all hard work that has been done by the Special Council. Pleased to see that at least some progress has been made towards a consensus about the sort of arrangements that ought to be made. As I see it, we have either reached agreement or are close to agreement that:

- there is a real and serious problem of budgetary imbalances in the Community.
- the problem must be solved on a lasting basis. We therefore need an arrangement which works as well for the enlarged Community as for the present one.
- the arrangements for limiting the burdens on a Member State should reflect ability to pay. Maximum limit of threshold beyond which relief will be made available should be expressed as a percentage of gross domestic product of the member state (calculated as a linear function of relative prosperity.) This is principle which underlies the proposals in German and Commission papers, as well as our own. (L)
- solutions should be implemented on revenue side of budget and incorporated in New Own Resources Decision. Pleased to note that the Parliament allowed for this possibility in final version of Arndt Resolution. Implementation on revenue side means that expenditure side of budget would be kept free for development of genuine Community policies which we all hope will themselves contribute over time to solving underlying problem of imbalances.
- the new system should apply in respect of 1984 as well as subsequent years.

Richer countries have higher limits, poorer - lower limits.



4. Think we would also agree that there would be great advantage in keeping arrangements as simple as possible so as to cause minimum disturbance to Community's existing arrangements. Strong argument for having a single mechanism which deals with whole of the imbalances problem.

5. Disappointed that Special Council has failed to address fundamental problem of how to measure budgetary imbalances. This means we must do so now at Athens. We have insisted throughout these negotiations that the right measure of the burden is gap between shares in Community expenditure on the one hand and shares in own resources on the other.

GAP / expenditure resources

6. Safety Net is only proposal on the table which meets the

specifications I have described. It is conceptually simple and would properly measure whole of the imbalance. Would also meet all the other essential criteria on which we are agreed: would provide a durable solution applicable in an enlarged Community; would properly measure ability to pay; and would be implemented on the revenue side of budget. Also have the great advantage of enabling Member States to consider new Community spending programmes on their merits rather than in terms of budgetary impact on them. Would thus make major contribution to relaunch of Community.

7. If Member States would prefer a more complex solution involving a dual mechanism, would not rule this out. But such a solution would have to deal with the whole of the imbalances problem and provide adequate relief.

8. But let me make it plain that we should not be satisfied with an outcome which was liable to move in unpredictable ways as would, for example, the Danish Convergence fund proposal. Must have an arrangement which we could be certain would bring fair and sensible results over time for all Member States.

9. Whatever method is adopted for financing reliefs, it would make no sense for Member States benefitting from the arrangements to contribute to their own reliefs or to reliefs of others. This could be avoided by net financing. Would have additional advantage of minimising overall budgetary impact of financing reliefs. If reliefs were paid on expenditure side, net financing would not be a practical possibility. Call on own resources would accordingly be greater.

(For possible additional speaking note see Annex A)

10. (If redefinition of allocated Community expenditure is raised by others.) *! - Looking the books*
Cannot accept arbitrary changes to definition of allocated

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Community expenditure which Commission have always used hitherto. Council should not be distracted by illusion that there is a way of making UK budgetary problem look smaller than it really is. But if other Member States want to make adjustments to traditional definition of allocated expenditure then we must also consider non-budgetary effects of agricultural trade. (For other defensive points see Annex B.)

11. (If other Member States press for a substantial rate of contribution above the limit.)

Do not accept view that a Member State benefitting from reliefs should have less than 100% compensation for the measured imbalance. This would merely perpetuate existing imbalance by ensuring that countries concerned would have major incentive to oppose new policies unless they could be certain of a net benefit from them

(Fall back - if other conditions are met)

Do not rule out possibility that Member States benefitting from reliefs might contribute a small percentage to excess of their burdens over their limits provided this percentage is related to relative prosperity and provided that rate of contribution at margin would be very small for Member State close to average prosperity in enlarged Community.

12. (If safety net described as smacking of juste retour) Frankly do not understand this charge. We should remain net contributors to the budget under the safety net although UK is one of the less prosperous member states.

New Own Resources

13. Must reiterate what I said at Stuttgart. Prepared to consider the case for an increase in own resources provided that:

- we reach agreement on an effective control of the rate of increase of agricultural and other expenditure and provided

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that

- it is accompanied by an arrangement to ensure a fair sharing of the financial burden so that no country has to pay a share disproportionate to its relative national wealth.

14. Our two prior conditions are vital. Must emphasise strength of feeling in British Parliament. Could not possibly persuade British Parliament to approve an increase in own resources unless there is demonstrably no risk of all the extra money being frittered away on financing agricultural surpluses or of the UK continuing to bear an inequitable budgetary burden. Pleased that European Parliament in Arndt Resolution specifically demanded that any new own resources should not be spent on the CAP.

15. Clear consensus has emerged that decision on new own resources can only be taken at the end of the negotiation. Therefore cannot lift my reserve. But under cover of my reserve I should like to make one or two points.

16. Community has no choice but to apply same standards of discipline to its expenditure as each of us is applying at home. Welcome recognition in French and Dutch papers on budgetary discipline that revenue must determine expenditure and not the other way round (see Brief). As Court of Auditors report has shown, sound financial management could produce considerable savings, particularly in agricultural spending. No doubt that proper control of Community expenditure will in time relieve much of pressure on own resources.

17. Size of any increase in own resources would depend on whether financing of reliefs to member states bearing an inequitable budgetary burden is scored against the VAT ceiling or not.

18. As regards timing, must emphasise that whatever new

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financial arrangements are agreed for imbalances problem must become an integral part of the own resources system and apply in respect of 1984 and subsequent years.

19. (For use if we are satisfied both on the substance and the specificity of agreements on budgetary imbalances and control of Community spending)

In these circumstances I can agree as a working hypothesis to an increase in the VAT ceiling to But must make it very clear that precise texts must be worked out to give effect to agreements on budgetary imbalances and control of Community spending. Not prepared to present decision on own resources to British Parliament unless it goes hand in hand with equally specific texts on these other points.

BACKGROUND

References:

- A: Possible additional passage for opening remarks by the Prime Minister
- B: Defensive points on redefinition of allocated Community expenditure
- C: UK Draft Conclusions on Budgetary Imbalances (tabled at 28 November Special Council)
- D: UK Note on Net Financing
- E: Tabular Summary of proposals on future financing
- F: Safety net paper
- G: Commission's proposal for modulated VAT
- H: Danish Convergence Fund proposal
- I: French amendments to Danish Convergence Fund proposal
- J: German paper
- K: Commission proposal on correction of budgetary imbalances
- L: Presidency proposal tabled at 9-11 November Special
- M: Arndt Resolution

Budgetary Imbalances

20. Although there has been no support in the Special

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Council for our safety net proposal as a whole, there has been some movement towards our thinking on the essential elements of a solution. It is now generally accepted that a serious problem exists; that there must be a lasting arrangement to deal with it, that the extent of compensation should be related to economic performance of member states; and that the solution must be implemented on the revenue side of the budget.

21. The main issues on which disagreement still exists are as follows:

(i) Measurement of the Imbalance

France, Netherlands, Italy and Ireland still support the Danish proposal for measuring the difference between GDP and expenditure shares. The German paper proposed a combination of GDP/ expenditure shares and modulated VAT, but the Germans have recently expressed an interest in VAT/ expenditure shares. Belgium favours the Commission's expenditure per head measure. Luxembourg which has put forward its own variant of the Commission's modulated VAT proposal wants to avoid specifying any objective measurement of the imbalance.

(ii) Definition of allocated Community expenditure

The Commission seem ready to drop their proposals for arbitrarily redefining allocated expenditure and did not attempt to resurrect them at the 28 November Special Council. Nevertheless a number of member states including France, Netherlands, Luxembourg and Ireland support exclusion of some proportion of administrative expenditure and expenditure related to third countries (ACP sugar/ food aid) from the allocated budget. The Italians may pursue the Commission's idea of redistributing agricultural expenditure according to production shares. However the issue most likely to run is that of reallocating administrative expenditure since the Germans and the French have said several times that they could accept some adjustment to the present system of allocating

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the bulk of administrative expenditure to Belgium and Luxembourg. This could be a serious matter for the UK since the amount potentially involved is 200 million ecu. The amount potentially involved in the case of food aid and ACP sugar is 50-100 mecu and in the case of FEOGA expenditure 250-400 mecu.

(iii) Single or combined mechanism

France, Denmark, Italy, Ireland and the Netherlands all favour a single mechanism because they are strongly opposed to the Commission's proposal for modulated VAT. The FRG, Belgium and Luxembourg favour a combined mechanism. However, we know from our bilateral contacts that the Germans have doubts about the negotiability of modulated VAT. At a meeting with Mr Williamson on 17 November, Herr Tietmeyer floated the idea of combining VAT/ expenditure shares with a degressive transitional arrangement for the UK covering the own resources/ VAT gap. M Morel told Mr Williamson on 21 and 29 November that France might just be able to swallow the VAT/ expenditure shares gap but would have great difficulty in accepting a second element of relief designed to cover the UK's levies and duties problem.

(iv) Calculation of correction

France, Ireland and Netherlands support the Danish proposal for correcting a percentage of the measured imbalance. This formula is unsatisfactory since it is not based on ability to pay and could not guarantee a reliable solution over time. The Commission and the Germans have both put forward proposals which would set a maximum limit on the measured burden expressed as a percentage of GDP, related to relative prosperity. The Germans have abandoned their alternative formula which was similar to the Danish proposal. However they do not favour 100% compensation for member states benefitting from reliefs since they believe this might reduce their incentive to restrain Community expenditure.

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(v) Financing of compensation

The Germans support our view that member states benefitting from reliefs should not contribute to their own reliefs or those of others. France has suggested financing of reliefs by a special key for non-beneficiaries. Denmark, Belgium, Italy, Luxembourg and Ireland all favour financing by normal VAT shares risk beneficiaries contributing to their own reliefs.

New Own Resources

22. The Commission have proposed an increase in VAT ceiling to 1.4%. The Presidency have proposed an increase to 1.8% with effect from 1 January 1986. The Italians and Danes have suggested even more unrealistic figures such as 2%. At the Anglo-French Summit, Chandernagor said that France was thinking of an increase sufficient to last 10 years perhaps between 1.2% and 1.4%. In the end most member states are likely to opt for an increase of 0.4%.

23. We have not taken a public position on the size of increase which would be appropriate. Officials consider that allowing for enlargement, a diminishing proportion of Community expenditure on agriculture and some growth in real terms of other Community policies, an increase of 0.2% in the VAT ceiling should be sufficient if budget reliefs are financed outside the VAT ceiling. This would be equivalent to an increase of 0.3% inside the budget and 0.4% if they were financed gross inside the budget.

24. We have made it clear that we would only be prepared to consider an increase in own resources if our two basic conditions laid down by the Prime Minister at Stuttgart are fulfilled.

25. The Germans, the Dutch and the French have also taken a helpful position. The Germans have made it clear that they would only agree to discuss an increase in own resources if

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other elements of the Stuttgart package were satisfactorily resolved including a limit to the German contribution. Herr Genscher agreed at the Anglo-German Summit that we had to avoid an outcome in which an increase in own resources was agreed in concrete terms while other aspects of the negotiations were covered only by general expressions of intent. The Dutch have linked the question of own resources to agreement on improving budgetary discipline and particularly control of agricultural spending. The French argued strongly at the 28 November Special Council that the question of own resources would have to be the last point in the negotiations. M Delors said he was not sure that it would be possible to agree a precise VAT rate at the European Council since this would depend on progress achieved on savings, implementation of new policies and the parallel negotiation on enlargement.

26. If the French or Germans suggest that any increase in the VAT ceiling should be released in tranches, we could support it as a way of giving national governments greater control over the rate at which own resources are used up. But since the UK would largely be protected against the effects of any increase, we do not need to take the lead in proposing a tranche system.

27. But the question of timing is very important for the UK. In a final package we must ensure that any new system for dealing with budgetary imbalances applies in respect 1984. This is compatible with any increase in own resources taking effect from a later date such as 1 January 1986.

Foreign and Commonwealth Office
30 November 1983

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Mr. Andrews

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TO IMMEDIATE FCO

TELEGRAM NUMBER 4219 OF 29 NOVEMBER

INFO PRIORITY ALL EC POSTS, LISBON MADRID

MIPT:

ATHENS EUROPEAN COUNCIL

1. FOLLOWING ARE SUGGESTED OPENING REMARKS BY THE PRIME MINISTER ON BUDGETARY IMBALANCES, AFTER A PASSAGE STRESSING THE IMPORTANCE OF THE STUTTGART PACKAGE AS A WHOLE AND THE COMMUNITY'S NEED FOR AGREEMENT AT ATHENS

"A. I AM PLEASED TO SEE THAT AT LEAST SOME PROGRESS HAS BEEN MADE TOWARDS A CONSENSUS ABOUT THE SORT OF ARRANGEMENTS WHICH OUGHT TO BE MADE. (HERE DRAW ON YOUR REMARKS IN THE COUNCIL YESTERDAY IN PARAGRAPHS 2 TO 3 OF MY TELEGRAM NUMBER 4212).

B. BUT FOREIGN AND FINANCE MINISTERS (NOT YOU EXCLAMATION MARK) SEEM TO ME TO HAVE MADE THEIR AND OUR TASK MORE DIFFICULT BY COMPLICATING THE ISSUES AND NOT FACING UP TO THE REAL PROBLEM OF FIGURES. I AM NOT OF COURSE SAYING THAT WE ONLY NEED AGREEMENT ON FIGURES. WE MUST HAVE A DURABLE LONG-TERM ARRANGEMENT, AS I HAVE ARGUED FOR SO LONG. BUT WE DO ALSO NEED AGREEMENT ON FIGURES. THE PROBLEM IS IN FACT SIMPLE AND I BELIEVE THAT WE HERE SHOULD PROVIDE A CLEAR AND SIMPLE ANSWER TO IT SO THAT THE FOREIGN MINISTERS OR THE PREPARATORY GROUP CAN GO TO WORK OVER NIGHT.

C. WHAT IS THE BASIC PROBLEM? UP TO NOW THERE HAVE BEEN TWO NET CONTRIBUTORS, GERMANY AND THE UK. GERMANY HAS GENEROUSLY SAID THAT THEY ARE WILLING TO CONTINUE TO BE MAJOR CONTRIBUTORS. THE UK, THOUGH MUCH LESS **CONFIDENTIAL** BELOW THE COMMUNITY AVERAGE IN THE PRESENT COMMUNITY OF TEN, REMAINS PREPARED TO CONTRIBUTE

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THE UK, THOUGH MUCH LESS RICH AND STILL BELOW THE COMMUNITY AVERAGE IN THE PRESENT COMMUNITY OF TEN, REMAINS PREPARED TO CONTRIBUTE BETWEEN 400M AND 500M ECUS, A VERY SUBSTANTIAL SUM OF MONEY. IF A LIMIT IS TO BE PUT ON THE GERMAN NET CONTRIBUTION AT ABOUT ITS PRESENT LEVEL OF RATHER OVER 2,000M ECUS AND IF THE UK'S CONTRIBUTION IS TO BE REDUCED TO 400M TO 500M AND IF SPAIN AND PORTUGAL ARE TO BECOME NET BENEFICIARIES, FRANCE WILL ALSO BECOME A NET CONTRIBUTOR. BUT OTHER MEMBER STATES INCLUDING DENMARK AND THE BENELUX COUNTRIES WHICH ARE RICHER THAN THE COMMUNITY AVERAGE WILL CONTINUE TO BE NET BENEFICIARIES.

D. I PROPOSE THAT WE TAKE A SIMPLE POLITICAL DECISION, HERE AND NOW. IN THE FIRST YEAR OF THE NEW ARRANGEMENTS GERMANY SHOULD CONTRIBUTE AROUND 2,000M ECUS AND BRITAIN AND FRANCE SHOULD EACH MAKE A SIMILAR NET CONTRIBUTION BETWEEN 400 AND 500M ECUS - THOUGH FRANCE IS OF COURSE CONSIDERABLY RICHER THAN BRITAIN.

E. I AM QUOTE CONFIDENT THAT, IF WE COULD CUT THROUGH ALL THE COMPLICATIONS WHICH HAVE HELD UP THE SPECIAL COUNCILS AND AGREE THAT THIS SIMPLE OUTCOME IS WHAT WE WANT THE NEW ARRANGEMENT TO YIELD IN THE FIRST YEAR, IT WOULD BE POSSIBLE TO DEVISE A MECHANISM OR MECHANISMS WHICH WOULD CONTINUE TO PRODUCE SUCH AN EQUITABLE OUTCOME IN FUTURE YEARS. I PROPOSE THAT IF WE COULD REACH AGREEMENT ON THIS BASIS A PAPER SHOULD BE PREPARED FOR US OVERNIGHT SUGGESTING HOW IT SHOULD BE DONE."

FCO ADVANCE TO:

FCO - PS, HANNAY, FAIRWEATHER, WALL
CAB - WILLIAMSON, STAPLETON, DURIE
MAFF - ANDREWS
TSY - UNWIN

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Annex A

REF B

(a) Administrative expenditure

Belgium and Luxembourg clearly recognise that they receive considerable benefits from having Community institutions in their capitals. Struck by the lengthy resistance put up by Luxembourg's representative at the Budget Council to the transfer of a few staffing posts from Luxembourg to Brussels. According to the Luxembourg Government's own statistics the amount of spending power injected into the Luxembourg economy in the form of salaries, costs and local purchases as a result of the Community's administrative expenditure contributed one tenth of private Luxembourg consumption and was the equivalent of over 12% of Luxembourg's national budget. There are also considerable indirect gains arising from the attraction of private business. Believe that existing practice attributing bulk of administrative expenditure to Belgium and Luxembourg fairly represents the costs and benefits involved;

(b) Food Aid and ACP Sugar

Cannot seriously be suggested that export restitution paid to intervention boards in member states do not benefit the Community producers in question or are not a direct result of the operation of the CAP. If food was not disposed of through food aid, it would have to be disposed of in some other way which would itself be a charge to FEOGA. If the Commission or other member states want to adjust budget figures to take account of trading arrangements such as the ACP sugar protocol we will have to insist that all non-budgetary trade costs are taken into account.

(c) FEOGA Guidance

Idea that agricultural expenditure should be distributed according to shares of agricultural expenditure is a fundamental misunderstanding. The problem is that of transfers through the budget from one member state to another across the exchanges. Bulk of CAP expenditure arises from surplus products, which is related to each member state's self-sufficiency. Redistribution according to agricultural production shares would discriminate against countries with a relatively low degree of agricultural self-sufficiency such as the UK.

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U.K. PROPOSED DRAFT FOR 10774 /83

BUDGETARY IMBALANCES (Page 33)

Insert the following text as proposed by the UK.

"Budgetary Imbalances

The European Council recalled the mandate given at Stuttgart to achieve a more balanced and equitable financial situation from the standpoint of all Member States and to agree measures which, taken as a whole, will avoid the constantly recurrent problems between the Member States over the financial consequences of the Community's budget and its financing. Having examined all appropriate ways and means to this end the European Council concluded that:

In view of the time which must inevitably elapse before the development of Community policies achieves a more equitable financial balance between the Member States, the long term structuring of the Community budget must be accompanied by an arrangement to ensure that no Member State should again have to bear an inequitable budgetary burden.

The arrangement should be based on a budgetary indicator calculated for each Member State as total Community budget expenditure allocated to Member States (calculated on the basis used by the Commission in its note XIX/480/80 and its subsequent note of 16 June 1983) multiplied by the difference between the Member State's percentage shares of

(a) own resources paid during the year (excluding any refunds or reliefs given under the arrangement and their financing) and

/(b)

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Ms Mander 14/29/11
REF C
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- (b) Community expenditure allocated to Member States
(calculated as above).

The arrangement should set appropriate limits, based on relative prosperity and gross domestic product, on the budgetary burden as measured by this indicator that any Member State would be expected to bear. These limits would be set as follows:

- when the GDP per head of a Member State over any financial year and the two preceding years is 90% or less of the average GDP per head for the Community, the limit should be nil.
- when the GDP per head of a Member State in any financial year and the two preceding years is 140% or more of the average GDP per head for the Community, the limit should be 0.35% of that Member State's GDP in that year.
- when the GDP per head of a Member State in any financial year and the two preceding years lies between 90% and 140% of the average GDP per head for the Community, the limit should be a proportion of the Member State's GDP for that year fixed on a linear scale according to relative prosperity. The limit should increase by 0.007% for every percentage point by which its GDP per head exceeds 90% of the Community average.

When the budgetary indicator of a Member State exceeds its agreed limit, the amount of the excess should be deducted from its VAT payments at the beginning of the following year.

The financing of the revenue shortfall resulting from these deductions should be distributed between Member States which do not qualify for relief in accordance with a special/^{net financing}key based either on their VAT shares or on the difference between their actual budgetary indicators for the year in question and the limits set upon them.

The reliefs set out above should apply in respect of 1984 and all subsequent years.

The European Council called on the Council, acting on a proposal by the Commission, to prepare urgently and submit for approval by the next European Council a revised Own Resources Decision incorporating the above arrangement.

At the Preparatory Group on 26 October, Sir Michael Butler undertook to circulate a note explaining how the financing of compensation on the revenue side could be arranged so as to minimize the overall budgetary impact.

As described in the UK's safety net paper (8748/85), corrections on the revenue side would take the form of deductions from member states' VAT payments. In accordance with the established practice for refunds since 1980, these deductions would be net of any contribution by the recipient to the cost of financing them. If the resulting shortfall of revenue were financed in the ordinary way through an additional call-up of VAT, the net amount of the deductions would have to be grossed up to offset the cost to the recipient member state of financing its own deductions and those of others. This is effectively what was done on the expenditure side for refunds from 1980 to 1985.

However, this method of financing is unnecessarily complicated. It also absorbs more resources than the alternative of net financing (compare, for example, the gross refund provision in the 1984 draft budget of 1202 mecu with the net refund of 750 mecu). Under a net financing arrangement the contributions of beneficiary member states would be reduced by the net amount of their compensation and the cost of this would be distributed among the other member states. Grossing up would thus be avoided.

Financing of the net compensation by the other Member States could be either in accordance with VAT or by means of a special key, as paragraph 6 of the UK's safety-net paper suggested, i.e.:

i. By VAT shares

The other Member States would finance the shortfall in accordance with their VAT shares.

ii. By a special key

The other Member States would finance the shortfall in accordance with a special key.

.../...

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In either case, the amount of resources required would be equivalent to the amount of net deductions which were being made from VAT payments.

If reliefs were paid on the expenditure side, net financing would not be a practical possibility. The call on resources would accordingly be greater.

UK Representation.
2 November 1983.

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CORRECTION OF THE COMMUNITY BUDGET INEQUITY: BUILDING

BRIEF 3
REF 3 E

BLOCKS OF THE VARIOUS PROPOSALS

	(a) UK Safety Net	(b) Danish "Convergence Fund"	(c) Danish "Convergence Fund" as corrected by France	(d) Commission Proposal of 6 May for Modulated VAT	(e) German proposal
1. <u>Method of measuring the problem</u>	Net contributions to the budget	1. Difference between (a) actual Community payments to a Member State and (b) what payments would have been if ratio of payments to GDP had been same as ratio of total Community payments to total Community GDP. 2. Community payments redefined to exclude own resources refunds.	As in (b) but, in attributing Community payments to Member States, the Community administrative expenditure should be attributed 10% to the geographical location and 90% allocated to Member States by ref to GDP.	Does not attempt or purport to measure the problem.	The Commission's modulated VAT plus expenditure side scheme as in Danish proposal less adjustment for administrative expenditure. The result is called "negative difference".
	(f) Commission proposal on correction of budgetary imbalances		(g) Presidency proposal of 11 November		
	Original modulated VAT proposal combined with a new expenditure side system which would: (i) redefine allocated Community expenditure by (a) excluding from it expenditure on third countries (ie export restitutions linked to food aid and expenditure notionally arising from ACP sugar imports, additional exclusions possible) (b) excluding a further unspecified proportion of administrative expenditure, and (c) reallocating FEOGA guarantee expenditure according to agricultural production shares; (ii) measure difference between per capita expenditure in each member state as redefined in (i) and average per capita expenditure in Community as a whole.		Gap between expenditure and GNP shares multiplied by total allocated budget.		

BRIEF NO 4
REF E

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(a)
UK Safety Net

(b)
Danish "Convergence
Fund"

(c)
Danish "Convergence
Fund" as corrected by
France

(d)
Commission proposal
for modulated VAT

(e)
German proposal

2. Eligibility and exclusions

Member States with a per capita GDP of 90% or less of Community average to have zero limit on net contribution. Member States whose relative prosperity is above 90% of Community average to have limit defined as x% of their GDP which would rise in line with relative prosperity to reach say 0.35% of GDP at 140% of Community average prosperity. (ie plus 0.007% GDP for each point on the relative prosperity index).

A Member State is eligible only if its GDP per head is equal to or below Community average and its share of Community payments is lower than its share of Community GDP.

Variant 1 defines upper limit as x% of GDP determined by relative prosperity, as in safety net.

Variant 2 defines upper limit as x% of "the negative difference", to be determined by relative prosperity.

3. Method of offsetting the imbalance

Lump sum deductions from a Member State's VAT contribution in the following year (ie revenue side correction)

New Measures under a "Convergence Fund" (ie payments side correction)

Correction of the VAT contribution (ie revenue side correction).

Modulation of the VAT contribution (ie revenue side correction).

As in (c) and (d) cumulatively.

(f)
Commission proposal on correction of budgetary imbalances

(g)
Presidency proposal of 11 November

Any member state is eligible whose expenditure imbalance exceeds an unspecified percentage of its GDP related to relative prosperity (same principle as UK's safety net formula).

Member States with a per capita GDP of less than 90% of Community average to have minimum threshold on receipts equal to their GDP share; member states with a per capita GDP between 90% and 100% of Community average to have threshold equal to x% of their GDP shares rising by steps with relative prosperity. Member States with per capita GDP above 110% of Community average to have absolute minimum threshold of y% of the GDP share.

Expenditure side correction (But revenue side correction by abatement of non-modulated VAT not ruled out).

Revenue side correction by reducing VAT share in the following year's budget.

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	(a) UK Safety Net	(b) Danish "Convergence Fund"	(c) Danish "Convergence Fund" as corrected by France	(d) Commission proposal for modulated VAT	(e) German proposal
4. Method of financing relief	Normal VAT shares or special financing key possibly based on head- room within safety net limits.	Normal VAT shares	Special Financing key constructed by multi- plying VAT shares by indices of relative prosperity and of receipts as a prop- ortion of GDP divided by the EC average (UK presumably excluded)	1. Special contribution key. If CAP guarantee expenditure (less food aid and expenditure equivalent to ACP sugar imports exceeds 33% of total budget, the CAP guarantee expenditure above this threshold is to be financed by a new key. 2. New key for a Member State based on an average of: (i) its share of Community regulated agricultural production; and (ii) its share of the Community "net operating surplus" (gross profits and self-employment income less depreciation); (result would be multi- plied by relative pros- perity percentage).	As in both (c) and (d)
	(f) Commission proposal on correction of budgetary imbalances		(g) Presidency proposal of 11 November		
	(If others want revenue side correction) VAT financing shares.		VAT key, excluding financing by recipients of refunds		

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(a)
EE Safety Net

(b)
Danish "Convergence
Fund"

(c)
Danish "Convergence
Fund" as corrected by
France

(d)
Commission proposal
for modulated VAT

(e)
German proposal

5. Is measured Yes
Imbalance
fully
compensated?

No.
1. If economic growth
of a Member State is more
than 110% of average Com-
munity growth rate, then
compensation is reduced to
2/3 of measured imbalance.
2. In any event, compen-
sation cannot exceed 2/3
of difference between its
share of Community GDP and
its share of Community pay-
ments occurring in Member
States.

No. See (b)

Does not purport to
measure any imbalance.

No.
In both variants,
only a proportion
of the negative
difference is
refunded.

(f)
Commission proposal on correction
of budgetary imbalances

(g)
Presidency proposal of
11 November

No.
(i) modulated VAT element does not
purport to measure any imbalance
(ii) Use of normal VAT financing shares
implies that member states contribute
to their own relief.

No. For Member States with a per capita
GDP of more than 90% of EC average, only a
proportion of their GDP share would be covered.

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	(a) UK Safety Net	(b) Danish "Convergence Fund"	(c) Danish "Convergence Fund" as corrected by France	(d) Commission proposal for modulated VAT	(e) German proposal
6. Duration	No limit.	5 years, subject to review.	5 years, subject to review.	No limit mentioned.	No limit mentioned.
7. Advantages	<ol style="list-style-type: none"> 1. Based on a true measurement of the problem. 2. Works on revenue side. 3. Guarantees fair treatment for all Member States. 4. Lasts as long as the problem. 	<p>None (Attractive to some other Member states because it avoids net contributions and looks cheap).</p> <ol style="list-style-type: none"> 1. Would give the UK nothing after enlargement and too little before. 2. Fails to measure the problem correctly; only an expenditure side imbalance. 3. Works on expenditure side; problems of Council and European Parliament. 4. Would run out after 5 years. 	<ol style="list-style-type: none"> 1. Does not measure problem correctly. 2. Redefines allocated expenditure in an unacceptable way. 	<ol style="list-style-type: none"> 1. Does not address the problem directly. 2. Not sufficient for UK. 3. Link to agriculture indicator attacked by some Member States. 4. "Operating surplus" poor and variable indicator. 	<ol style="list-style-type: none"> 1. Works on revenue side. 2. Deals to some extent with both the payments gap and the contributions gap.
8. Disadvantages (actual or claimed)	<ol style="list-style-type: none"> 1. Principle of net balances attacked by many Member States. 2. Alleged by some Member States that there is no incentive for a Member State protected by safety net to restrain Community expenditure when safety net operates. 				<ol style="list-style-type: none"> 1. Fails to measure problem correctly, and only partially corrects for it. 2. Subject to all the objections to modulated VAT. 3. Likely to be insufficient for UK.
	(f) Commission proposal on correction of budgetary imbalances		(g) Presidency proposal of 11 November		Depends on parameters. Could be up to 1000 mecu of which modulated VAT would bring 537 mecu and the expenditure side mechanism 470-540 mecus.
	No limit mentioned.		Applicable for as long as new Own Resources decision.		
	Includes a sensible threshold formula for measuring ability to pay.		<ol style="list-style-type: none"> 1. Implementation on the revenue side. 2. Does not follow Commission's effort to redefine Community expenditure. 3. Member States would not contribute to their own reliefs. 		
	<ol style="list-style-type: none"> (i) Proposes illogical and unacceptable redefinition of allocated budget which attempts to show that problem is less than it really is. (ii) Subject to objections which apply to modulated VAT (iii) Advocates implementation on expenditure side. (iv) Implies that member states would contribute to their own reliefs. 		<ol style="list-style-type: none"> 1. Does not measure problem correctly: it takes no account of our excessive contribution share. 2. Provides no upper limit on contributions. 3. Compensation steps arbitrary; produces wide swings in compensation if steps are passed. 		
	Depends on parameters of threshold. Relief could be about 700 mecu, of which modulated VAT would bring mecu and the expenditure mechanism 168 mecu.		With minimum receipts threshold of 80% of GDP share, about 843 mecu. With 85% about 1042 mecu; with 90% about 1214 mecu.		

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EUROPEAN COMMUNITIES

Brussels, 26 July 1983

THE COUNCIL

8748/83		
		R/LIMITE

FIN 451

BRIEF 34
REF E.F

TRANSMISSION NOTE

Subject: Future financing of the Community
- United Kingdom paper on the "safety-net"

Delegations will find attached a copy of the paper referred to above, which was announced by the United Kingdom delegation at the Special Session of the Council of 19 July 1983.

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NOTE BY THE UK DELEGATION

1. The European Council Declaration at Stuttgart defines as one of the Community's objectives "to agree measures which, taken as a whole, will avoid the constantly recurrent problems between the member states over the financial consequences of the Community's budget and its financing". It states that "all appropriate ways and means will be examined to this end, in particular the proposals made by the Commission and the suggestions of certain member states with a view to ensuring equitable financial situations for all member states". The Council on 21 June invited all member states to put forward their suggestions. The present note outlines accordingly the United Kingdom's suggestions for solving the problem of financial imbalances, and in particular our ideas for a 'safety-net' arrangement.

General approach

2. The United Kingdom shares the view that the Community should develop its expenditure policies in the longer term so as to achieve a more appropriate financial balance between member states. In practice, however, it will not be possible to solve the imbalances problem totally by this means in the foreseeable future. In the United Kingdom's view, therefore, some kind of 'safety-net' arrangement will be needed in addition to ensure that no member state bears an unreasonable burden. Such an arrangement should be designed to disturb the Community's existing arrangements as little as possible. It should respect the principles of the own resources system, and it should be designed to be applicable to the enlarged Community. A further objective should be to enable those member states bearing the heaviest budgetary burdens to look at proposals for new Community policies on their merits rather than having to oppose them if they would aggravate an already inequitable budgetary situation.

A possible arrangement

3. In the United Kingdom's view, it should be possible to devise an arrangement which would meet the above requirements and provide a Community solution. A suggested arrangement on these lines is outlined below. It reflects the philosophy set out in Sir Geoffrey Howe's Hague speech of June 1981; but it is more modest in scope and concentrates on correcting any inequitable burdens which may fall on net contributor countries by setting appropriate limits on the net budgetary burdens that any member state would

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be expected to bear. The main elements would be:

- The Community would agree that member states whose relative prosperity in the enlarged Community was below some given level should be net beneficiaries from the budget and not in any circumstances net contributors;
- Above that level, the limit on a member state's net budgetary burden would be expressed as a small percentage of the member state's GDP, the percentage being related to the member state's relative prosperity in the enlarged Community.
- Any member state bearing a net budgetary burden of more than its agreed limit would have its VAT payments in the following year modulated and reduced, accordingly, by the amount of the excess.

4. It would be for the Community to decide what the limits on the net budgetary burdens of member states with any particular level of relative prosperity should be. The Community might agree, for example, that member states with less than (say) 90 per cent of Community average prosperity in the enlarged Community should not be net contributors in any circumstances. At the other end of the scale, the Community might think it reasonable that the most prosperous countries (perhaps those with 140 per cent of Community average prosperity after enlargement) should be prepared if necessary to bear a quite substantial net budgetary burden, provided that it did not exceed some specified percentage, say 0.3 per cent or 0.4 per cent, of their GDP. Between these two points, the limits on net budgetary burdens as a percentage of GDP could rise in accordance with relative prosperity.

5. The accompanying diagram, based on the illustrative figures mentioned above, may help to clarify the idea. Its purpose is purely illustrative. It does not represent a UK proposal as to what would constitute acceptable levels of compensation. The Community would need to decide both the level of relative prosperity below which member states would not be expected to make any net contribution at all, and the rate at which the limits on member states' net budgetary burdens should increase with relative prosperity. It would likewise be for decision whether there should or should not be some absolute upper limit, in terms of the percentage of GDP, on the net contribution which any member state would be expected to bear, regardless of

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its relative prosperity - and at what level of relative prosperity any such absolute upper limit (illustrated in the diagram by the horizontal section towards the righthand side) should begin.

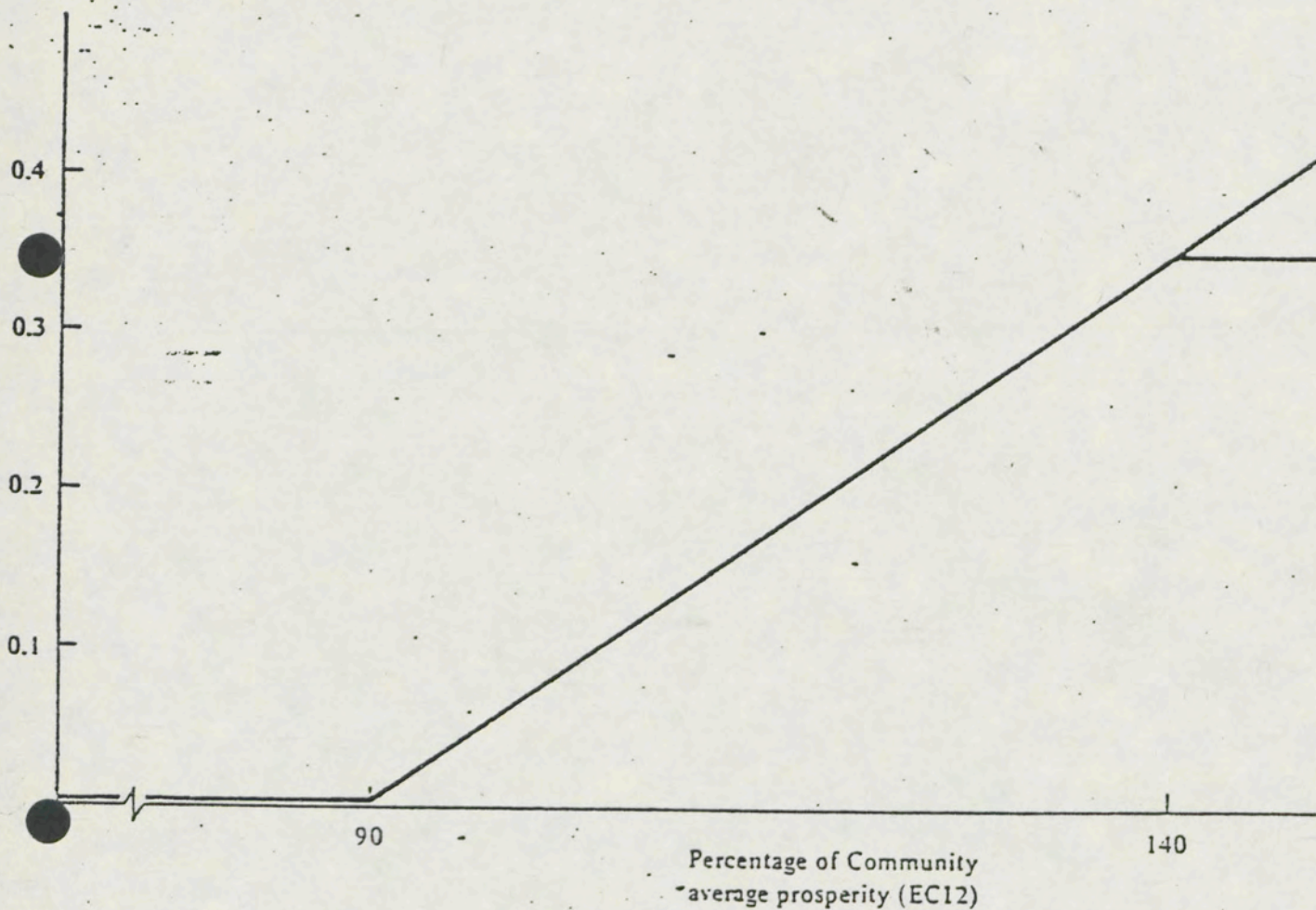
6. The precise method of implementation would likewise be for decision. But there would seem advantage in retaining a common rate of VAT for all member states and expressing as deductions from VAT the reliefs needed to bring the net contributions of member states with excessive net budgetary burdens down to their agreed limits. The revenue shortfall resulting from these reliefs could be covered by an increased call-up of normal VAT from all member states. Or the extra financing could, if desired, be modulated to take account of existing budgetary burdens and benefits and relative prosperity, with a view to spreading the costs as equitably as possible.

Advantages of such an arrangement

7. An arrangement on these lines would be guaranteed to solve the imbalances problem on a lasting basis in a manner which was seen to be fair to all and which fulfilled all the desiderata listed in paragraph 2. The only member states whose net budget contribution figures would play a critical part in the calculation of reliefs due would be those bearing heavy net budgetary burdens in the enlarged Community. In contrast with the existing refund arrangements, no compensation payments would be made from the Community budget to net contributor countries. The safety-net limits, and the consequential reliefs, would operate only so long as, and to the extent that, the development of Community policies failed to solve the imbalances problem: hence the term 'safety-net'.

SAFETY-NET LIMITS IN THE ENLARGED COMMUNITY:
AN ILLUSTRATIVE EXAMPLE

Limit on
net contribution
as per cent of GDP



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BR 34
REF G

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(83) 270 final

6863/83

Brussels, 6 May 1983

(Complete version)

THE FUTURE FINANCING OF THE COMMUNITY

DRAFT DECISION ON NEW OWN RESOURCES

(Communication from the Commission to the Council)

COM(83) 270 final

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

The Future Financing of the Community:

Draft Decision on Own Resources

1. In its communication of 4 February 1983 the Commission explained the reasons why it believed that an extension and diversification of the Communities' system of own resources was necessary, and set out the considerations which, in its view, should guide the choice of new sources of revenue.
2. First and foremost, the Community today is living under the threat of the exhaustion of its financial resources. The appreciable rise in agricultural expenditure in the past few months has further exacerbated the situation since the Green Paper was issued. The supplementary budget which the Commission will be proposing in the near future will use up most of the available margin of own resources for the current year.

For 1984, in the light of the forecasts of agricultural expenditure and in view of the need to continue the development of Community policies in priority sectors, the Commission has to propose that all the available resources be taken up, leaving only a very small safety margin.

What is at stake today is nothing less than the preservation or the normal operation of all the Community's policies. The purpose of the own resources system was to afford security and continuity in these policies: it cannot be allowed to become a permanent threat to their development.

3. The development of the Community's policies is an objective shared by both the Council and Parliament. The Council stated this expressly in its Mandate to the Commission of 30 May 1980. Parliament has regularly made this balanced development one of its central preoccupations. When presenting the Commission's programme to Parliament on 8 February, the Commission President described the approach the Commission wished to see adopted in developing such policies, an approach which Parliament welcomed and which is at the centre of the Council's present work.

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- The extension of Community policies and hence of the Community budget does not conflict with the need for budgetary stringency which is facing all the Member States today. When it proposes action at Community level the Commission's aim is to achieve a more cost-effective solution than could be offered by purely national programmes. According to the sector concerned, Community measures can either replace national projects or enable them to be coordinated and dovetailed in overall programmes making for greater efficiency. The Commission's most recent proposals - research and development programmes on information technologies, an outline programme of Community scientific and technical activities, a Community programme for promoting youth employment - are just a few examples of this. Economies of scale and closer European co-operation or integration often go hand in hand.
5. As well as seeking to develop new policies, the Commission has constantly sought to ensure the most economical management possible of existing policies, and in particular of the common agricultural policy. The guidelines it set out in its report in June 1981 in response to the Mandate of 30 May would, if promptly implemented, have cut back the increase in agricultural spending to a slower rate than that of the Community's own resources. The Commission expects the Council in its decision on farm prices for the year ahead to give a clear signal of its intentions in this regard. For its part the Commission will not hesitate to propose additional measures should there be signs of further increases in agricultural expenditure not warranted either by the Community's internal requirements or by the need to preserve its traditional trade with its main trading partners. The extension of the Community's own resources will not interfere with this policy line. It could be the Council's opportunity to confirm it.
6. The extension of Community policies in non-agricultural sectors, coupled with a better control of agricultural production, will eventually bring a better balance of expenditure into the Community budget.

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Such a change cannot come about overnight, for it would be neither realistic nor responsible, in present circumstances, to propose a major increase in Community spending. For this reason the European Council itself has accepted that the Commission's proposals on new own resources should contribute at once to the correction of budget imbalances, a view shared by the European Parliament.

7. The Commission is accordingly proposing that the 1% ceiling for VAT resources introduced by the 1970 decision be removed. At the same time it proposes a threshold system starting at 1.4%, which will enable the institutions - the Council acting unanimously, Parliament by qualified majority - to monitor the growth of the Community's needs, so that new tranches of own resources could be granted only by full agreement of the institutions and the Member States.

8. The Commission is further proposing that as a transitional measure, until such time as Community policies and hence the Community budget have been brought into better balance, there should be a diversification of resources which would contribute immediately to the reduction of the Community's budgetary problems. This would involve the application of a corrective mechanism to part of the revenue derived from VAT, to cover a significant portion of the budget (calculated by reference to the volume of agricultural expenditure). One advantage of this modulation, calculated on the basis of the indicators set out in paragraph 14 below, is that a significant contribution could thus be made to the correction of imbalances in the Community without insuperable difficulties being raised for other Member States. It is against this background that the Commission would ask the Council and Parliament to appraise the ideas which it is laying before them.

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9. The attached document is a draft Council Decision replacing the Council Decision of 21 April 1970 on the Communities' system of own resources. In submitting this to the Council and Parliament, the Commission recalls that in 1973 it presented a proposal for the revision of Article 201 of the Treaty of Rome which would have transferred full revenue-raising powers to the Community. The adoption of this proposal remains the Commission's long-term aim.

10. In making this proposal for extending the Community's resources, the Commission has sought to identify those forms of new revenue which best reflect the overall interest of the Community, which enhance the attraction for all Member States of full participation in Community policies and which best ensure a coherent relationship between the Community's revenues and its pattern of expenditure.

11. The Commission proceeds from the assumption that the existing range of own resources must remain intact. Customs duties and agricultural and sugar levies should continue to be paid automatically to the Community budget. In addition, it is time to correct the anomaly whereby customs duties on products falling under the ECSC Treaty do not count as Community own resources. The Commission is therefore proposing their inclusion as general budget revenues. The Commission considers it right that a certain percentage of the receipts from customs duties and agricultural levies should continue to be reimbursed to the Member States to cover the cost of the services their administrations perform on the Community's behalf in collecting them. But a fixed level of reimbursement seems no longer justified. The Commission therefore proposes that the figure, which must in no circumstances exceed 10%, should be decided by the budgetary authority.

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12. The Commission maintains its view that value added tax should remain for the foreseeable future the cornerstone of the Community's financial autonomy. It therefore proposes that the ceiling of 1% currently applied to VAT should be removed and that the Community's budgetary authority should henceforth be empowered to raise VAT revenues in excess of this amount. In the Commission's view, however, the decision-making procedure in the budgetary process would have to be modified to take account of the removal of this ceiling. The Commission therefore proposes that increases in the VAT rate beyond 1.4% may only be authorized, in additional fractions of 0.4%, on a proposal from the Commission, by the budgetary authority, the Council acting unanimously, and the European Parliament by a majority of its Members and three-fifths of the votes cast. The Commission envisages that whenever a fraction of 0.4% is exceeded, the functioning of the Community's financing system could, if necessary, be reviewed. The Commission will on such occasions make any appropriate proposals.

13. For as long as agricultural expenditure accounts for a preponderant share of the Community's budget, a diversification of resources is, in the Commission's view, required, so that they can match more closely the pattern of expenditure. The Commission proposes that this should be done by the temporary application of a modulating factor (in the form of variable rates) to part of the VAT revenues assigned to the Community. The revenues from these variable rates would be equal to the difference between EAGGF Guarantee Section expenditure (less expenditure on food aid and expenditure in connection with the sugar protocol with the ACP states) and 33% of total budget expenditure.

14. The variable VAT rates would be determined by reference to several indicators, first of all the share of each Member State in the Community's final agricultural production of products subject to common market organizations. This link would ensure more homogeneity between resources and expenditure in the present situation. Per capita gross domestic product would be a measure of different countries' relative levels of prosperity. To cover all relevant factors the Commission suggests using the average of indices calculated on the basis of market exchange rates and purchasing power parities. Lastly the Commission proposes using the index of each country's share in the Community's net operating surplus, an index which reflects the vitality and profitability of the different economies concerned.

For each of these indicators the Community possesses full statistics compiled on reliable bases and harmonized over many years.

15. Since the Community's objectives in the energy field, including energy research and development, are so essential, the Commission feels it right in present circumstances to propose a special effort to develop Community-wide policies aimed at achieving a more rational and economical use of energy and more secure and diverse supply. Conscious of the need to avoid proposing a new expenditure programme without giving thought to its financing, the Commission is considering the idea of introducing into the own resources system revenue from a tax on non-industrial consumption of energy. It will be submitting its package of energy proposals in the coming month.

Council Decision of on the Communities' system of
own resources

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,
and in particular Article 201 thereof;

Having regard to the Treaty establishing the European Atomic Energy
Community, and in particular Article 173 thereof;

Having regard to the proposal from the Commission,

Having regard to the Opinion of the European Parliament¹;

Having regard to the Opinion of the Economic and Social Committee²;

Whereas the Council Decision of 21 April 1970 on the replacement
of financial contributions from Member States by the Communities'
own resources³, hereinafter referred to as "the Decision of
21 April 1970", introduced a Community system of own resources;

Whereas the own resources system should be diversified and extended
while retaining the existing sources of revenue introduced by the
Decision of 21 April 1970;

Whereas customs duties on products within the scope of the Treaty
establishing the European Coal and Steel Community should be included
in the Communities' own resources;

Whereas the 1% limit to the rate applied to the uniform basis for
assessing value added tax, laid down in the Decision of 21 April 1970,
should be abolished; whereas at the same time, in order to reinforce
budgetary discipline, increases in the authorized rate of value
added tax should be expressed in fractions of a percentage point;

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³ OJ No L 94, 28.4.1970, P.19

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Whereas, furthermore, for as long as guarantee expenditure in support of agricultural production exceeds a certain proportion of the budget of the Communities, variable rates of value added tax should apply, taking into account certain economic indicators;

HAS LAID DOWN THESE PROVISIONS, WHICH IT RECOMMENDS TO THE MEMBER STATES FOR ADOPTION:

ARTICLE 1

The budget of the Communities shall, irrespective of other revenue, be financed entirely from the Communities' own resources.

ARTICLE 2

Revenue from:

- (a) levies, premium, additional or compensatory amounts, additional amounts or factors and other duties established or to be established by the institutions of the Communities in respect of trade with non-member countries within the framework of the common agricultural policy, and also contributions and other duties provided for within the framework of the organization of the markets in sugar;
- (b) Common Customs Tariff duties and other duties established or to be established by the institutions of the Communities in respect of trade with non-member countries, including customs duties on products within the scope of the Treaty establishing the European Coal and Steel Community;

shall constitute own resources to be entered in the budget of the Communities.

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- Shall also constitute own resources, revenue accruing from the application of the value added tax to an assessment basis which is determined in a uniform manner for Member States according to Community rules, and obtained in accordance with the provisions of this Article.
2. Revenue shall be obtained by the application of a uniform rate of value added tax. Subject to paragraph 6, this rate shall be fixed within the framework of the budgetary procedure, taking into account all other receipts.
 3. In addition, as long as expenditure under the European Agriculture Guarantee and Guidance Fund, Guarantee Section (less expenditure on food aid and expenditure under the sugar protocol with the ACP states) exceeds 33 per cent of total expenditure, variable rates of value added tax shall apply. Such rates shall be fixed taking into account Member States' shares in the final agricultural production of products subject to common market organisations and in the net operating surplus of the Community, and their gross domestic product per capita defined by the average of indices calculated on the basis of market exchange rates and purchasing power parity.

The revenue accruing from these variable rates shall be equal to the difference between the expenditure referred to above and 33 per cent of total expenditure in the budget.

In the event of exceptional and unexpected developments in Community expenditure, this threshold may be varied by the procedure provided for in Article 3 (6).

4. If at the beginning of the financial year the budget has not been adopted, any rate of value added tax previously fixed shall remain applicable until the entry into force of a new rate.

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5. For the purposes of paragraph 6, an overall rate of value added tax shall be calculated from the sum of the uniform rate referred to in paragraph 2 and the weighted average of the variable rates referred to in paragraph 3.

6. A decision based on a proposal from the Commission shall be required before the overall rate of value added tax can exceed 1.4%. This decision shall be taken by the budgetary authority, the Council acting unanimously and Parliament acting by a majority of its members and three-fifths of the votes cast. Further decisions shall be required for subsequent increases, in fractions of 0.4%, in the authorized rate.

ARTICLE 4

1. The revenue referred to in Articles 2 and 3 shall be used without distinction to finance all expenditure entered in the budget of the Communities.

2. Financing expenditure connected with research programmes of the European Atomic Energy Community from the Communities' own resources shall not exclude entry in the budget of the Communities of expenditure relating to supplementary programmes nor the financing of such expenditure by means of financial contributions from Member States determined according to a special scale fixed pursuant to a decision of the Council acting unanimously.

ARTICLE 5

In order to cover expense incurred in collection, each Member State may be refunded up to 10% of the amounts of the own resources set out in Article 2. The rate applicable shall be fixed on a proposal from the Commission, by the budgetary authority, the Council acting unanimously and Parliament acting by a majority of its members and three-fifths of the votes cast.

ARTICLE 6

Any balance between the Communities' own resources and actual expenditure during a financial year shall be regulated in accordance with provisions to be adopted pursuant to Article 209 of the Treaty establishing the European Economic Community and Article 183 of the Treaty establishing the European Atomic Energy Community.

ARTICLE 7

1. The Community resources referred to in Articles 2 and 3 shall be collected by the Member States in accordance with national provisions imposed by law, regulation or administrative action, which shall, where necessary, be amended for that purpose. Member States shall make these resources available to the Commission.

2. Without prejudice to the auditing of accounts provided for in Article 206a of the Treaty establishing the European Economic Community, or to the inspection arrangements made pursuant to Article 209 (c) of that Treaty, the Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, adopt provisions relating to the supervision of collection, the making available to the Commission, and the payment of the revenue referred to in Articles 2 and 3, and also the detailed rules for applying Article 3.

ARTICLE 8

Member States shall be notified of this Decision by the Secretary-General of the Council of the European Communities; it shall be published in the Official Journal of the European Communities.

Member States shall notify the Secretary-General of the Council of the European Communities without delay of the completion of the procedures for the adoption of this Decision in accordance with their respective constitutional requirements.

This Decision shall enter into force on the first day of the month following receipt of the last of the notifications referred to in the second paragraph. At the same time the Decision of 21 April 1970 shall be repealed. To the extent necessary, any reference to the Decision of 21 April 1970 shall be understood as referring to the present Decision.

Done at

For the Council

The President

16. Finally, Article 7 of the draft decision provides that any balance between income and expenditure at the end of the year may in future be retained by the Community.

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- 3 AUG 1983

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DEK OFFICER

REGISTRY

FIN 454

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Action Taken

BRIEF 34
REF H

TRANSLATION OF LETTER

dated: 26 July 1983

from : Permanent Representation of Denmark to the European Communities, signed by Mr Fl. HEDEGAARD, Deputy Permanent Representative

to : Mr ERSBØLL, Secretary-General of the Council of the European Communities

Subject: Future financing of the Community
- Danish proposal for a convergence fund

Sir,

With reference to the discussions on the future financing of the European Communities in connection with the follow-up to the Stuttgart meeting, please find attached a Danish proposal for a better allocation of Community expenditure in the form of a convergence fund.

We enclose a sample calculation to illustrate such a model.

Kindly circulate this letter and its annex (sample calculation) together with the proposal itself to the other Member States and the Commission before the summer recess.

(Complimentary close).

(s.) Fl. HEDEGAARD

SAMPLE CALCULATION

Model applied to the United Kingdom in 1982, using statistical data published by the Commission:

1. Payments to the United Kingdom as a percentage of gross national product (GNP):	0,47
United Kingdom's share of allocated expenditure (MECU):	2.334
2. Payments (allocated expenditure) in the Community as a percentage of the total Community GNP:	0,74
3. Total payments to the United Kingdom calculated by applying the Community average (UK's GNP x 0,74) (MECU):	3.710
4. Difference (3) - (1) (MECU):	1.376

5. The United Kingdom's economic growth in 1982 amounted to more than 110% of the average rate of growth in the Community. Payment amount (two-thirds of (4)) (MECU):	917

6. United Kingdom's share of Community GNP (percentage):	20,7
7. United Kingdom's share of allocated Community budget expenditure (percentage):	13,0
8. Allocated operating appropriations in the Community budget (excluding repayment to the Member States for the collection of customs dues and agricultural import charges (MECU):	15.967
9. Payments ceiling (MECU):	820

2. Criteria

The Fund must be able to operate for countries with a per capita gross national product which on the whole corresponds to or is less than the Community average, and where the share of payments from the Community budget is lower than the share of the Community total gross national product.

3. Procedure

The difference between the payments to the country in question assessed with reference to its gross national product and the total payments from the Community budget assessed with reference to the Community total gross national product is calculated. That percentage reflects the extent to which the payments fail to help achieve the Community's aim of convergence in economic development. (The corresponding sum is arrived at by calculating a payment amount corresponding to the percentage for the Community as a whole and subtracting the actual payment amount).

If the economic growth of the country in question amounts to more than 110% of the average growth rate for the Community as a whole, the difference is reduced to two-thirds of the abovementioned sum.

In any case a ceiling is set for the sum which can be paid out corresponding to two-thirds of the difference between the share of the Community gross national product and the share of payments from the budget applied to that part of total payments which occurs in the Member States.

4. Duration

It is envisaged that the Fund should operate for a five-year period. It will be decided when it enters into

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force what percentage of the abovementioned differential amounts is to be paid each year to Member States which fulfil the criteria laid down.

Before the end of the five-year period an analysis will be made of the fund's operation and of whether there is a need for a short-term extension in the light of experience gained and the extent to which the Community has taken on new common activities.

5. Financing

As a common policy is involved, the amount to be paid out will be included in the budget for financing in accordance with the rules in force. This also means that there is no question of any exemption from financing for those countries which benefit from the correction. The relevant amount for payment is thus, from a budgetary point of view, a gross amount.

6. Adaptation to common policies

As new common policies are gradually constructed which give rise to payments to the Member States, the need for a special fund will diminish. This is because new common policies will involve payments to some of the countries which find that the structure of co-operation and the related payments from the budget do not reflect a fair balance between Member States. There is therefore likely to be a transitional arrangement until new common policies are put into effect and the agricultural spending portion of the total budget reduced.

The purpose of making payments under the convergence fund is precisely to ensure that the payments spread amongst the member countries contribute to fulfilling the objectives on convergence laid down in the Treaty. This remains an

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- 4 -

integral part of the common policies and is not simply a mechanism for transfer between Member States. The size of the fund in budget terms will be determined by the budget procedure. The Commission will submit proposals for a basic regulation which will include the detailed rules concerning the activities and administration of the fund.

21 July 1983.

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(ANNEX II)

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BRIEF - 4
REF ~~II~~. I

GROUPE UNIQUE DE PREPARATION
DU 3 OCTOBRE 1983

=====

AMENAGEMENTS SUGGERES A LA PROPOSITION DANOISE DE CREATION
D'UN MECANISME DE CONVERGENCE COMMUNAUTAIRE.

La proposition danoise du 21 juillet visant à la création d'un fonds de convergence communautaire comporte des avantages certains : le principe de base en est simple et bien adapté au problème à traiter; la correction des déséquilibres est opérée a posteriori; l'application du système donne des résultats raisonnables.

Trois aménagements pourraient lui être apportés au niveau de l'affectation des dépenses communautaires réparties, et des modalités de financement des compensations.

- 1 - Modification de la méthode de répartition des dépenses communautaires de fonctionnement entre les Etats-Membres.

Dans la proposition danoise, qui reprend les méthodes de calcul habituelles de la Commission, les dépenses sont réparties entre les Etats-Membres en fonction du lieu géographique de leur paiement. Une conséquence de cette méthode est que les dépenses de fonctionnement sont affectées presque en totalité aux Etats sièges des institutions, alors qu'elles bénéficient en fait à l'ensemble de la Communauté.

On pourrait songer à affecter 10% des dépenses de fonctionnement aux Etats sièges des institutions. Le reste serait réparti entre tous les Etats-Membres en fonction de leur part dans le PIB de la Communauté.

Cette correction ne modifie pas les résultats de base de l'application du mécanisme danois. Dans l'exemple chiffré joint à la proposition danoise, le plafond des paiements du Royaume-Uni resterait fixé à 820 millions d'ECUS. En revanche, elle prend toute sa signification pour répartir le financement des compensations, car elle permet de traiter plus équitablement les Etats sièges des institutions.

2 - Passage du financement des compensations par la dépense à financement par la recette

La proposition danoise fait état d'un financement des compensations au titre du fonds de convergence par la voie budgétaire

Cette méthode n'est pas sans inconvénient. En effet, les dépenses inscrites au budget de la Communauté doivent pouvoir être appréciées en fonction de leurs mérites propres et non en raison de la nécessité a priori de compenser l'insuffisance des retours communautaires d'un Etat-Membre. En outre, le passage par la dépense perpétuerait les problèmes qui se posent déjà aujourd'hui (classification en DO ou DNO, etc...)

Il semblerait préférable d'imputer les compensations calculées à partir des dépenses d'un exercice donné sur les recettes de l'exercice suivant.

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La proposition du Danemark conduit à un montant de paiement brut, les pays qui bénéficient du réajustement n'étant pas dispensés de leur part de financement. Dans un financement par la recette, le montant des compensations est en revanche nécessairement net. Pour conserver les mêmes bases en passant d'un financement budgétaire à un financement par les ressources, il y a donc lieu de convertir le montant brut des compensations obtenues par application du mécanisme danois en un montant net. Dans l'exemple chiffré joint à la proposition danoise, le plafond des compensations brutes au Royaume-Uni de 820 millions d'Ecus correspond à une compensation nette de 640 millions d'ECUS.

3 - Modulation du financement des compensations en fonction de la situation économique et budgétaire des Etats contributeurs

Dans la proposition danoise, le financement des compensations est assuré par les clefs habituelles. Afin de parfaire l'objectif de convergence communautaire, on pourrait envisager qu'une modulation intervienne, en fonction de la situation économique et budgétaire des Etats-Membres contribuant au financement des compensations

Les clefs T.V.A. pourraient être modulées par deux indices :

- l'indice PIB par habitant ;
moyenne CEE

Cet indicateur vise à prendre en considération la prospérité relative des Etats-membres. Afin de le rendre plus avantageux pour les pays les moins prospères et d'accroître son incidence sur les pays les plus prospères qui bénéficient de retours communautaires élevés, il est en outre possible de le pondérer par des coefficients ou un barème particuliers.

- l'indice retours communautaires/PIB ;
moyenne CEE

Ce second indicateur cherche à prendre en compte la situation des Etats-membres par rapport au Budget de la Communauté. Il repose sur le principe même de la proposition danoise.

Brussels, 31 October 1983

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REV 1	
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BRIEF 34
REF 5

NOTE FROM THE GERMAN DELEGATION

Subject: Future financing of the Community: ensuring equitable financial situations for all Member States

Delegations will find attached a note from the German delegation on the future financing of the Community: "Ensuring equitable financial situations for all Member States."

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Financing of the Community: ensuring equitable financial situations for all Member States

Note from the German delegation

- I. According to the Stuttgart European Council Declaration of 18.06.1983, the problems experienced by some Member States in the budgetary area belong to a complex of issues on which, ultimately, a joint decision will have to be taken.

The negotiations which have now been instituted aim, according to the European Council Declaration, at a more balanced and more equitable financial situation in the interests of the individual Member States and of the Community as a whole.

According to the guidelines adopted by the European Council for the negotiations, the objective is to agree measures which, taken as a whole, will avoid the constantly recurrent problems between the Member States over the financial consequences of the Community's budget and its financing. To this end, all appropriate ways and means are to be examined, in particular the proposals made by the Commission and the suggestions of certain Member States with a view to ensuring equitable financial situations for all Member States.

II. General considerations

1. Problem

It is generally acknowledged in the Community that the burden-sharing between the Member States as determined by the financial consequences of the Community budget is unbalanced. Previous attempts at a solution have been fraught with aggravating political difficulties and disadvantages for the Community. The previous ad hoc measures have simply been contingency arrangements, with obvious drawbacks. In the interests of Community integration and financing it is time to put these behind us; an arrangement must be worked out for the reorganization of the Community's finances which will bring a lasting solution to the problem for all the Member States.

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2. Objectives

A solution to the problem will have to meet two objectives at the same time: establish a system that corrects disproportionate burdens on Member States and at the same time, by means of an upper limit, safeguards against an excessive individual burden on a particular Member State; in setting the upper limit a differentiation will have to be made according to the Member States' economic performance; it will have to allow for the future development of the Community. Both these objectives are in the Community's acknowledged interest.

3. Connection with the own resources system and the future development of Community policies

The future system must avoid deciding on measures with expenditure implications which would have to be financed from the Community budget and the actual aim of which would be the correction of disproportionate burdens. Such a procedure would hamper a meaningful development of Community policies in accordance with their specific advantages and necessities. Any solution will therefore have to start on the revenue side. Only in this way will it be possible to keep the expenditure side of the Community budget free for genuine Community policies.

An arrangement of this kind will thus of necessity form an integral part of the own resources system.

III. Elements of a balanced Community system

A system employing a combination of two mechanisms is most likely to meet the dual objectives described above; both mechanisms must act on the revenue side of the Community budget.

1. The first component in an overall solution might be an upper limit arrangement with the following criteria:

- (a) an ideal burden criterion acceptable, equitable and practicable for all Member States would be hard to find. A net balance approach has the advantage of being economically justifiable from the point of view of the balance of payments effect; This would apply both to a traditional approach and to

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an approach involving corrections.

However, the Danish delegation's approach, which was obviously favoured by most of the delegations, could also be a reasonable burden criterion if accompanied by those factors underlying the calculation of the modulated VAT basis of assessment proposed by the Commission.

In the context of an overall solution which incorporated the modulated VAT assessment basis (see III, 2), the burden criterion for the upper limit arrangement could therefore, along the lines of the Danish delegation's proposal, be taken as the difference between a Member State's share in payments from the Community budget in percentage terms and its share of Community GDP in percentage terms.

This percentage difference represents the share of expenditure from the Community budget which flows into the Member States' coffers (imputable expenditure). It would therefore seem defensible to assign to those Member States in which the Community institutions are located only a certain percentage of the administrative expenditure.

- (b) In the event of a Member State's return flow being proportionally smaller than its share of Community GDP (negative difference), an upper limit will be set.

Here, two alternatives are conceivable:

- along the lines proposed by the United Kingdom delegation, the upper limit will be expressed as an amount calculated on the basis of a given percentage of the GDP of the Member State in question, which would increase commensurate with growing prosperity. The maximum upper limit for a Member State should be 0,3% of its GDP. The upper limit amount calculated for a Member State in this way will be set against the amount corresponding to the negative difference (see III, 1(a)) (calculated from percentage of .../...

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negative difference and imputable expenditure). Where, in setting these figures against each other, the amount of the negative difference is above the upper limit, the amount in excess will be offset by a given percentage. This percentage will be set for each Member State on the basis of its economic performance. The Member State concerned would be relieved of this equalization amount on the revenue side.

- An admittedly not so efficient alternative might be to define the upper limit as a percentage of the negative difference between a Member State's return flow and GDP share in percentage terms.

This upper limit could be determined, with increasing per capita GDP, as a percentage of the Community average increasing in linear progression up to a final point to be fixed (e.g. a base of x% plus y% for each percentage point by which a Member State's per capita GDP exceeded 90% of the Community average, maximum 85%). The Member State concerned would, on the revenue side, be relieved of the amount of the negative difference lying outside this upper limit.

- (c) The revenue shortfall which would result for the Community budget from this relief could be offset net for net on the revenue side of the Community budget in the following year, for example by all the Member States. In this case a modified VAT assessment basis which took into account the return flow position and relative prosperity of the Member States would seem worth considering, perhaps along the lines of the French delegation's proposal. Alongside the provision by all Member States of the amounts needed for compensation, other modalities of financing on the revenue side can be discussed.

2. The second component in an overall solution should be the Commission's proposal of a modulated VAT assessment basis. It is conceived in degressive terms and thereby introduces an element of

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flexibility into a combined solution. The modulated VAT assessment basis is needed for an overall solution, but is not sufficient in itself for achieving the objectives (see II, 2).

IV. This proposal by the German delegation aims at a coherent overall solution. The combination of the two components is necessary to achieve the objectives pursued. We have deliberately avoided a detailed elaboration of the proposal in figures at this stage in order to facilitate some aligning of conceptual positions.

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FROM UKREP BRUSSELS 080800Z NOV 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 3260 OF 8 NOVEMBER
INFO BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
LUXEMBOURG ATHENS

MIPT: COMMISSION PAPER

FOLLOWING IS TEXT:

CORRECTION OF BUDGETARY IMBALANCES

(COMMISSION MEMO TO THE SPECIAL COUNCIL)

THE PURPOSE OF THIS PAPER IS TO PROVIDE A SYNTHESIS OF THE OPINIONS
AND FORMULAS PUT FORWARD TO DATE.

1. THE COMMISSION IS INTENDING TO MODULATE PART OF VAT REVENUE IN THE
FRAMEWORK OF NEW OWN RESOURCES.
2. WORK DONE BY THE COUNCIL AND THE PREPARATION WORKING PARTY HAS
SHOWN THAT IT WOULD BE DESIRABLE TO COMBINE THIS FORMULA, WHICH
PROVIDES AN INITIAL CORRECTION, WITH COMPLEMENTARY MEASURES BASED
ON A METHOD OF ASSESSING, AS ACCURATELY AS POSSIBLE, ANY IMBALANCE
IN THE DISTRIBUTION OF COMMUNITY EXPENDITURE.
3. THE COMMISSION RECOGNIZES THAT THE EXISTENCE OF A BUDGETARY
IMBALANCE CAN IN FACT BE DETECTED FROM THE PATTERN OF EXPENDI-
TURE DISTRIBUTION. ON THE OTHER HAND, IT IS FIRMLY CONVINCED THAT
REVENUE SHOULD NOT BE TAKEN **CONFIDENTIAL** TO ASSESS ANY SUCH IMBA-

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CAP) AND VAT IS GENERALLY ACCEPTED AS AN EQUITABLE BASIS FOR
COMMUNITY FINANCING.

4. WHAT IS NECESSARY, THEN, IS TO BE ABLE TO DETERMINE WHETHER THERE
IS AN IMBALANCE IN THE DISTRIBUTION OF COMMUNITY EXPENDITURE,
PARTICULARLY DURING PERIODS WHEN NEW COMMON ARRANGEMENTS ARE
BEING DEVELOPED. ALL EXPENDITURE IS NOT OF THE SAME NATURE AND
SHOULD NOT, THEREFORE, BE TAKEN INTO CONSIDERATION TO THE SAME
EXTENT. FURTHERMORE, THE GEOGRAPHICAL LOCATION OF EXPENDITURE IS
NOT ALWAYS A DECISIVE FACTOR IN DETERMINING WHERE IT SHOULD BE
ASSIGNED. THE COMMISSION HAS COME TO THE FOLLOWING CONCLUSIONS.-

(A) EXPENDITURE ON THIRD COUNTRIES SHOULD NECESSARILY BE EXCLU-
DED FROM THE DISTRIBUTION. THIS INVOLVES NOT ONLY EXPENDITU-
RE UNDER TITLE IX OF THE BUDGET (WHICH HAS NEVER BEEN
INCLUDED), BUT ALSO REFUNDS RELATING TO FOOD AID AND
EXPENDITURE ARISING OUT OF THE IMPORT OF ACP SUGAR, TO
KEEP TO ONLY THE OBVIOUS EXAMPLES.

(B) ADMINISTRATIVE EXPENDITURE (THE INSTITUTIONS' OPERATING
EXPENSES) ARE A COMMON RESPONSIBILITY, AS IN ANY OTHER EUROPEAN
OR INTERNATIONAL ORGANIZATION. THE PLACE WHERE PAYMENT IS MADE
IS EITHER NOT DETERMINATIVE (SALARIES) OR ELSE IT CORRESPONDS
TO GOODS OR SERVICES SUPPLIED. THE COMMISSION PROPOSES THAT A
PERCENTAGE OF THE TOTAL SUM SHOULD BE ASSIGNED TO THE MAIN
INSTITUTIONAL SEATS ON A FLAT-RATE BASIS AND THE REST OF ADMINIS-
TRATIVE EXPENDITURE EXCLUDED FOR THE DISTRIBUTION.

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(C) THE SIMPLE GEOGRAPHICAL LOCATION OF INTERVENTION EXPENDITURE BY THE EAGGF, GUARANTEE SECTION, DOES NOT CORRESPOND TO ECONOMIC CIRCUMSTANCE. THE INTERVENTION AGENCIES AND THE PLACES OF PAYMENT ARE NOT NECESSARILY SITUATED IN THE PRODUCER COUNTRIES. ALL INTERVENTION OPERATIONS, THOUGH THEIR NATURE AND COST MAY DIFFER WIDELY, HAVE THE OVERALL PURPOSE OF CREATING MARKET AND PRICE STABILITY, FROM WHICH ALL THE MEMBER STATES' PRODUCERS BENEFIT, IRRESPECTIVE OF THE INTENDED END-USE OF THE PRODUCTS. LASTLY, THE COST OF THE SUPPORT MEASURES DEPENDS, FOR EACH PRODUCT, DIRECTLY ON THE OVERALL VOLUME OF COMMUNITY PRODUCTION. THUS EACH COUNTRY IS RESPONSIBLE FOR GENERATING THAT COST BY REASON OF ITS PARTICIPATION IN TOTAL PRODUCTION.

IN THESE CIRCUMSTANCES THE COMMISSION PROPOSES TO DISTRIBUTE THE EAGGF, GUARANTEE SECTION, APPROPRIATIONS (AFTER DEDUCTION OF THE AMOUNTS REFERRED TO IN PARAGRAPH A) ABOVE) BY TAKING INTO ACCOUNT EACH COUNTRY'S PRODUCTION IN RESPECT OF PRODUCTS COMING UNDER THE VARIOUS COMMON MARKET ORGANIZATIONS.

5. IN ORDER TO IDENTIFY IMBALANCES, THE COMMISSION PROPOSES THAT THE PER CAPITA EXPENDITURE ALLOTTED TO EACH MEMBER STATE AS INDICATED AT 3 SHOULD BE COMPARED WITH AVERAGE COMMUNITY EXPENDITURE PER CAPITA. FROM THE DIFFERENCE BETWEEN THESE TWO A "REFERENCE AMOUNT" COULD BE ESTABLISHED FOR EACH MEMBER STATE, WHICH WOULD MAKE IT POSSIBLE TO IDENTIFY CASES WHERE THERE WAS "INSUFFICIENT" COMMUNITY EXPENDITURE IN A GIVEN STATE.

6. THE REFERENCE AMOUNT WOULD BE EXPRESSED AS A PERCENTAGE OF THE GDP OF THE MEMBER STATE IN QUESTION. AN IMBALANCE WOULD BE CONSIDERED

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SIGNIFICANT ONLY IF IT EXCEEDED A THRESHOLD, ALSO EXPRESSED AS
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A PERCENTAGE OF THAT GDP. LINEAR RISES IN THAT THRESHOLD, ACCORDING TO THE PER CAPITA GDP OF EACH MEMBER STATE, COULD TAKE PLACE UP TO A MAXIMUM LEVEL. THAT MAXIMUM WOULD PROVIDE A GUARANTEE FOR ALL MEMBER STATES THAT A CEILING WOULD BE SET FOR THE PRESENT OPERATION OF INCREASING OWN RESOURCES WITHOUT PREDETERMINING WHAT MIGHT BE DECIDED FOR A SUBSEQUENT OPERATION.

7. IN PRESENT CIRCUMSTANCES THE CORRECTIVE SYSTEM PROPOSED WOULD NOT BE BROUGHT INTO OPERATION EXCEPT FOR A VERY LIMITED NUMBER OF MEMBER STATES.

THE COMMISSION CONSIDERS THAT EVERY EFFORT MUST BE MADE IN ORDER THAT THE CORRECTIVE SYSTEM RETAIN THIS EXCEPTIONAL AND LIMITED CHARACTER. CONSEQUENTLY, IN THE EVENT THAT SIMILAR SITUATIONS ARISE IN THE FUTURE, THE COMMUNITY WILL HAVE TO ANTICIPATE SUCH A DEVELOPMENT AND INTERVENE IN TIME BY ADAPTING COMMUNITY EXPENDITURES AND THE RELEVANT POLICIES ACCORDINGLY.

THESE CONSIDERATIONS APPLY IN PARTICULAR TO THE COMMUNITY'S PRESENT AND FUTURE MEMBER STATES WHOSE PROSPERITY LEVELS ARE CLEARLY BELOW THE AVERAGE AND WHO ARE THE PRINCIPAL BENEFICIARIES OF THE STRUCTURAL POLICIES.

8. THE COMPENSATION WOULD CORRESPOND TO THE PART OF THE REFERENCE AMOUNT THAT EXCEEDED THE THRESHOLD THUS ESTABLISHED.

9. THE VOLUME OF SUCH COMPENSATION (INTENDED SOLELY AS A SUPPLEMENT) WOULD BE RELATIVELY LIMITED. WITHOUT WEIGHING TOO HEAVILY

ON THE BUDGET, THE COMPENSATION **CONFIDENTIAL** FORM OF FURTHER EXPENDITURE

EXPENDITURE IN THE MEMBER STATE IN QUESTION, E.G. UNDER THE
COMMUNITY'S STRUCTURAL POLICIES.

ALTHOUGH THE COMMISSION CONTINUES TO PREFER THIS FORMULA, IT WOULD
ALSO BE POSSIBLE TO ACHIEVE THE COMPENSATION THROUGH AN ABATE-
MENT OF THE NON-MODULATED PART OF A STATE'S VAT CONTRIBUTION,
PROVIDED THE BURDEN RESULTING FROM SUCH ABATEMENT WERE DIVIDED
AMONG THE OTHER MEMBER STATES IN PROPORTION TO THEIR NORMAL
SHARE IN VAT CONTRIBUTION.

10. IN THE COMMISSION'S VIEW, A COMBINATION OF MODULATION OF
PART OF VAT AND COMPENSATION VIA EXPENDITURE, AS DESCRIBED
ABOVE, WOULD PROVIDE A SUITABLE BASIS FOR A LASTING SETTLEMENT OF THE
COMMUNITY'S FINANCIAL PROBLEMS.

FCO ADVANCE TO:
FCO - PS HANNAY WALL
CAB - WILLIAMSON STAPLETON DURIE
TSY - UNWIN FITCHEW EDWARDS

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FM ATHENS 112015Z NOV 83

TO IMMEDIATE FCO.,

TELNO 638 OF 11 NOVEMBER 1983.,

REPEATED AS IMMEDIATE INFO TO UKREP BRUSSELS.,

REPEATED AS ROUTINE INFO TO OTHER EC POSTS.,

SAVING INFO TO MADRID AND LISBON.

FROM UKREP BRUSSELS

MIPT: SPECIAL COUNCIL ATHENS 9-11 NOVEMBER

BUDGETARY IMBALANCES

FOLLOWING IS TEXT OF PRESIDENCY'S (REVISED) PROPOSAL.

BEGINS:

BUDGETARY IMBALANCES

THE SOLUTION WILL BE GOVERNED BY TWO PRINCIPLES:

A) THE AIM OF A GREATER CONVERGENCE IN THE ECONOMIC SITUATIONS OF THE MEMBER STATES CANNOT BE CONTRADICTED BY THE OVERALL EFFECT OF COMMUNITY POLICIES AND ACTIONS EXPRESSED IN TERMS OF BUDGETARY EXPENDITURE (SEMICOLON)

B) BESIDES, COMMUNITY COHESION AND SOLIDARITY DEMAND THAT THE BUDGETARY IMPACT OF ITS POLICIES IN EACH MEMBER STATE DOES NOT FALL BELOW A CERTAIN MINIMUM.

THE EUROPEAN COUNCIL ASKS THE COUNCIL TO TAKE ACCOUNT OF THESE OBJECTIVES IN THE FUTURE WHEN FORMULATING AND EXECUTING COMMUNITY POLICIES AND ACTIONS.

TO THE EXTENT THAT THESE OBJECTIVES ARE NEVERTHELESS NOT FULFILLED, A CORRECTION WILL BE MADE WHICH ENSURES THAT A 'MINIMUM THRESHOLD' IS RESPECTED IN THE RELATION BETWEEN A MEMBER'S SHARE IN THE COMMUNITY GDP AND ITS SHARE IN THE COMMUNITY EXPENDITURE (1). THE 'MINIMUM THRESHOLDS' ARE AS FOLLOWS:

- NO MEMBER STATE CAN FALL BELOW THE MINIMUM THRESHOLD OF 1% OF ITS SHARE IN THE COMMUNITY GDP (SEMICOLON)

- FOR MEMBER STATES WHOSE GDP PER CAPITA IS LOWER THAN 80% OF THE COMMUNITY AVERAGE, THE 'MINIMUM THRESHOLD' IS EQUAL TO ITS SHARE IN THE COMMUNITY GDP (SEMICOLON)

- FOR MEMBER STATES WHOSE GDP PER CAPITA LIES BETWEEN 80% AND 110% OF THE COMMUNITY AVERAGE, THE 'MINIMUM THRESHOLD' AMOUNTS TO 1% OF ITS SHARE IN THE COMMUNITY GDP.

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(1) A TECHNICAL SOLUTION CAN BE FOUND WHICH AVOIDS A DECREASE OF GDP LEADING TO A DECREASE OF COMPENSATION.

THE AMOUNT RESULTING FROM THE APPLICATION OF THE "MINIMUM THRESHOLD" SYSTEM TO A MEMBER COUNTRY WILL BE DEDUCTED FROM ITS NORMAL VAT SHARE AT THE MOMENT OF THE FOLLOWING BUDGETARY EXERCISE (SEMICOLON) THE ADDITIONAL CHARGE FOR THE OTHER MEMBER STATES WILL BE SHARED OUT BETWEEN (BEGIN SQUARE BRACKET) THEM UNDER THE VAT KEY (END SQUARE BRACKET).

THESE PROVISIONS ARE APPLICABLE FOR AS LONG AS THE NEW DECISION ON OWN RESOURCES REMAINS VALID.

ENDS.

2. FCO PLEASE PASS SAVING ADDRESSEES.

R H O D E S

(REPEATED AS REQUESTED)

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closing the procedure for consultation of the European Parliament on the proposal from the Commission of the European Communities to the Council for a decision on own resources in relation to the future financing of the Community

The European Parliament,

- having regard to the Communication from the Commission to the Council and to the European Parliament on the future financing of the Community (COM(83) 10 final),
- having regard to the Communication from the Commission to the Council of 6 May 1983 (COM(83) 270 final),
- having been consulted by the Council (Doc. 1-375/83),
- having regard to the decision of the European Council in Stuttgart of 19 June 1983,
- having regard to the report of the Committee on Budgets and the opinion of the Committee on Agriculture (Doc. 1-856/83),
- A. having regard to its numerous resolutions on the future financing of the Community, on convergence, on the Community's own resources, on the mandate of 30 May 1980 and on the budgets of the last four years, in which it calls under specific conditions, for an increase in own resources and for practical and detailed proposals to that end¹,
- B. having regard to its resolution of 18 May 1983,²
- C. firmly convinced that the creation of new revenue must be based on a sound and healthy foundation, which can be established only if all Member States and Community institutions reconsider the overall structure of the Community's finances,

Lays down the following bases for the future financing of the European Community:

1

OJ No. C 309 of 10.12.1979
OJ No. C 265 of 13.10.1980
OJ No. C 101 of 4. 5.1981
OJ No. C 172 of 13. 7.1981
OJ No. C 182 of 19. 7.1982

OJ No. C 302 of 3.12.1979
OJ No. C 313 of 1.12.1980
OJ No. C 311 of 30.11.1981
OJ No. C 304 of 22.11.1982

2

OJ no. C 161 of 20.6.1983, p.84

I. - CURRENT SITUATION

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1. Notes that as a result of the second supplementary budget for 1983 and the 1984 draft budget the present ceiling of own resources has been reached; under the draft second supplementary budget for 1983 submitted by the Council the rate of value-added tax will exceed 0.99%;
2. Expressly draws attention to the fact that this situation has arisen because of the delay, for which the Council and the Commission are responsible, in implementing the guidelines of the Mandate of 30 May 1980;
3. Reiterates its view that the main cause of budgetary imbalance is the preponderance of price-support measures for various agricultural products in surplus, as a result of which the share of agricultural expenditure, which had been falling until 1982, has since been growing at a faster rate than the budget itself;
4. Notes that with the exhaustion of own resources the Community is in fact facing the collapse of its common agricultural policy;
5. Is concerned at the fact that the sharp increase in agricultural expenditure necessitates drastic cuts, particularly in the fields of social and regional policy;
6. Is obliged to note that, in the present circumstances, only limited resources remain available for the priorities laid down by Parliament, namely the fight against unemployment, the economic crisis and hunger in the world, and that there is no concerted policy for European industrial recovery;
7. Is unable, even after the Stuttgart Summit of June 1983, to discern on the part of the Council a clear strategy for resolving the main problems of the Community and for relieving the unacceptable situation for one Member State;
8. Considers that a Member State is in an unacceptable situation when its own economic performance compared to that of the other Member States is characterized by a blatant mismatch between the burdens and the discernible advantages to it of membership of the Community relative to the burdens and advantages of all the Member States; points out that this assessment must not be based on accounting aspects alone but must also take into consideration all the advantages of membership of the Community;

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II - DEVELOPMENT OF COMMUNITY POLICIES

9. Calls urgent attention to the fact that, failing drastic adjustments to the structure of the budget and revenue, the functioning of the European Community is at risk;
10. Points out that the problem of the exhaustion of own resources which faces the Community in the course of the 1984 budgetary procedure confirms the need for an immediate decision on the future financing of the Community;
11. Welcomes the stipulation by the European Council in Stuttgart in line with the standpoint of the European Parliament, that a lasting solution to the United Kingdom's problem can be reached only by a clear decision on the future financing of the Community on 6 December 1983 in Athens;
12. Strongly emphasizes once again that only the expenditure side of the budget can be considered for a redistribution in favour of the poorer regions, whereas allowance must be made for the differences in the economic strength of the Member States via the revenue side (see paragraphs 34 and 35);
13. Stresses that the discussion on increasing the share of value-added tax is inseparable from the question of which policies it would be appropriate to tackle and finance at Community level and of how the policies to be implemented by the European Community can be implemented more efficiently and economically;
14. Notes that, as a result of budgetary imbalance and the policy of the European Community which benefits the richer states in particular, since the entry into force of the Treaties of Rome the prosperity gap between the states has not narrowed but has significantly widened;
15. Reaffirms therefore the view expressed in its resolution of 17 June 1981 that priority should be given to taking better account of the less developed Member States and regions of the Community by adjusting existing policies in their favour and that this will entail a restructuring of Community expenditure;

¹ OJ No. C 172 of 13.7.1981, p. 54 - PFENNIG report (Doc. 1-264/81)

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16. Reiterates, therefore, its demand that priority should be given to expenditure aimed at securing economic recovery, particularly in the industrial, research and new technology sectors;
17. Upholds for that reason the objectives of its budget policy, which calls for more resources to combat unemployment, the economic crisis and hunger in the world, for a common industrial and research policy, for a long-term structural policy which assists the poor regions of Europe and makes provision for the inclusion of Portugal and Spain and for drastic cuts in spending on the marketing, storage and destruction of increasing agricultural surpluses via a structural reform and a more effective organization of the common agricultural policy;

III. - THE COMMISSION PROPOSALS

18. Maintains its fundamental view that the current method of calculating the 'net contribution' must be replaced by a method of calculation or assessment which provides a more objective and comprehensible picture of both the financial and economic advantages and the real burdens of membership of the European Community;
19. Believes that account must be taken of the new policies to be instituted when assessing the burdens and advantages of membership of the Community;
20. Calls once again for proposals from the Commission regarding the form such a method of calculation or assessment might take;
21. Impresses on the Commission and the Council the need, when tackling new policies, to clearly define the terms of reference of the Community and the Member States respectively, to make a long-term assessment of costs and to quantify the savings involved for the Member States;
22. Believes that it is necessary to determine for every policy whether sole financing by the European Community or joint financing with the Member States is necessary and, where sole financing by the European Community is opted for, that additional national financing should be prohibited;
23. Notes that the agricultural production levy proposed in the Commission's 'green paper' has been abandoned following Parliament's negative opinion;
24. Considers it necessary, if balance is to be restored to the structure of the budget, for the increase in the percentage of value-added tax to be decided in conjunction with measures to reduce surplus production in agriculture due to structural factors, and takes the view that, in the absence of clear decisions designed to contain the growth in expenditure in the Guarantee Section and in particular to end structural agricultural surpluses, an increase in the percentage of value-added tax will not be feasible, points out, however, that this increase has now become inevitable if fresh impetus is to be given to the construction of Europe;

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25. Calls, in the light of the trend in agricultural expenditure in 1982 and 1983, for the annual increase in agricultural expenditure to be held at a lower level than the growth in revenue on the basis of the current 1% value-added tax ceiling;

26. Considers it necessary, therefore, that all decisions of the Council of Ministers should be made subject to the strict constraints of the Financial Regulation and the budget and in the event of a departure from this principle the agreement of the budgetary authority must be sought;

27. Notes nevertheless even at this stage that the financial framework contained in the Commission proposal for reducing the proportion of expenditure on agriculture must be adhered to at all costs in order to put an end to the uneven distribution of appropriations between sectors;

IV - INCREASING VALUE-ADDED TAX

28. Considers the Commission's proposals with regard to the rate of increase in the value-added tax percentage to be satisfactory;

29. Expects the Commission to submit a medium-term financial plan for 1986-1990, setting out clearly the purposes for which these additional appropriations are to be used;

30. Calls for an assurance that the additional resources deriving from a higher ceiling should be used not for the common agricultural policy in the ten Member States but for the purposes described in the PFENNIG, GIAVAZZI and HOPPER reports, including the integrated Mediterranean programmes and the extension thereof;

31. Recognizes that the procedural rules proposed by the Commission for further increases in the value-added tax ceiling are in accordance with its decisions but is nevertheless aware that this matter will have to be resolved in the context of the question of competence under the various national ratification procedures;

32. Hopes that the Council and the Member States will speedily approve this draft so that neither the common agricultural policy nor the other Community policies will suffer from a lack of funds;

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33. Stands by its proposals designed to include the differences in per capita incomes and in the economic performance of the Member States in the value-added tax scale;
34. Appreciates that value-added tax is levied on consumption and not on gross domestic product; in consequence, proposes only a revision of the value-added tax scale on the basis of these parameters;
35. Fails to see any connection between gross domestic product and the portion of the budget calculated on the basis of agricultural expenditure criteria which is to be used as a basis for the revised scale; therefore rejects the proposal by the Commission to include gross domestic product and net operating surplus of the economy in the formula for calculating the variable rates of value-added tax;
36. Favours, on the other hand, the application of these criteria to value-added tax as a whole;
37. Considers that the Commission proposal that the amount of net agricultural expenditure in excess of 33% of the total budget should be made subject to a variable rate of value-added tax and its proposal to take the Member States' share of the agricultural products subject to common market organizations as a parameter provide a worthwhile basis for discussion;
38. Would consider it preferable, however, in order effectively to combat structural agricultural surpluses, to take as a parameter the Member States' share of the common agricultural markets in which there are structural surpluses;
39. Nevertheless considers special arrangements to be necessary for the Member States which have a below-average gross domestic product and in which agriculture accounts for an above-average share of gross domestic product;

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VI. - MISCELLANEOUS PROPOSALS

3. Calls for a clear definition in the budget of expenditure under the Common Agricultural Policy and expenditure deriving from the general policy of the Community; 106.0
41. Stresses that no solution should undermine the legal nature of the Community's own resources;
42. Has already called repeatedly for customs duties on ECSC products to be included in Community own resources;
43. Considers also the Commission proposal to reduce the rate of refund in respect of administrative expenditure incurred by the Member States in the collection of own resources to be correct;
44. Proposes for its part a rate of 5%;
45. Considers the refund of administrative expenditure as non-compulsory Community expenditure;
46. Instructs its President to forward to the Council and the Commission as Parliament's opinion the text of the Commission proposal as voted by Parliament together with the relevant resolution.

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EHG(A)(83)4A COPY NO 1
30 November 1983

EUROPEAN COUNCIL, ATHENS
4/6 DECEMBER 1983

CONTROL OF COMMUNITY EXPENDITURE, INCLUDING STRICT FINANCIAL
GUIDELINE FOR AGRICULTURE

Brief by HM Treasury

REFERENCES:

- A UK draft Council conclusions for a strict financial guideline
- B UK proposal for a strict financial guideline
- C Commission proposal for a 'political' guideline
- D Possible compromise on a 'political' guideline for agricultural expenditure
- E Dutch paper on budgetary discipline
- F Commission paper on budgetary procedure
- G French proposals on budgetary discipline circulated on 28/29 November

OBJECTIVES

1. To secure agreement to a legally binding strict financial guideline for agricultural guarantee expenditure. If there is stalemate at Athens, to maintain our proposal.
2. If we secure a settlement on budgetary imbalances good enough largely to insulate the United Kingdom from the budgetary consequences of future agricultural spending, Ministers might consider accepting a guideline which, while preferably embodied in a legally binding form, would amount to something less than watertight arrangements - though of course we should continue to press for the most effective arrangements we can secure.
3. To endorse the principles of general budgetary control outlined in the French papers, but to make clear that a separate, legally binding control on agricultural expenditure remains essential.

POINTS TO MAKE

4. One Stuttgart condition for our agreement to consider the case for an increase in own resources was that there should be firm arrangements for control of agricultural and other expenditure. Must have satisfactory agreement on this as part of overall package. Would be quite wrong to exempt Community expenditure from tight discipline over public expenditure which all of us are having to impose at home.
5. Must hold down rate at which agricultural expenditure in particular increases. Figures since 1975: average annual growth of CAP expenditure 15½ per cent, average annual growth of own resources 11 per cent.

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Changing CAP market regimes - eg for milk - essential. But no lasting control of expenditure without responsible decisions, constrained by spending limits, on prices and support measures. Only way of ensuring this is to have a strict financial guideline on the lines of our proposal.

6. Welcome also the new French ideas for greater control of the budget as a whole. Endorse strongly principle that income should determine expenditure rather than the other way round, as has hitherto been the case. Hope colleagues can also endorse broad idea of Council setting upper limit on budgetary resources at beginning of year. This would provide a discipline on the Community budget which would match the discipline we have to apply to our own public expenditure programmes. But must have a binding control of agricultural spending within any overall framework - as French paper appears to provide - because otherwise danger that agricultural expenditure might squeeze out other expenditure within an overall ceiling.

7. Treaty amendment/legal force We have proposed that strict financial guideline should be embodied in the Community's budget procedures. This is because we need to provide agriculture ministers with the binding discipline to ensure that they take difficult decisions required on individual commodities and to enable them to defend those decisions to agricultural producers. We will also need to consider what legal form should be given to the French proposals for an overall budgetary control and the setting of the VAT rate, in order to make them part of the Community's budgetary procedures. We must ask our experts to work on this urgently in next few weeks.

If others refer to difficulty of amending Article 203 (Budgetary procedure Article) Should certainly not rule this out. No reason to shirk implementation of proposals because they might involve Treaty amendment. We are being asked to amend the Treaty to increase own resources - so why should there be political objection to amending the Treaty to provide for greater financial discipline at same time? Moreover, the French proposals specifically leave the European Parliament with a margin of manoeuvre; and would also give Parliament increased powers over what is currently classified as obligatory expenditure.

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8. Role of European Parliament See no reason to worry on this score.

European Parliament itself has called for:

"The annual increase in agricultural expenditure to be held at a lower level than the growth in revenue on the basis of the current 1 per cent Value Added Tax ceiling."

It has also demanded that any increase in own resources should not be used for the Common Agricultural Policy. They should therefore welcome a strict financial guideline with legal force over agricultural expenditure. As to the French proposals for an overall control of the budget, the Parliament would be fully associated through concertation with the process of drawing up the initial VAT rate. European Parliament has never declared itself to be against greater budgetary discipline: nor has Commission, which repeatedly advocates firmer control over member states domestic public expenditure.

9. If Ministers decide that a political guideline on agricultural expenditure would be acceptable in the context of an overall package

Must be agreed that rate of growth of expenditure should be 'markedly below' the own resources base, and that it should affect decisions on CAP prices and the Community budget. (See annex D for further details.)

10. If others say French proposals were made too late to be properly discussed Details will of course need to be sorted out in further discussions. But see no difficulty in accepting essential principle that available resources should limit expenditure. Should also be no problem over including in our conclusions an endorsement of that general principle, with the provision that details of bringing it into practice are to be worked out in consultation with the Commission and Parliament.

11. What to include in Athens conclusions Seems to me that draft conclusions tabled by French would provide a good basis for agreement on what should be included in our communique. But should be supplemented by an instruction from the European Council to the Council to work urgently over next few weeks to establish an agreed method of incorporating proposals for an overall budgetary control and for a strict financial guideline on agricultural expenditure within that in the Community's budgetary procedures.

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Background

i. Strict financial guideline for agriculture

11. The UK proposal for a strict financial guideline contains the following main features:

- i. Guarantee expenditure to grow at 'a given fraction of' the rate of growth of the own resources base.
- ii. The guideline to operate on an annual basis. Each year the Budget Council would set a permitted rate of increase which would not be greater than but could be less than the 'given fraction'.
- iii. The Commission's proposals and the Council's decisions on CAP prices and the Budget would have to be consistent with the guideline.
- iv. The Commission and the Council would manage markets to keep expenditure within the guideline.
- v. There would be greater restrictions than at present on the Commission's power to propose and the Council's to adopt supplementary budgets; a unanimous Council vote would be necessary in some cases.
- vi. The guideline would be set out in detail in legally binding form, with the 'given fraction' quantified.

Annex A contains the text of the conclusions proposed by the United Kingdom for the European Council on the strict financial guideline.

13. It is clear that most other member states are not prepared to accept a legally binding guideline. However, the proposals which M. Delors outlined at the Special Council on 28 November (see further below) include the idea that there should be a guideline for the growth of agricultural expenditure, cast in terms of a three-year moving average and with arrangements to 'clawback' excessive agricultural expenditure over the following two years. They have told us informally that such a guideline could perhaps be embodied in a Council Decision or Regulation - although they are not prepared to accept Treaty status. Other details of how the French guideline would work remain to be settled.

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14. Most member states and the Commission would be prepared to accept a 'political' guideline. It now seems clear that the only chance we have of securing acceptance of a legally binding guideline will be in the context of the French proposals. We should accordingly line up firmly behind these proposals, while always making clear that a separate control of agricultural expenditure is an essential ingredient in those proposals. Otherwise there would be a risk that agricultural expenditure might be allowed to crowd out other expenditure.

15. It seems probable that it will only be possible to reach agreement on the general principles of the French proposals with the details needing to be sorted out later. If so, we would have to accept that the work on the strict guideline should proceed in parallel. If the French proposal runs, it is clear that it will require some legal embodiment, although the French have been nervous of saying so for fear of provoking hostile European Parliamentary reactions. In these circumstances, we should maintain our demand that the strict financial guideline should also be legally binding (though not necessarily part of the Treaty - a Council regulation or decision might be sufficient).

16. If neither our own nor the French proposals run, Ministers may wish to consider a 'political' guideline in the context of an overall package which is otherwise acceptable. A guideline on the lines proposed by the Commission, suitably tightened up (see annex 5) would be of some use in our efforts to reduce the economic distortions and budgetary costs of the CAP. But it could not honestly be described as a strict and effective control on agricultural expenditure. If we agreed to a political guideline, therefore, it would have to be on the basis that further work must be done to make the Commission's formula more precise.

ii. Budgetary discipline

17. The theme of budgetary discipline has pervaded these negotiations. The Dutch tabled a paper advocating more use of the triennial forecasts but without suggesting any amendment to the budgetary procedure articles of the Treaty. The Commission recently tabled a similar proposal. While both of these papers can be prayed in aid in the search for greater budgetary discipline, it would be idle to pretend that they contain any proposals which would materially change present arrangements.

18. The French paper tabled by M. Delors on 28 November is a different matter. Its main points are:

- i. At the beginning of the budgetary procedure, the Council, acting by qualified majority and after consulting the European Parliament, should establish the VAT rate to apply to the following year's budget.
- ii. Throughout the budgetary procedure, each institution would have to remain within the VAT rate so established.
- iii. Within the total, there should be a guideline for agricultural expenditure based on a three-year moving average.
- iv. Each budget should include a contingency reserve, primarily to cover agricultural expenditure. If in the last resort, the VAT rate has to be raised to accommodate an agricultural supplementary budget which exceeds this reserve, the addition should be clawed back the following year.

19. Both the Foreign Secretary and the Chancellor welcomed the ideas underlying these suggestions, while noting that details would have to be worked out. In particular, there would need to be more on the agricultural guideline, and (as noted above) it must have legal force. The Delors paper does not explicitly refer to the need to amend the Treaty - but the procedure at i. and ii. above would clearly require a change to the budgetary procedures included in the Treaty.

20. The second French paper, which some have interpreted as superseding the first, appears in fact to be the text of what they propose should be included in the European Council conclusions. As such, it seems to us to be a good basis for discussion, although it needs to be supplemented by a clear instruction from the European Council to the Council to work up the details on both the establishment of the VAT rate and the guideline for agricultural expenditure so that these form part of the Community's budgetary procedures. With that addition, we could accept something on the lines of the French text.

HM Treasury

30 November 1983

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EXTRACT FROM EUROPEAN COUNCIL
CONCLUSIONS PROPOSED BY UNITED KINGDOM

Strict financial guideline

The European Council agrees that in order to ensure the effective control of agricultural expenditure, and to achieve a better balance in expenditure between agriculture and other policies, the annual rate of growth of expenditure under the Guarantee Section of the EAGGF must be markedly less than that of the own resources base. It asks the Council of Ministers to agree urgently detailed arrangements for the establishment of a legally binding guideline which will have this effect.

The guideline will need to be formally embodied in the Community's budgetary procedures, and to be strictly observed in decisions affecting FEOGA guarantee expenditure and the Community budget. In particular:

- the Commission's proposals and the Council's decisions on agricultural prices will need to be consistent with the guideline;
- Budget Ministers must be formally involved in these decisions; the Council of Ministers (budget) should fix in advance of each year's agricultural price-fixing a level of expenditure consistent with the guideline for the following calendar year;
- the Council will conform to the guideline in establishing the draft budget, and, so far as is consistent with the role of the Parliament, in adopting the Budget;
- the Commission and the Council will take all possible steps to keep expenditure each year within the guideline;
- there must be substantially tighter constraints than at present on the submission and approval of supplementary budgets permitting an increase in expenditure under the Guarantee Section of the EAGGF;
- if for any reason expenditure in any year exceeds the level consistent with the guideline, the level of

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expenditure permissible under the guideline for the following year will be equivalently reduced ("clawback") so that the cumulative rate of growth of guarantee expenditure does not exceed the cumulative rate of growth implied by the guideline; there may be similar arrangements for carrying forward amounts by which expenditure in any year is less than the guideline could permit.

Note

"Agricultural expenditure" means those sums to be charged to the EAGGF Guarantee section of the Budget, without deduction of revenue from sugar and isoglucose levies, coresponsibility or other agricultural levies.

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STRICT FINANCIAL GUIDELINE FOR CAP EXPENDITURE: BUDGETARY ASPECTSA. Introduction

In its recent communication to the Council (COM(83)500) the Commission has set out its view on the rationalisation of the common agricultural policy and, in particular, on certain adaptations of the market organisations and the application of a financial guideline. The Commission recommends the Council to adopt a guideline that the rate of growth of agricultural expenditure (as an average calculated over a number of years) remains below that of the Community's own resources. The United Kingdom is studying that communication in preparation for the forthcoming discussion. In order to facilitate that discussion the United Kingdom now sets out in this paper its view on the way in which the financial guideline might operate

2. The Stuttgart European Council decided that the negotiations to take place under the special emergency procedure should cover the need for greater budgetary discipline. In particular, in relation to agriculture, the European Council declared that "the basic principles of the Common Agricultural Policy will be observed in keeping with the objectives set forth in Article 39 of the Treaty establishing the EEC and that the Common Agricultural Policy must be adapted to the situation facing the Community in the foreseeable future in order that it can fulfil its aims in a more coherent manner". The list of questions to be examined in the present negotiation includes the need for strict financial guidelines and the European Council further declared that:

"The examination will result inter alia in concrete steps compatible with market conditions being taken to ensure effective control of agricultural expenditure....".

The United Kingdom's suggestions for the introduction of a strict financial guideline are put forward against this background.

3. The European Parliament, in the Arndt Resolution, said that the annual increase in agricultural expenditure must be held at a lower level than the increase in revenue. The United Kingdom has consistently taken the position that the rate of growth of agricultural expenditure should be markedly lower than that of the own resources base; and has proposed that this guideline should be observed by the Council of Ministers (Agriculture) in its decisions in the annual price fixing, by the Council of Ministers (Budget) in establishing the Community's budget and by the Commission in its management of the funds provided in the budget for agricultural expenditure.

It is the view of the United Kingdom Government that, in order to ensure the effective control of agricultural expenditure and to achieve a better balance in the Community budget between agriculture and other policies, this guideline should now be adopted by the Community and formally embodied in an effective way in the Community's revised budgetary procedures.

5. The proposal set out in more detail in Section B below is for a guideline determining the permissible rate of increase in FEOGA Guarantee expenditure compared with the provision in the original Budget of the previous year. The United Kingdom Government recognises that during the discussions at the London European Council in December 1981 difficulties were foreseen in the operation of a year-on-year guideline for agricultural spending, and that there was a tendency to support a guideline which would be evaluated over a period of years. But it considers that the most important features of a guideline - that it should serve as an unequivocal guide to the need for corrective action and be calculated in a consistent fashion from one year to the next - would be best achieved by the use of a year-on-year budget base. This would avoid the difficulties in agreeing on a suitable base period on which an averaged guideline would be calculated, and of relying on outturn expenditure figures in a given period which may be atypical.

6. The difficulties that were earlier foreseen for an annual guideline can be overcome by the introduction of special procedures, subject to specific safeguards and controls, which would permit the introduction, in exceptional circumstances, of a supplementary budget in excess of the guideline; the amount of the excess being deducted from the guideline in the following year. Similarly, the amount of any underspending below the guideline would be carried forward to the following year. The effect of these provisions taken together is to ensure that the trend rate of increase laid down in the guideline is strictly observed over a period, while allowing the element of flexibility needed to take account of the variability of expenditure in support of agricultural markets.

B. Proposed budgetary procedures

7. The United Kingdom Government suggests that the guideline could be embodied in a financial framework forming part of the Community's budgetary procedures in the following way.

8. The strict financial guideline to be adopted by the Community shall specify that the rate of increase in FEOGA Guarantee expenditure in any year, when compared with the corresponding provision in the original budget adopted by the European Parliament for the preceding year, shall not exceed a "given fraction" of the rate of increase

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the own resources base between the two years. (The present negotiations will need to fix the size of the "given fraction").

9. Simultaneously with its annual price fixing proposals the Commission shall make a reasoned proposal for the actual rate of increase in the amount available for FEOGA guarantee expenditure in the budget for the year following the price fixing, compared with the amount provided in the original budget for the year of the price fixing. The Commission's proposal may be for an increase lower than the rate specified by the "given fraction" but shall not exceed it; the Commission's price fixing proposals will need to be consistent with the proposed rate.

10. As early as possible in the year the Council of Budget Ministers shall examine the Commission's proposed rate of increase (including the forecast increase in own resources) and vote on it. The Commission's proposal shall be adopted unless the Council decide by a qualified majority to amend it. The Council may not, however, vote for a figure in excess of the maximum rate specified by the "given fraction".

11. The Council of Ministers (Agriculture) shall ensure that their decisions in the price fixing and at other times are consistent with the observance of the guideline rate of increase as adopted under the procedure in paragraph 10. If, however, in the course of the price fixing negotiations, the Commission wishes to propose an increase in the guideline within the total set by the "given fraction", a joint Budget/Agriculture Council would be called to reach a decision on the rate of increase to apply to agricultural spending. The Joint Council may not decide on an increase in excess of that specified by the "given fraction".

12. As the European Parliament has recommended on several occasions, the revenue from coresponsibility and other levies imposed in the agriculture sector should not be classified as negative expenditure or used in any other way to increase the amounts available for agricultural expenditure.

13. The Commission's proposal for FEOGA Guarantee expenditure in the Preliminary Draft Budget for the year following the price fixing shall conform to the Council's decision on the strict financial guideline as taken under paragraph 10 and 11 above. The Council shall likewise conform to the guideline in establishing the draft Budget. It shall be open to the Parliament, in the course of the budgetary procedure, to propose modifications which would increase agricultural expenditure beyond the rate of increase specified by the "given fraction" laid down in the guideline in paragraph 8 above, provided it has first voted for such an increase in that maximum rate acting by a majority of its members and by 3/5ths of the votes cast. In that event, the Council may agree, voting by qualified majority, to adopt a new financial guideline not exceeding that proposed by the Parliament.

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14. The Commission shall aim to manage agricultural expenditure within the amount laid down in the adopted budget.

15. If at any subsequent stage it appears to the Commission that the amount available for agricultural expenditure is in risk of exhaustion, the Commission shall make proposals to the Council for reducing the growth of agricultural spending either before the beginning of the budget year in question or during the course of it.

16. If, however, because of unforeseeable circumstances, it appears to the Commission that, even after resort to exceptional measures, an increase in expenditure from the FEOGA guarantee section is unavoidable, it may, after 1 October of the budget year in question, present a supplementary budget for this purpose. If necessary, this may be accompanied by a proposal for a higher rate of increase in FEOGA guarantee expenditure in that year than that specified by the "given fraction". Where the Commission's proposals require such an increase the Budget Council will vote on the proposed new guideline, acting by unanimity. Subject to this vote, the Council shall act on the Commission's proposals for increased expenditure by qualified majority. The Parliament shall vote on the proposed new guideline by a majority of its members and by 3/5ths of the votes cast.

17. When agricultural expenditure in any year has exceeded the amount specified by the "given fraction" either on a proposal from the Parliament (see paragraph 13 above) or by the adoption of a supplementary budget (see paragraph 16 above), the amount of the excess shall be deducted from the amount available under the "given fraction" rule in the following year. To this end the Commission should propose the necessary compensatory reduction in the following year's budget by means of a rectifying letter. When such a deduction has been made, it shall be ignored for the purpose of calculating the financial guideline for subsequent years.

18. Where the total of FEOGA guarantee expenditure in the year has for any reason (including compensatory reductions made in accordance with paragraph 17) fallen below the maximum permitted by calculation of the given fraction, the amount of any such shortfall may, on the proposal of the Commission, be added to the amount available under the given fraction for the following year, provided the Council of Budget Ministers shall decide to adopt the proposal, voting by qualified majority. When such an addition has been made, it shall be ignored for the purpose of calculating the financial guideline for subsequent years.

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Implementation of financial framework

19. The adoption of this financial framework will not in itself be sufficient to guarantee that it is observed. It will need to be accompanied by detailed decisions to ensure that expenditure is kept within the guideline. These decisions will be taken by the Council of Agriculture Ministers and, to the extent appropriate, by the Commission.

20. In the first place the annual price fixing will need to be conducted within the overall financial limit previously set by the Council of Budget Ministers for guarantee expenditure in the following year's budget. Secondly, should the trend of expenditure exceed that expected by the Council at the annual price fixing and incorporated in the budget provision for the FEOGA guarantee section, it will be for the Commission in the first instance to take whatever action to moderate expenditure lies within the powers entrusted to it by the Council in Regulations on the common organisation of markets. These powers currently include the fixing of export refunds and other amounts and the introduction or suspension of intervention and of other support and/or disposal measures. The examination of the issues listed by the European Council will need to cover the question whether the Commission's existing powers are adequate to enable them to observe the guideline. If such action by the Commission on its own does not appear likely to keep future expenditure within the financial framework laid down, then, thirdly, it will be for the Commission to report the situation and make appropriate proposals for corrective action to the Agriculture Council. These proposals could, depending on the situation, include a review of the decisions already taken by the Council at the annual price fixing. Only after resort to all possible measures by the Council and the Commission will the question of the need for a supplementary budget, under the procedures set out in paragraph 16 above, arise.

D. Operation of the CAP

21. The European Council agreed at Stuttgart that adaptation of the CAP to the situation facing the Community in the foreseeable future is necessary if it is to fulfil its aims in a more coherent manner. The establishment of a financial framework of the kind outlined above will, in the view of the United Kingdom Government, make an essential contribution to achieving that objective. But adaptation in the operation of the Common Agricultural Policy itself will also be needed if it is to meet its purposes more effectively.

22. There will be discussions on these questions over the coming months in order to establish the "concrete steps compatible with market conditions to ensure effective control of agricultural expenditure by making full use of available possibilities and examining all market organisations" for which the Stuttgart Declaration has called. The United Kingdom Government will be studying the Commission's proposals

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COM(83)500. It considers that the necessary decisions must include a commitment to a sustained policy of restraint on common prices and a narrowing of the gap between Community prices for commodities in surplus and those of its principal competitors; rigorous application of guarantee thresholds designed to limit the Community's guarantee to producers by reference to the quantities which it is appropriate to produce within the Community; and other measures compatible with market conditions in the individual commodity sectors to make the policy more cost-effective.

23. Such adaptation is needed from a budgetary point of view, but it is needed too, to secure the achievements of the CAP; to reduce the problems which surplus disposal can create in the Community's relations with its trading partners including those in the Third World; and to provide a more healthy basis for the future development of European agriculture.

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COMMISSION PROPOSAL FOR POLITICAL GUIDELINES

The main lines of the Commission's approach are as follows:-

- (a) The basic principle is that FEOGA Guarantee expenditure would grow, on average over several years, at a rate less than that of Own Resources.
- (b) The guideline would be cast in terms of a three-year moving average, with decisions taken each year about agricultural prices and the following year's Budget which would hold the rate of growth over the current, preceding and next years to less than the rate of growth of Own Resources over the same period.
- (c) The Commission's proposals for CAP prices would indicate their budgetary consequences. If, in the Commission's view, the Agriculture Ministers appeared likely to decide on price increases whose costs would exceed those of the Commission's proposals, there would be a joint Council of Budget and Agriculture Ministers.
- (d) The Commission and the Council would take all possible steps to keep expenditure within the Budget during the year, and would tighten up their procedures for identifying any possible overspending. Supplementary Budgets would be used only as a last resort, but voting would be by qualified majority voting, as at present.
- (e) Expenditure above the guideline and original Budget in any year should be "clawed back" over the following two years.
- (f) The guideline would not involve any amendment to the Treaty. The Commission would bind itself formally to take account of the guideline; the European Council would finally take note of this and ask the Council of Ministers to do so as well.

6. There are a number of features of the Commission's ideas which we could accept:-

- (a) A moving average rather than an annual guideline.
(If properly defined a moving average guideline would produce results similar to our own proposal).
- (b) "Clawback" over two years rather than one.

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- (c) The Commission idea that only a joint Council of Budget and Agriculture Ministers could approve price fixing decisions more expensive than the Commission's proposal.

7. In addition two of the respects in which the Commission's ideas are weaker than ours involve modifications which it has always seemed likely we would have to accept.

- (a) No change in the Treaty provisions relating to Supplementaries;
- (b) Omitting the possibility of setting an annual permitted rate of increase which in some years can be below the absolute ceiling implied by the "given fraction" rule.

8. The main difficulties with the Commission's ideas (vagueness and technical deficiencies apart) concern:-

- (a) the fact that they would not be embodied in a legal framework;
- (b) the basic formula - a rate of growth of Guarantee expenditure merely "less than" that of Own Resources.

9. Our reason for wanting a legally binding guideline is that it would be much more difficult to evade or circumvent than a political agreement. Neither the Commission nor the Council could be held to be acting illegally if it proposed or decided upon price increases which exceeded the guideline.

10. So far as the basic formula of the guideline is concerned - "less than", "markedly below" etc. the rate of growth of Own Resources - our own proposal implied that a general form of words would be agreed upon at Athens and then be quantified in the Treaty (or whatever other legal instrument embodied the guideline). If we do not have a legally binding guideline it is unlikely that we shall ever get more than a form of words.

11. No form of words would be as good as a quantified "given fraction"; but the stronger the formula the stronger our position in subsequent price fixing discussions. Even so, there is a considerable risk that the guideline would be interpreted in practice as meaning that agricultural expenditure could (or even should) grow as fast as Own Resources.

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POSSIBLE COMPROMISE ON

A "POLITICAL" GUIDELINE FOR AGRICULTURAL EXPENDITURE

It is not possible to predict how discussion of a text agreeing on a "political" guideline might proceed. We would need to aim for a text as near as possible to our own proposal (Annex A) as possible; but we may be faced with a Presidency or Commission text drawn up in other terms.

2. In any event we would want the text to cover the following points.
3. Basic Principle. Rate of growth of Guarantee expenditure to be:-
 - (a) "markedly below"
 - (b) rate of growth of Own Resources base (ie levies + duties + 1% VAT):
 - (c) either on an annual basis; or over a period of years/ on average/over successive three-year periods.
4. Guideline to affect decisions on:-
 - (a) CAP prices;
 - (b) Community Budget.

It would also be valuable if the Commission's proposals on the price fixing were always within the guideline; the Council can only formally amend a Commission proposal on a unanimous vote.

5. Clawback of any excess of expenditure one year either in the next year or in the next two years, so that the cumulative rate of growth of CAP expenditure is consistent with the cumulative rate of growth implied by the guideline.
6. Management of expenditure by Commission and Council to be consistent with the Guideline; Supplementaries only as a last resort.

7. Details to be worked out by Council of Ministers. (The Commission's ideas for a "political" guideline are not yet technically satisfactory.)

8. Definition of agricultural expenditure as in our text (ie gross Guarantee expenditure, with no items illegitimately excluded and no netting off of agricultural levies).

9. A possible text is set out in the appendix.

AGRICULTURAL EXPENDITURE

The European Council agrees that in order to ensure the effective control of agricultural expenditure, and to achieve a better balance in expenditure between agriculture and other policies, the [annual] rate of growth of expenditure under the Guarantee Section of the EAGGF [over a period of years] must be markedly less than that of the own resources base. It asks the Council of Ministers to agree urgently detailed arrangements for the establishment of a guideline which will have this effect, taking account of the ideas put forward by the Commission and Member States.

The guideline will need to be strictly observed in decisions affecting FEOGA guarantee expenditure and the Community budget. In particular:

- The Commission's proposals and the Council's decisions on agricultural prices will need to be consistent with the guideline.
- Budget Ministers must be involved in these decisions; the Council of Ministers (budget) should fix in advance of each year's agricultural price-fixing a level of expenditure for the following calendar year consistent with the guideline.
- The Council will conform to the guideline in establishing the draft budget, and so far as is consistent with the role of the Parliament in adopting the Budget.
- The Commission and the Council will take all possible steps to keep expenditure each year within the guideline and to avoid Supplementary Budgets.
- If for any reason expenditure in any year exceeds the level consistent with the guideline, the level of

expenditure permissible under the guideline for the following year/two years will be equivalently reduced ("clawback") so that the cumulative rate of growth of guarantee expenditure does not exceed the cumulative rate of growth implied by the guideline; there may be similar arrangements for carrying forward amounts by which expenditure in any year is less than the guideline could permit.

Note

"Agricultural expenditure" means those sums to be charged to the EAGGF Guarantee section of the Budget, without deduction of revenue from sugar and isoglucose levies, coresponsibility or other agricultural levies.

EUROPEAN COMMUNITIES
THE COUNCIL

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Brussels, 16 September 1983 (20.09)

9216/83	
	R/LIMITE

BRIEF NO 4A
REF E

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NOTE

Subject: Memorandum from the Netherlands delegation on budget discipline

Delegations will find annexed a memorandum submitted by the Netherlands delegation on budget discipline.

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Memorandum from the Netherlands delegation
on budget discipline

The Netherlands delegation considers that the following principles should be adhered to in the Community's budget policy:

1. Resources should be the starting-point for expenditure policy, and not vice versa. In other words, total Community expenditure should be limited by a well-defined budgetary framework;
2. Consequently, the Council should respect this starting-point and, if need be, adjust its policy to suit it;
3. The clear priorities resulting from the establishment of rules and the increased control over the various expenditure chapters are consistent with the budgetary policy proposed by the Commission with a view to promoting the economic convergence of the Member States.

The Netherlands considers that budgetary discipline can be achieved through, inter alia, the following specific measures:

I. Multiannual estimates

- (1) The Commission should draw up multiannual estimates of resources on the basis of expected economic trends in the Member States and of expenditure on the basis of current policy and agreed future policy. Revenue estimates should be conservative to reduce the risk of shortfalls.
- (2) When submitting new policy proposals or amending existing policy, the multiannual financial implications should always be indicated.
- (3) The above multiannual estimates should be submitted to the EPC for its opinion. They will enable budget preparation to be placed promptly in a global framework.

II. Procedures

The EEC budget is prepared and processed in accordance with Article 203 of the EEC Treaty. These procedures must continue to be applied in full, although certain additions may prove necessary.

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A. Preparation of the budget

1. The actual budget preparation commences with the establishment of the multiannual estimates.
2. The multiannual estimates afford an insight into the possible need for reconsideration with a view to achieving the right relationship between resources and expenditure.
3. If the Commission is to be able to play its rightful part, it would seem necessary to assign a stimulating and co-ordinating function in the preparation and effective implementation of the budget to an organization unit within the Commission. It is essential for this unit to be given sufficient authority for this purpose.

B. Processing the budget

1. Early in March the Budget Council, after receiving the opinion of the EPC, indicates the limits within which it considers the preliminary draft budget for the following year should be drawn up. This will coincide de facto with the deliberations on the multiannual estimates prepared by the Commission. During the same period the European Parliament will also be debating the priorities to be set by it.
2. In the course of March consultation will take place between the Council, the Commission and the European Parliament on priorities on the basis of the limits indicated by the Budget Council and taking into account both the multiannual estimates prepared by the Commission and the priorities as indicated by the European Parliament.
3. The Commission then draws up the preliminary draft budget, taking into account the outcome of 1 and 2.
4. When preparing the preliminary draft allowance is also made for the effects of the new agricultural prices, which will be felt during the following financial year.
5. Taking the overall framework as the starting-point, the following rules apply:
 - in the case of non-compulsory expenditure the maximum rate of increase should apply, without prejudice to the possibility provided for at the end of Article 203(9) of the EEC Treaty;
 - in the case of agricultural guarantee expenditure the rule is that the annual increase should remain below the autonomous increase in own resources available. For this purpose, the portion of the total budget accounted for by agriculture should not exceed x% in the short term;
 - restraint should be exercised with regard to the other compulsory expenditure.

(s.) RUTTEN

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BUDGETARY PLANNING AND BUDGETARY PROCEDURES

Copys to Miss Mansden
EC(II) - by fax
Sir M Butler
Mr Elliott
Mr Galt
Mr Groucher

REFLEXIONS DE LA COMMISSION

In the light of certain of the concerns expressed in the discussion in the Special Council, notably the note presented by the Netherlands Delegation on the 16 September, the Commission presents the following reflections on the improvement of the Community's budgetary planning and procedures.

As the overall size of the Community Budget grows, so too does the importance of achieving greater clarity and predictability over its medium-term development. The decisions by the Budget Authority on each year's annual Community budget must be taken against a background of adequate prior consensus on the Community's priorities. Programmes whose effects can only be realised over a number of years need to be assured of a continuing availability of Community support. National governments in turn must have a clearer medium-term picture of the nature and scale of the financial effort which the Community Budget is likely to be called upon to undertake.

It therefore seems appropriate to the Commission to envisage certain practical improvements to the present budgetary procedures. L'objectif recherché serait de renforcer la discipline budgétaire en assurant une meilleure prévision du budget de la Communauté européenne afin de maîtriser son volume et son développement à moyen terme tout en veillant à ne pas modifier les Traités et tout en respectant les prérogatives de chacune des institutions concernées.

The improvements in question should be based on the more systematic use of two existing instruments, namely:

1. The further promotion in appropriate cases of the idea of multiannual programming, involving an agreement between the Council and the Parliament (on the basis of a proposition from the Commission) on an estimated overall budgetary envelope for certain actions over a medium- to long-term timescale.
2. A more focussed presentation by the Commission, as a separate precursor to the tabling of its preliminary draft budget, of the triennial forecasts of both revenue and expenditure. These forecasts should be discussed by both the Council and Parliament, who should be invited to express a view on them within a fixed timescale. In the case of the Council, an appropriate formation for the discussion of the triennial forecasts would be a combined meeting of Foreign and Finance Ministers, which, it has in the past been suggested, should each year address the question of the Community's policy and budgetary priorities. In the case of the Parliament such discussion might form the background to the annual "guidelines" resolution.

MULTI-ANNUAL PROGRAMMING

A number of the Community's expenditure areas are already subject to some kind of multiannual programme or indicative guideline:

- (a) EEOGA Guarantee expenditure will, if the Commission proposal accepted, be subject to a qualitative guideline linked to the growth of the Community's own resources.
- (b) Most actions in the fields of research and development, energy, industry and transport already take place within a legislative framework which indicates the amount estimated necessary for the accomplishment of the programme over a certain medium- to long-term period. This tendency seems likely to continue.
- (c) For the structural funds, the Commission has proposed both an overall guideline rate of growth (that they should double overall in real terms in five years) together with, in the case of EEOGA Guarantee, Fish and the Integrated Mediterranean Programmes, indicative estimates of the total amounts required for a multiannual period.
- (d) Although no such indicative guidelines have so far been suggested for the development and food aid actions undertaken through the Community Budget, there is no reason why they should not be. The European Development Fund itself is subject to a five-year global envelope.
- (e) The administrative and other miscellaneous expenditure under the Budget is ~~subject to a rate of growth not exceeding that of the maximum rate or of the average rate of inflation.~~ ^{IN ANY CASE, RELATIVE STABILITY IN ITS INCORPORATION} reasonably be regarded as subject to a rate of growth not exceeding that of the maximum rate or of the average rate of inflation.

Dans les cas appropriés

La Commission propose de renforcer la pratique de recours à une programmation pluriannuelle. La spécificité de cette programmation variera en fonction de la nature de l'action en question. Dans certains cas, l'inscription d'un montant estimé nécessaire dans le règlement de base sera appropriée. Dans d'autres cas, il s'agira plutôt d'une orientation ~~pluriannuelle~~ ^{à long terme} du développement en termes réels de certains programmes. Afin toutefois que toutes les dépenses qui se trouvent prédéterminées plus ou moins précisément par des programmes pluriannuels faisant l'objectif de règlements, ne vident de sens les pouvoirs du Parlement européen en matière de dépenses non-obligatoires, la concertation législative devrait être ~~appropriée~~ ^{effectuée}, afin que les montants estimés nécessaires soient de commun accord entre les deux détenteurs de l'Autorité budgétaire. The Council should be prepared to enter into a constructive concertation with the Parliament in order to achieve this.

en ce qui concerne les dépenses.

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Par contre, pour ce qui est de la marge de manoeuvre du Parlement européen, il serait raisonnable de demander à celui-ci de l'utiliser avec beaucoup de prudence, surtout si le Conseil lui-même inscrivait dans son projet de budget les sommes effectivement nécessaires d'après les décisions législatives.

TRIENNIAL FORECASTS

En application de la décision du Conseil du 21 avril 1970, la Commission a établi chaque année (sauf en 1974 pour la période 1975-77 et en 1982 pour la période 1983-85) des prévisions pluriannuelles. Le comité de politique économique les a examinées, l'autorité budgétaire les a généralement complètement négligées. Les articles 2 & 3 de la décision n'ont jamais donc été appliqués. The Commission now proposes, in the context of a greater use of the technique of multiannual programming, to bring forward its triennial forecasts covering both revenue and expenditure, before the presentation of its preliminary draft budget, with a view to promoting a serious discussion of them by the two halves of the Budgetary Authority.

On the revenue side, the forecasts would provide the most recent estimates of the total own resources potentially available to the Community for the following three years, together with an indication, in respect of the immediately following year, of the yield of the application of the full maximum rate.

On the expenditure side, the forecasts would be limited to the main categories of expenditure:

- For EECGA Guarantee they would show the implication of a growth rate in conformity with the qualitative guideline which the Commission has proposed (i.e. limitation to within the growth rate of own resources expressed on the basis of a rolling three-year average), accompanied by such comments on the conjunctural situation as the Commission thought it right to make (but bearing in mind that the Commission would not at this stage have taken any final decision on its proposals in respect of EECGA Guarantee in the preliminary draft budget).
- For the Structural Funds, forecasts would show, in terms of both existing and new commitments, the effect of the application of any overall guideline which previously had been agreed.

.../...

- For sectoral policies, the forecasts would set out the budgetary implications of the linear application of whatever multiannual programmes had been agreed, together with an indication, not necessarily precisely quantified, of such new policy initiatives with expenditure implications as the Commission envisaged bringing forward before the next budget year.

For administration, development and other expenditure, the forecasts would show whatever prospective rate of spending the Commission judged appropriate in the light of the circumstances.

The Commission envisages presenting these forecasts, which will need to be revised and updated annually in the early months of each year, well in advance of the start of the budget procedure, such, the first formal act of which is the presentation by the Commission in May of its preliminary draft budget for the following year. La Commission prévoit un examen de ses prévisions séparément par le Conseil et le Parlement avec une réunion de concertation en cas de désaccord. Si, à l'issue de cette concertation, un manque d'accord entre Conseil et Parlement subsiste, la Commission tiendra néanmoins le meilleur compte des enseignements qu'elle peut en retirer.

In the case of the Council, consideration of the triennial forecasts could appropriately take place in the framework of the Joint Council of Foreign and Finance Ministers which, it has been suggested by the Dutch delegation, should meet early in each year to discuss the Community's budgetary priorities. Although the past results of meetings of this kind have been disappointing, the Commission believes that, in the context of a more structured development of the Community's budgetary planning, such Joint Councils could in future play a valuable rôle. It might be that some Member States might want to use them as an occasion to offer a view on the overall level of VAT rate which they considered appropriate for the following budgetary year.

In the case of the European Parliament consideration of the forecasts might take place in parallel with the elaboration of the budgetary guidelines resolution which Parliament has in recent years adopted in the early part of each year.

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CONCLUSION

The Commission therefore would see advantage, with a view to improving the Community's procedures for budgetary planning and control, in the adoption by the Council and the Parliament of the following texts:

Premier texte:

Au début de chaque exercice budgétaire, la Commission établit une proposition de prévisions triennales des recettes et dépenses à inscrire au budget général des Communautés européennes pour les trois exercices budgétaires suivants, la prévision pour l'exercice qui suit immédiatement (n + 1) devant servir de base à l'élaboration de son avant-projet de budget qu'elle doit introduire le 15 juin.

Le Conseil et le Parlement examinent la proposition de prévisions triennales de la Commission et prennent position à son sujet au plus tard six semaines après l'avoir reçue. L'AVIS DU PARLEMENT ET DU CONSEIL DEBATTI EN COMMISSION SELON UNE PROCEDURE QUI PERMET DE DEBATTRE UNE ORIENTATION CLAIRE AUX UTILITES DE CONDUITE A DONNER A LA COMMISSION POUR L'ELABORATION DE SON AVANT-PROJET DE BUDGET. Si la Commission constate une différence substantielle entre les positions prises par le Conseil et le Parlement, elle demande une réunion de concertation qui doit se tenir au cours des deux semaines qui suivent la seconde des deux prises de position.

Deuxième texte: ~~(ajouté à ajouter à la déclaration de la Commission du 22 avril 1976 sur la concertation "législative").~~

Si un montant estimé nécessaire pour exécuter le programme (l'action) est indiqué dans le règlement, ce montant doit faire l'objet d'un accord entre Conseil et Parlement (lorsqu'il s'agit d'une D.N.O.);

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FRENCH PROPOSALS ON BUDGETARY DISCIPLINE

The European Council in Stuttgart included the need for greater budgetary discipline among the subjects covered by the special negotiating procedure it decided to implement, the results of which will be submitted to the Athens Council.

This aim can be effectively pursued by amending the present budgetary procedure. Such amendment could comply with the following principles:

A) Expenditure must depend on the means available, not the other way round, as the Netherlands delegation's memorandum of 19 September on budgetary discipline rightly emphasises : a defined budgetary framework must limit Community expenditure as a whole.

The following guidelines could be adopted:

1) The estimates of revenue should continue to be technical in character and should remain cautious and realistic. Examination of the Commission's estimates, before the start of the budgetary procedure, by a body of experts (Economic Policy Committee) will assist this aim.

2) At the beginning of the budgetary procedure, the Council, acting by a qualified majority, should vote the call-up rate for VAT determining the maximum amount of revenue available for the following financial year within the limit of the institutional ceiling and complying with the provisions designed to ensure control over budget trends.

VAT revenue resulting from the call-up rate voted by the Council, added to the traditional own resources, would constitute the "frame of reference" for the following financial year. The call-up rate voted for one financial year would not apply as of right in the following financial year.

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The Commission, in drawing up the preliminary draft budget, and subsequently the budgetary authority in the course of the procedure, would be required to respect the frame of reference.

3) Parliament would be associated in voting the call-up rate. That association could take the form of concerted agreement in advance. Moreover, Parliament's margin for manoeuvre would be preserved by fixing, within the "frame of reference" established in this way, a guideline for the Council and the Commission taking that margin for manoeuvre into account.

4) Consequently, two guidelines would be fixed within the frame of reference determined by the call-up rate for VAT and the margin of manoeuvre for Parliament:

- one for trends in the budget as a whole,
- the other for agricultural expenditure : but taking into account climatic variations and movements in the world market, this would be calculated on a 3-year sliding average.

B) The rules of procedure should take into account the need for greater budgetary discipline.

To this end, the Ministers of Finance would be required to monitor expenditure throughout the year : at regular (4-monthly) intervals, they would check the trends both in agricultural expenditure and in expenditure within the guideline set at the beginning of the year. In the event of it being exceeded, or in danger of being exceeded, they should lay before the Council proposals for rapid and effective economies.

At each stage of the procedure, if any branch of the budgetary authority should fail to keep within the initial ceiling fixed for expenditure, that branch should (as a last resort) make a proportional reduction in the amendments or proposals for increasing any item of expenditure.

C) The budget should contain a provision for unforeseen agricultural expenditure to avoid recourse to supplementary and amending budgets.

To that end, an agricultural economic contingency reserve would be formed, still observing the ceiling on expenditure fixed at the beginning of the procedure. This would enable the needs resulting from special economic developments in the agricultural sector to be covered (an increase in imports of grain substitute products involving an increase in intervention expenditure, a variation in world exchange rates, a variation in the dollar exchange rate, etc....).

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In the event of exceptional circumstances, unavoidable additions to agricultural expenditure would be covered in the first place by using the reserve (and reserves from previous years) within the framework of a supplementary and amending budget. Only as a last resort would the VAT call-up rate be raised (on decision by a qualified majority) : in that case, the "overshoot" would be recovered over the following two years.

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The European Council in Stuttgart recognised the need for greater budgetary discipline. In fact it is essential that management of EEC resources shall be based on the same strict rules as those governing the management of public finances in the Member States. Expenditure must therefore be determined by the means available, not the other way round.

To this end, the European Council adopts the following guidelines:

1) At the beginning of the budgetary procedure, the Council (ECOFIN) shall set itself a 'frame of reference', that is to say the maximum overall resources to be used in the following financial year.

The frame of reference shall be established in consultation with Parliament.

2) Within that frame of reference and preserving Parliament's margin for manoeuvre, the Council shall set itself two guidelines, one for expenditure as a whole, the other for agricultural expenditure. In order to take economic fluctuations into account, agricultural expenditure shall be calculated over a 3-year average.

The Council shall also provide for a contingency reserve to be used on decision by the Council.

On these bases, the Commission shall draw up the preliminary draft budget.

3) Every 4 months, the Council (ECOFIN) shall monitor trends in expenditure as a whole.

In the event of the framework adopted being exceeded or in danger of being exceeded, the Council (ECOFIN) shall take the necessary corrective measures.

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EHG(A)(83) 4B COPY NO 1
30 November 1983

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

1982 AND 1983 REFUNDS

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. (i) To insist on immediate settlement of outstanding balance of our 1982 risk-sharing refunds.
- (ii) To make clear that we expect to receive the bulk of our 1983 refunds by the end of March 1984.
- (iii) (If other Member States threaten linkage, to warn that we may need to safeguard our financial position.)

POINTS TO MAKE

2. Must draw the Council's attention to problem of our 1982 risk-sharing refunds. We have already raised this problem on a number of occasions at the Foreign Affairs Council and the Special Council. But the Council has taken no action to put the matter right.

[If the Prime Minister decides to make payment of the amount owed to us under the 1982 risk-sharing arrangement (75 million ecu net) an extra condition for agreeing to an otherwise satisfactory package on the Community's future financing arrangements.]

3. The Community has still not fulfilled its obligations under the risk-sharing provision of the 26 October 1982 agreement. That agreement requires the payment of our 1982 risk-sharing refunds before the end of 1983. At the 9-11 November Special Council Sir G Howe invited the Commission to tell us what the practical possibilities were. Not prepared to accept any increase in own resources unless

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the Council agrees to settle this matter now.

[If the Prime Minister decides for tactical reasons not to make 1982 refunds a sticking point at this stage but to keep the issue alive.]

4. Must warn you that this problem will not go away. Fact is that risk-sharing provision in No 2 Supplementary and Amending budget does not fully discharge obligations set out in agreement of 26 October 1982. Let us be quite clear about this. The sums entered in the draft budget were sired by expediency out of self-interest. They cannot be related to any form of calculation of the terms of the full discharge of the 1982 agreement as applied to the budget outturn for that year.

5. Council only has three weeks left to discharge its obligations in full. Failure to do so would be a serious matter which would undermine credibility of all the work we are now doing on revised budgetary arrangements. Not prepared to accept this.

[If others suggest that we achieve nothing by continually raising this matter since it was decided by Budget Council in July]

6. 26 October agreement was already a hard fought compromise which took four months to construct and which we accepted only with difficulty. Out of the question for us to accept further compromises which go back on that agreement and the subsequent regulations. Does the Council no good whatsoever to be seen to fail to implement its own obligations.

[If others suggest that, if we dispute Council decision, we should go to Court of Justice]

7. Hope it will not come to that. But the Council must discharge its obligations.

[If others argue that 26 October agreement was on assiette

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rather than payments basis]

8. Not so. Commission entirely correct to propose the payments basis calculation, which is the one which has been used for three years now (including in the latest figures for 1982 net balances). In any case, Council entered more in the draft budget than would be implied by an assiette basis of calculation: this suggests that Council specifically did not accept the assiette basis of calculation.

1983 REFUNDS

9. We expect to receive the bulk of our 1983 refunds by 31 March 1984 as in previous years.

10. (ONLY FOR USE IF OTHER MEMBER STATES THREATEN LINKAGE)
No question of any linkage between our 1983 refunds and outcome of the negotiation on future financing. Text of the Stuttgart conclusions makes this clear. Decision on UK refunds for 1983 was taken in context of the adoption not the implementation of Stuttgart Declaration. Agreement on our 1983 refunds is separate and free standing.

11. I wrote to Chancellor Kohl on 7 July setting out our position very clearly. No mention of linkage in Chancellor Kohl's statement to the European Parliament on 30 June about outcome of Stuttgart.

12. UK view endorsed by decision of the July Budget Council to put the money for our 1983 refunds on budgetary lines. The November Budget Council also rejected the Parliament's attempt to put the refunds into the reserve Chapter 100, and to make payment of them subject to the outcome of the European Council, and agreed to put the money back on the line.

13. If Member States persist in maintaining that there is a

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link between outcome of this negotiation and our 1983 refunds and if the necessary Regulations - tabled by the Commission on 23 November - are not adopted in time for payment to be made before 31 March next year, a very serious situation would arise. In such circumstances we might have no alternative but to protect our financial position But hope it will not come to that.

BACKGROUND

1982 Risk-Sharing Refunds

References

A : 26 October 1982 Agreement

B : Letter from Foreign Secretary to other Foreign Ministers.
28 July

14. The figure included in the 1983 supplementary and amending budget no 2 for 1982 risk-sharing was 307.5 million ecu gross (229.5 mecu net). The full sum due to us is 409 million ecu gros (304.5 mecu net). There is therefore a gap of 101.5 mecu gross or 75 mecu net (£42 million).

15. Sir G Howe gave notice at the 29 November Foreign Affairs Council that problem of our 1982 risk-sharing refunds would be raised at the European Council. We have already raised it on several previous occasions. At the 17/18 October Foreign Affairs Council we received unexpected support from Ireland but from no other Member State. Haferkamp (Commission) appeared to agree to our request that the Commission should look into ways of solving the problem but despite subsequent reminders, nothing has been done.

16. The speaking note suggests two alternative ways of handling this issue depending on progress on the rest of the package.

1983 Refunds

References

C : Stuttgart conclusions on compensation to the UK for 1983
D : President Mitterrand's letter of 30 June to the Prime Minister and the Prime Minister's reply of 7 July to Chancellor Kohl

16. The text of the Stuttgart conclusions bear out our interpretation that no conditions were attached to the 1983 refunds. The Prime Minister set out our understanding in a letter of 7 July to Chancellor Kohl, copied to President Mitterrand and other Heads of Government, on which there has been no come-back. Chancellor Kohl's statement to the European Parliament on the outcome of Stuttgart made no mention of linkage. He also made it clear that the agreement to a refunds of 750 mecu net reflected the alleged over payments to the UK in 1979/80.

17. The Budget Council in July made full gross provision for our 1983 refunds in accordance with the Stuttgart conclusions and entered the amount on budget lines, not in the reserve chapter. The Budget Council therefore implicitly rejected, as we do, any argument that these refunds were conditional on decisions on future financing. At its first reading of the draft 1984 budget at its October plenary session, however, the European Parliament decided to put provision for the refunds into the reserve chapter linking their release to the outcome of the negotiation at Athens. The second Budget Council on 22 November rejected the Parliament's amendments and reinserted the original provision on budget lines.

18. Despite the decision of the November Budget Council to put our refund back on the line there is still a risk that if in the opinion of one or more Member State there is

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insufficient progress at the Athens European Council, the payment of our 1983 refunds could be blocked, for example by delaying adoption of the implementing regulations. The draft regulations were finally tabled by the Commission on 23 November. It is also possible that the European Parliament may try to put our refund provisions back into the reserve chapter and declare its intention not to release them until there is what it regards as a successful outcome to the current negotiation.

19. Given these possible dangers it would be prudent to leave Member States in no doubt of our intention to protect our financial position ~~if they attempt to prevent payment of~~ the bulk of our refunds by 31 March 1984.

Foreign and Commonwealth Office
30 November 1983

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CONCLUSIONS OF THE FOREIGN AFFAIRS MINISTERS
ON COMPENSATION TO THE UNITED KINGDOM FOR 1982

1. On the basis of the Commission's estimate (+), compensation for the United Kingdom for 1982 is fixed at 850 million ECU (net).
2. Corrections to be made for 1980 and 1981 in the light of the actual figures, will be taken into account when negotiating the subsequent solution.
3. At that time, adjustments will be made in the event that the actual figure proves to be higher or lower than the 1982 base referred to in paragraph 1.

If the actual figure is higher than 1 530 million ECU but lower than 1 580 million ECU, the net compensation to the United Kingdom is unchanged. If the actual figure is higher than 1 580 million ECU but lower than 1 730 million ECU the net compensation is increased by 50% of the difference between the actual figure and 1 580 million ECU. If the actual figure is higher than 1 730 million ECU, the net compensation is increased by 75 million ECU plus 75% of the difference between the actual figure and 1 730 million ECU.

If the actual figure is lower than 1 530 million ECU, but higher than 1 480 million ECU, the net compensation to the United Kingdom is unchanged. If the actual figure is lower than 1 480 million ECU, the net compensation to the United Kingdom is reduced by an amount equal to 75% of the difference between the actual figure and 1 480 million ECU.

(+) 1 530 million ECU

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The budgetary effect of the present agreement on compensation to the United Kingdom for 1982 on the Community budget for 1982 will be limited to the amount corresponding to the net compensation mentioned in paragraph 1.

5. Compensation to the United Kingdom will amount to 1 092 million ECU (gross)(*). It will take the form of additional measures within the meaning of Regulation n° 2744/80 which will be extended and adapted accordingly. Appropriations to this end will be entered in the Community budget for 1982. The total amount will be advanced to the United Kingdom before the end of December 1982. Surpluses which exist from the 1981 and 1982 budget years will serve to finance this compensation.

If the financial mechanism yields any payment to the United Kingdom for 1982, the amount of such payment will be deducted from payments to the United Kingdom under the additional measures.

(*) The adjustment of the gross figures in paragraph 5 to take account of the possible corrections foreseen in paragraph 6 as well as the adjustment of the gross figure in paragraph 6, according to the commitment taken by Minister on 25 May 1982 in favour of Germany, will be entered in the Budget for 1983.

The gross amounts have been calculated on the basis of the VAT shares contained in the Budget of the relevant budgetary year. They will be adjusted so as to reflect the actual VAT figures of the years in question.

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6. Community resources will be allocated to projects or measures of Community interest in Germany, to take account of the need to improve the budgetary impact of common policies in that country. These Community resources will amount to 152 million ECU (net) or 210 million ECU (gross)(*). The projects and measures will be carried out in 1983. The payments will be made no later than 1983. The resources needed for this will be entered in the 1982 budget. Surpluses which exist from the 1981 and 1982 budget years will serve to finance these projects and measures. Payments will be made on the basis of a Regulation based on Article 235 to be proposed by the Commission. The total amount will be committed before the end of December 1982. Advance payments in 1982 are possible.
7. The Ministers undertake to take a decision before the end of November 1982 on the subsequent solution.

(*) See footnote (*) page 2

Ministers declare that in the development of the common structural policies, as foreseen in the draft conclusions of the European Council in November 1981, the Community will increase its efforts to manifest solidarity vis-a-vis its less prosperous members. The Commission will forthwith make proposals for Community actions in favour of the least prosperous Member States and the Council will take decisions in sufficient time for these actions to be financed in the 1983 Budget.

The Irish delegation recalled its earlier declaration according to which its overall agreement is conditional on a satisfactory implementation of this declaration.

DECLARATION CONCERNING PARAGRAPH 5

The Commission declares that it has the intention of advancing the amount without modifying the average balance on its account with the Paymaster General.

DECLARATION CONCERNING PARAGRAPH 6

Statement by the Belgian, Danish, Greek, French, Irish, Italian, Luxembourg and Netherlands delegations.

The decision on the method of financing set out in paragraph 6 is taken in anticipation of the advantage to the Community budget which can be foreseen as a result of the corrections indicated in paragraph 2.

.../...

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Statement by the United Kingdom delegation:

The United Kingdom delegation points out that paragraph 2 of the outcome of the informal meeting of Ministers for Foreign Affairs on 24/25 May 1982 stated that "Corrections to be made for 1980 and 1981 in the light of the actual figures will be taken into account when negotiating the subsequent solution." The United Kingdom is not willing to prejudice the outcome of these discussions.

Statement by the German delegation:

The financing of the resources allocated to measures in Germany is independent of the solution to the problems of excess payments to the United Kingdom.

DECLARATION CONCERNING PARAGRAPH 7

The United Kingdom delegation calls attention to the fact that the text before Ministers on 25 May 1982 used the words "1983 and later". It also referred to a statement which was circulated by the French delegation on 2 June 1982 which expressed the view that the solution to be decided on before the end of November 1982 concerns only 1983 and 1984.

The German delegation refers to the statement by the Federal Minister for Foreign Affairs, Mr. GENSCHER, on 25 May 1982, that Germany will be contributing to future compensation settlements only 25% of its normal financial share.

.../...

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OTHER DECLARATIONS

Ministers declare that expenditure for the measures of Community interest in Germany forms part of the allocated expenditures for the purpose of calculating the risk sharing.

The Commission declares that in the event that the United Kingdom unadjusted net contribution does not in the event fall in the 75 % risk-sharing bracket the Commission will make proposals which the Council will discuss.

The Belgian, Danish, German, Greek, Luxembourg, Netherland and United Kingdom delegations declare that the Community resources to be allocated to projects or measures of Community interest in Germany as well as the compensation to the United Kingdom are to be considered obligatory expenditure.

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Summary of the meeting of Representatives
of the Governments of the Member States and the
Commission held on 4 November 1982

I. With reference to paragraph 6 of the conclusions of the
Foreign Affairs Ministers of 25/26 October 1982:

a) The Presidency noted that no delegation would oppose,
in the framework of the budgetary procedure, the
classification of this expenditure as obligatory.

b) All delegations and the Commission agree that the first
article of the regulation, to be proposed by the
Commission, on a special energy development programme
shall read as follows:

"a special energy development programme is established
for which the Community will make a contribution under
this regulation in the Federal Republic of Germany" (1).

(1) unofficial translation of the French version available to
delegations and which reads :

"est institué un programme spécial de développement
énergétique pour lequel la Communauté fera une contri-
bution au titre du présent règlement en République Fédéral
d'Allemagne."

.../...

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- c) All delegations and the Commission agree that the commentary on the budget line 707 should read as follows :
"Regulation EEC/ /82 allocates community resources - 210 MECUS - to a special energy development programme aiming to contribute to eliminating certain structural deficiencies in the area of energy resources research and development as well as in the more rational use of energy.

The Commission leaves it to the budgetary authority to decide the classification of this expenditure." (1)

- d) on the figures entered into paragraph 6 :
The Belgian, Italian and Netherlands delegations declare that these figures need further verification ; therefore, although they will not oppose their use in the present budgetary procedure, they reserve the right to reopen this matter when the adjustments for 1982 are discussed.

II. "Exposé de motifs" for the 1982 supplementary and rectifying budget

All delegations and the Commission agree that this will include the attached text (2).

-
- (1) unofficial translation of the French version available to delegations and which reads :

"Le règlement CEE n° /82 affecte des ressources communautaires - 210 MECUS - à un programme spécial de développement énergétique visant à contribuer à l'élimination de certaines déficiences structurelles dans le domaine de la recherche et du développement des ressources énergétiques, ainsi que dans l'utilisation plus rationnelle de l'énergie.

La Commission s'en remet à la décision de l'Autorité budgétaire en ce qui concerne la classification de ces dépenses.

- (2) Available to delegations in French only.

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La situation budgétaire de fin 1982 se caractérise par l'existence de certains surplus de moyens financiers par rapport aux besoins actuels de l'exercice: ces surplus découlent, d'une part, des excédents des exercices antérieurs ainsi que de l'évolution réelle des réalisations dans le cadre de l'état des recettes et, d'autre part, d'une moindre dépense prévisible, en particulier, dans le domaine du FEOGA-Garantie, dans le cadre de l'état de dépenses...

Au vu de cette situation, la Commission, qui est responsable de la gestion des finances de la Communauté estime de son devoir, dans les circonstances présentes de soumettre la proposition qui lui semble être la plus appropriée dans le contexte actuel.

Dans ces conditions, la Commission considère qu'il y a lieu d'assurer, dès le présent exercice, la couverture budgétaire des incidences financières destinées à permettre à la Communauté de faire face aux compensations convenues en faveur du Royaume-Uni et de financer un programme énergétique spécial pour diminuer la dépendance de la Communauté des importations de pétrole. Les disponibilités financières, pour couvrir ces dépenses supplémentaires, peuvent en effet être trouvées dans les économies réalisées dans les dépenses du FEOGA-Garantie ainsi que dans l'excédent de l'exercice 1981.

*
* * *

Concrètement, l'instauration, comme suite aux conclusions du Conseil du 30 mai et du 25 mai 1982, de mesures de compensation supplémentaires et afférentes à l'année 1982 en faveur du Royaume-Uni nécessitent des crédits d'un montant de 1.092 MioECU.

Le règlement (CEE) prévoit l'instauration d'un programme spécial de développement énergétique. Des ressources communautaires de 210 MioECU sont nécessaires à cet effet.

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BRIEF 4B
REF B

Foreign and Commonwealth Office

London SW1A 2AH



From the Secretary of State

28 July, 1983

Dear Ioannis,

I am writing to you, as Chairman of the Council, to express our disappointment and dismay at the outcome of the Budget Council last week in respect of risk-sharing payments for 1982, since it was the Foreign Affairs Council which on 26 October 1982 reached agreement on compensation to the United Kingdom for 1982.

Our views were formally recorded by the Financial Secretary to the Treasury in the minutes of the Budget Council in the following terms:

'The United Kingdom declares that the appropriations entered in the draft supplementary and amending budget no 2, 1983, in respect of risk-sharing payments to the UK do not discharge in full the obligation entered into by the Council in paragraphs 1, 3 and 5 of its conclusions of 26 October 1982. The United Kingdom recalls that the risk-sharing adjustments should be entered in the budget for 1983, and accordingly calls upon the Community institutions to take the necessary action as a matter of urgency to ensure that the UK receives its entitlement in full'.

The gross provision for risk sharing proposed by the Commission in its Preliminary Draft Supplementary Amending Budget No 2 for 1983 was 385 mecu for the United Kingdom and 78 mecu for the Federal Republic. These figures however would not have reimbursed the United Kingdom for our contribution

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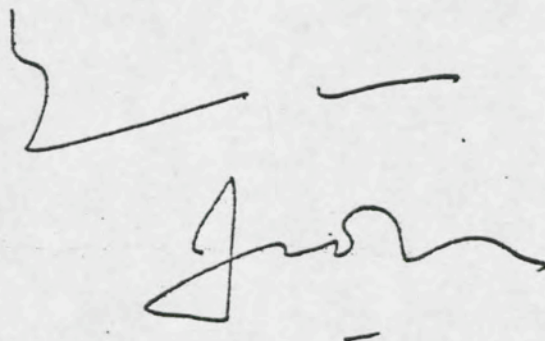
HE Mr I Haralambopoulos

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to the compensation for the Federal Republic. The correct figures which the Council ought to have established are 408 mecu for the United Kingdom and 87 mecu for the Federal Republic. In fact, the Budget Council established a wholly arbitrary figure of 370 mecu to cover both the United Kingdom and the Federal Republic. This is not sufficient to meet the commitments made by the Council in the 26 October 1982 Agreement and is therefore unacceptable to the United Kingdom.

It is of the greatest importance for the United Kingdom that this matter be resolved as soon as possible. I should therefore be grateful if you would arrange for this question to be placed on the agenda for the next meeting of the Foreign Affairs Council on 19-20 September. I also propose to raise the matter informally over lunch during the Special Council on 30 August.

I am sending copies of this letter to our other colleagues on the Foreign Affairs Council and to M. Thorn..

A handwritten signature in black ink, appearing to read 'Geoffrey Howe', is written over the typed name. The signature is fluid and cursive, with a long horizontal stroke at the end.

(GEOFFREY HOWE)

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CONCLUSIONS OF THE EUROPEAN COUNCIL
STUTTGART, 17-19 JUNE 1983

R4 C

BRIEF 4B

REF C

COMPENSATION TO THE UNITED KINGDOM
FOR 1983

The European Council, following the decision taken at its meeting on the 21/22 March 1983 regarding compensation to the United Kingdom for 1983, agreed on the amount of 750 million ecu net for this purpose. Consequential figures will be incorporated in the draft Community budget for 1984.

This decision was taken in the context of the adoption of the declaration on the future financing of the Community.

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TO IMMEDIATE BONN
TELEGRAM NUMBER 361 OF 7 JULY
AND TO IMMEDIATE ATHENS, BRUSSELS, THE HAGUE, LUXEMBOURG,
COPENHAGEN, DUBLIN, ROME UKREP BRUSSELS, AND PARIS

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STUTTGART EUROPEAN COUNCIL

1. FOLLOWING ARE UNOFFICIAL TRANSLATIONS OF PRESIDENT MITTERRAND'S LETTER TO THE PRIME MINISTER AND HIS MESSAGE TO CHANCELLOR KOHL.
LETTER OF 30 JUNE FROM PRESIDENT MITTERRAND TO THE PRIME MINISTER.

'FOLLOWING THE STUTTGART EUROPEAN COUNCIL I SENT A LETTER TO THE FEDERAL CHANCELLOR IN HIS CAPACITY AS PRESIDENT IN OFFICE OF THE EUROPEAN COUNCIL. I HAVE PLEASURE IN ENCLOSING A COPY. COPIES HAVE ALSO GONE TO ALL OTHER PARTICIPANTS IN THE MEETING.

I LOOK FORWARD TO THE PLEASURE OF SEEING YOU AGAIN.
COMPLIMENTARY CLOSE.'

LETTER OF 30 JUNE FROM PRESIDENT MITTERRAND TO CHANCELLOR KOHL.

'THE STUTTGART EUROPEAN COUNCIL ADOPTED CONCLUSIONS CONCERNING THE PAYMENT IN 1984 OF AN ARBITRARY SUM OF 750 MECUS NET TO THE UNITED KINGDOM. THE COUNCIL TOOK NOTE THAT, FOR SEVERAL MEMBER STATES INCLUDING FRANCE, FINALISATION OF 1984 BUDGET PROCEDURES RELATING TO THIS PAYMENT WOULD ONLY BE POSSIBLE IF DECISIONS WERE TAKEN IN THE MEANTIME, AND AT THE LATEST AT THE ATHENS EUROPEAN COUNCIL, ON THE QUESTIONS VITAL FOR THE FUTURE OF THE COMMUNITY WHICH ARE SET OUT IN THE STUTTGART DECLARATION AND PARTICULARLY ON AN INCREASE IN OWN RESOURCES. THIS IS NECESSARY FOR THE DEVELOPMENT OF COMMUNITY POLICIES AND FOR THE SUCCESS OF THE ENLARGEMENT NEGOTIATIONS. DESPITE ITS IMPORTANCE, I WILL NOT REVERT TO THIS ASPECT OF OUR DISCUSSIONS AND OF THE SPECIAL NEGOTIATIONS WHICH ARE GOING TO BEGIN IN A

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FEW DAYS TIME.

THE DECISION TAKEN FOR THE BENEFIT OF THE UNITED KINGDOM IS NOT LINKED IN ANY WAY WITH THAT TAKEN ON 30 MAY 1980 WHICH DEALT WITH A SIMILAR DIFFICULTY CONCERNING FINANCIAL YEARS 1980, 1981 AND 1982. THE ABNORMALITIES OBSERVED IN THE APPLICATION OF THE 1980 DECISION HAVE THUS STILL NOT BEEN TAKEN INTO ACCOUNT AND THE EXCESS SUMS PAID TO THIS MEMBER STATE MUST BE THE OBJECT OF 'CORRECTIONS IN THE LIGHT OF ACTUAL FIGURES' - AS THE RESOLUTION ADOPTED BY THE FOREIGN AFFAIRS COUNCIL ON 25 MAY 1982 PUT IT.

ON SEVERAL OCCASIONS IN THE COURSE OF THE STUTTGART COUNCIL BOTH AT OUR LEVEL AND BETWEEN OUR FOREIGN MINISTERS, IT WAS RECALLED THAT THE PROBLEM OF WHAT HAS BEEN CALLED 'THE BRITISH 'UNWARRANTED' BENEFIT' OR THE 'OVERPAYMENT' REMAINED UNTOUCHED. I THOUGHT IT USEFUL TO RECALL THIS BY MEANS OF THIS LETTER TO THE PRESIDENT IN OFFICE OF THE COMMUNITY AND I AM SENDING A COPY TO PRIME MINISTERS OF THE EIGHT OTHER MEMBER STATES AS WELL AS TO THE PRESIDENT OF THE COMMISSION OF THE EUROPEAN COMMUNITIES.

COMPLIMENTARY CLOSE.'

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see 459

TELEGRAM NUMBER 360 OF 7 JULY
AND TO IMMEDIATE ATHENS, BRUSSELS, THE HAGUE, LUXEMBOURG,
COPENHAGEN, DUBLIN ROME, UKREP BRUSSELS, PARIS
STUTT GART EUROPEAN COUNCIL

1. MIFT CONTAINS UNOFFICIAL TRANSLATIONS OF A LETTER OF
30 JUNE ADDRESSED TO THE PRIME MINISTER BY PRESIDENT MITTERRAND
AND OF HIS LETTER OF THE SAME DATE TO CHANCELLOR KOHL. THE
PRIME MINISTER HAS DECIDED THAT THE SUBSTANTIVE REPLY SHOULD GO
IN THE SAME WAY TO CHANCELLOR KOHL, BUT WITH COPIES TO OTHER
HEADS OF GOVERNMENT PRESENT IN STUTT GART. PLEASE NOW DELIVER
THE FOLLOWING MESSAGE TO CHANCELLOR KOHL AS SOON AS POSSIBLE.
BEGINS

PRESIDENT MITTERRAND SENT ME A COPY OF HIS LETTER OF
30 JUNE TO YOU ABOUT THE RECENT EUROPEAN COUNCIL MEETING IN
STUTT GART.

HIS LETTER SETS OUT A NUMBER OF UNILATERAL INTERPRETATIONS
BY THE FRENCH DELEGATION OF THE TEXT ON COMPENSATION TO THE
UNITED KINGDOM FOR 1983 IN THE CONCLUSIONS OF THE EUROPEAN
COUNCIL IN STUTT GART. THESE UNILATERAL INTERPRETATIONS AND
STATEMENTS OF INTENTION DO NOT OF COURSE AFFECT IN ANY WAY THE
VALIDITY OF THE TEXT THAT WAS JOINTLY AGREED AND SUBSEQUENTLY
PUBLISHED BY THE GERMAN PRESIDENCY, NOR THE NEED TO IMPLEMENT IT.

SO FAR AS THE QUESTION OF 'OVERPAYMENTS' IN 1980 AND 1981
IS CONCERNED, YOU WILL RECALL THAT IN ACCEPTING THE SUM OF 750
MECU NET IN RESPECT OF 1983, I STATED MY UNDERSTANDING THAT THIS
ARRANGEMENT DEALT FULLY WITH THE 'OVERPAYMENT' PROBLEM.

I AM SENDING COPIES OF THIS LETTER TO PRESIDENT MITTERRAND
AND TO OUR OTHER COLLEAGUES ON THE EUROPEAN COUNCIL. ENDS.

2. PARIS: PLEASE DELIVER THIS TEXT TO THE ELYSEE UNDER COVER
OF THE FOLLOWING MESSAGE FROM THE PRIME MINISTER.

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BEGINS

THANK YOU FOR SENDING ME A COPY OF YOUR LETTER OF 30 JUNE TO CHANCELLOR KOHL ABOUT THE RECENT EUROPEAN COUNCIL MEETING IN STUTTGART. YOU MAY BE INTERESTED TO SEE A COPY OF THE LETTER I HAVE SENT TO CHANCELLOR KOHL IN RESPONSE. ENDS.

SIGNED ORIGINALS FOLLOW BY BAG.

3. OTHER EC POSTS INCLUDING UKREP BRUSSELS. PLEASE DELIVER THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO YOUR HEAD OF GOVERNMENT/PRESIDENT THORN AS SOON AS POSSIBLE.

BEGINS

QUOTE I BELIEVE YOU WILL HAVE RECEIVED A COPY OF PRESIDENT MITTERRAND'S LETTER OF 30 JUNE TO CHANCELLOR KOHL IN WHICH HE MADE A NUMBER OF POINTS ABOUT THE AGREEMENT REACHED AT THE STUTTGART EUROPEAN COUNCIL ON UK BUDGET REFUNDS FOR 1983. I THOUGHT YOU WOULD LIKE TO KNOW THE TERMS OF MY REPLY. UNQUOTE. ENDS.

4. IN DELIVERING THESE MESSAGES, YOU SHOULD MAKE IT CLEAR THAT WE STAND FIRMLY BY THE DECISIONS OF THE STUTTGART EUROPEAN COUNCIL. THERE SHOULD BE NO MISUNDERSTANDING ABOUT OUR POSITION EITHER ON THE QUESTION OF OUR 1983 REFUNDS, OR ON THE QUESTION OF FUTURE FINANCING OF THE COMMUNITY. ON THE LATTER, IT REMAINS OUR AIM TO ACHIEVE A SOLUTION AT THE EUROPEAN COUNCIL IN ATHENS IN DECEMBER.

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EHG(A)83(5)

30 NOVEMBER 1983

Copy No. 1

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

THE COMMON AGRICULTURAL POLICY

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To secure effective control over agricultural spending and to reduce market imbalances within the CAP without discrimination against UK agricultural interests.

POINTS TO MAKE

2. The agricultural dossier is in a sorry state. The European Council called at Stuttgart, for an examination to result in "adaptation" of the CAP and "concrete steps to ensure effective control of agricultural expenditure". Far-reaching decisions are crucial if the achievements of the CAP are to be safeguarded and its excesses curbed.

3. The Special Council has, frankly, failed to fulfil its mandate in preparing for Athens. The European Council cannot, therefore, take all the decisions it should on measures to adapt each commodity regime. What we can do, is to set an overall framework which will now require the necessary decisions to be taken.

4. This must include, at least:

- a legally binding financial guideline to govern the future growth of agricultural expenditure: (the latest French ideas are helpful and we might hold off discussion until we come to consider budgetary discipline as a whole).

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- stringent criteria governing price policy and the application of guarantee thresholds to be applied, without discrimination, across the board;
- a strict timetable for decisions on the application of these criteria to all the commodity regimes;
- Detailed decisions now, on milk and cereals, which are the only commodities to have received anything approaching the necessary depth of preparation.

5. We will also need to look at MCAs. In other areas there seems little point in wasting our time going through the kind of sterile argument encountered during the Special Councils. This applies, for example, to the misconceived proposal for an oils and fats tax; proposals for higher Community barriers against agricultural imports; or for selective and discriminatory action against certain aids and premiums while others are ignored.

BACKGROUND

Annexes:

- A : Brief on prices and guarantee thresholds
- B : Brief on external trade
- C : Brief on milk
- D : Brief on cereals/cereals substitutes
- E : Brief on oils and fats tax
- F : Brief on other products
- G : Brief on monetary compensatory amounts (MCAs)

6. The agricultural negotiations got off on a wrong foot with the publication of the Commission's proposals at the end of July. These contained some good general language on prices and guarantee thresholds but failed, in their proposals on the individual commodity regimes, to match up to the scale and urgency of the problems facing the CAP: (CAP spending is up about 30% this year.) In particular, the proposals:

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a) would not have produced the level of savings required, even if the proposals had been accepted in their entirety:

b) sought, too often, to solve the problems of the CAP at the expense of third countries or of consumers (ie redistributing costs rather than securing savings);

c) contained Commission hobby-horses (such as elimination of the UK butter subsidy or of our variable beef premium) which had little to do with reducing CAP costs;

d) contained a steady bias against large efficient producers in favour of small or disadvantaged farms.

7. Our position was somewhat strengthened by the prospect of exhaustion of CAP resources this year which led to the suspension of EAGGF advance payments in October.

8. Nevertheless, there has been little sign of any real movement towards the sort of fundamental shift in the emphasis of the CAP which we believe to be necessary. The chief reasons for this have been:

a) the natural reluctance of the beneficiaries of the CAP - who are of course the majority - to sacrifice their present advantages: (indeed every part of the CAP tends to represent a sacred cow for at least one member state);

b) a general inclination (led by France), to solve the problems of the CAP not so much by reducing the Community's agricultural production as by raising new sources of revenue (the oils and fats tax), by developing new export markets (which would inevitably be unprofitable) and by increasing Community protection against agricultural imports.

c) FRG insistence that there must be no nominal price reductions for German farmers.

d) determination of producers of Mediterranean products to escape the net.

e) general horror of the implications for the Community of even partial renationalisation or abandonment of the

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established operation of this the first and only major common
Community policy.

9. The chief objectives/sticking-points of the major actors are there:

FRG

Objectives: Control of CAP spending (but not too much zeal about it, and without any damage to the German small farmer).

Preference for quotas: (especially the milk super-levy).

Sticking Points: No nominal price reductions for German farmers. Rejection of Commission's ideas for dismantling future MCAs.

FRANCE

Objectives: Minimum disruption of present system. No binding constraint on expenditure (unless part of a total Community expenditure package). Export of surplus production rather than control of it. Oils and Fats tax.

Sticking Points: Elimination of German positive MCAs. Decisions on external trade.

ITALY

Objectives: General support for French positions. No constraints on Mediterranean products.

Sticking Points: None.

NETHERLANDS

Objectives: Control of CAP spending: (strongest on this after UK). Strong support for guarantee thresholds and price restraint. International trade cooperation.

Sticking Points: None.

IRELAND

Objectives: Maintain benefits. Minimum disruption of present system. Increased import restrictions.

Sticking Points: The milk super-levy (want total exemption).

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OTHERS

There are no other sticking points likely to disrupt the negotiations though several Member States have strong preferences (eg Belgium in favour of oils and fats tax, Greece against application of controls, Luxembourg against a tough milk policy).

Foreign and Commonwealth Office
30 November 1983

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EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

PRICE POLICY AND GUARANTEE THRESHOLDS

OBJECTIVE

1. To secure Council agreement to a rigorous price policy for the CAP, and guarantee thresholds to apply wherever production exceeds or threatens to exceed the possibility of economic outlets.

POINTS TO MAKE

2. The Commission proposed some valuable ideas both on price policy and guarantee thresholds. They should be properly reflected in our Declaration.

3. In particular, there must be adequate restraint on prices to bring markets into balance. Guarantee thresholds should be introduced wherever production exceeds or threatens to exceed the possibility of economic outlets.

BACKGROUND

4. The need to restrain prices and to reduce the open-ended nature of support mechanisms is central to the whole UK approach to CAP reform. Tough wording on prices and guarantee thresholds in the Athens Declaration could be extremely helpful in restraining expenditure in the future. A text which lacks practical force would be especially damaging because the interpretation of this passage is likely to determine the rigour of action taken to deal with Mediterranean products (see Annex F on Other Products).

5. The Commission's proposals contained useful language both on prices and guarantee thresholds:

a) Prices

- "the proper hierarchy of prices" (3.4)
- fixing of prices in advance, "for example for two marketing years" (3.4)

- common prices "may be frozen or even reduced" (3.6)
- narrowing of gap between EC prices and those of its principal competitors (esp in cereals sector) (3.5)

b) Guarantee Thresholds

- the "centrepiece" of the Commission's proposals (3.1)
- to apply "when there is doubt about the possibility of outlets in the coming years" (3.1) [This would include products in which the EC is less than self-sufficient].

6. Most other Member States pay lip-service to these ideas, but shy away in practice because of the political implications. In particular, the FRG refuses to contemplate price reductions (though their market philosophy should dictate this). The Mediterranean states argue that guarantee thresholds should only apply where self-sufficiency has been reached (ie not to their products, at least before enlargement). The Commission made no proposals for guarantee thresholds in some cases where their own criteria suggest that they should be instituted (eg olive oil).

EUROPEAN COUNCIL, ATHENS
4/6 DECEMBER 1983

EXTERNAL TRADE

OBJECTIVE

1. To maintain the existing arrangements governing agricultural trade, resisting both vigorous promotion of (uneconomic) EC exports and new import barriers, or undertakings to review external protection arrangements within GATT.

POINTS TO MAKE

2. We must not solve the problems of the CAP at the expense of third countries. One of the basic objectives of the EEC Treaty (Preamble) is to "contribute ... to the progressive abolition of restrictions on international trade". And we made solemn undertakings at Williamsburg earlier this year.

3. Above all - as the European Parliament has reminded us - we must weigh the advantages and disadvantages of exporting surplus agricultural products against the vastly greater importance for the Community of industrial exports.

4. In any case these subsidized exports do not pay their way. The supposed balance of payments gains are illusory. The EC will always be a high-cost producer and has no future as a major agricultural exporter.

5. Given all this we should:

(a) Proceed with very great caution in discussing possible framework agreements for EC exports, case by case. The economic justification must be fully evident.

(b) Take full account of our international obligations if it becomes necessary to review external protection arrangements for certain commodities.

BACKGROUND

Exports

2. The Commission have urged the development of export policy within a framework of cooperation with other major producing countries and have put forward a number of ideas to promote Community exports. France is the chief advocate, and has called for greater devolution of powers to the Commission to manage external trade, (eg through management of long-term contracts and discretion over the fixing of export refunds). Mention has also been made of:

- * harmonised export credit (already discussed in OECD without reaching agreement);
- * medium term supply contracts (again discussed for years with UK, FRG, Netherlands and Denmark opposed although the Dutch are now weakening);
- * linking food aid with commercial trade (the Commission have pushed this hard).

Imports

3. France, with support from Ireland and Greece has been pressing for limits on imports (ostensibly to balance measures taken within the EC to sort out the CAP); and also for budgetary arrangements to relieve FEOGA of costs of preferential import arrangements concluded for trade or development policy reasons. UK, FRG, Denmark and Netherlands have opposed.

4. We have maintained that the Community should not use the present review as an excuse to slide out of international trading commitments. And we argue that the costs of import arrangements are properly attributable to the CAP since concessions which benefit agriculture have been gained in return (eg variable levy on cereals was bought with a zero levy on oilseeds).

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EUROPEAN COUNCIL, ATHENS

EHG(A)(83)5 Annex C

4/6 DECEMBER 1983

MILK

OBJECTIVE

1. To control Community milk production and reduce the excessive cost of the CAP milk regime in a manner which will not discriminate against UK milk producers.
2. To secure strict firm undertakings on price in this sector (a 4-year price freeze), whatever else may be agreed.

POINTS TO MAKE

3. The rapidly-escalating imbalance in this sector calls for urgent and effective measures.
4. The guarantee threshold must stay at its present level. Apart from anything else, there is no money in the budget to increase it.
5. Best solution would be to operate the guarantee threshold by means of price policy alone.
6. If, however, there is no consensus for this, we must at least retain the present formal and explicit linkage between price and over-production. There can be no question of increasing prices while the present imbalance persists. This must be made explicit in the Declaration.
7. UK is reluctantly prepared to accept a super-levy as a second-best option provided that there is a binding commitment to a 4-year price freeze and provided that the levy can be made fair, legal and effective. This means in particular:
 - administered at farm level.
 - some minimum flexibility to prevent arbitrary injustices, but

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not of a kind which would reduce impact in controlling production.

- a fair base year for the 97.2 million ton threshold.
- no exemptions. They would open a dam and lead to discrimination. We, too, have regions which will be especially hard hit (not least, Northern Ireland).

8. More expert work is needed, but we should decide now on the essential principles of how milk production is to be curbed, and costs controlled.

9. [If butter subsidy, intensive levy or partial suspension of intervention for skimmed milk are raised] No point discussing in this forum. It is evident that there is no consensus.

10. [If supposed linkage with New Zealand butter quotas is raised.] Community must stand by its undertakings to NZ. Should not penalize them for our over-production, this is for Agriculture Ministers.

BACKGROUND

11. Milk accounts for about one third of all CAP spending. Production is running at 125% of consumption. This is unanimously acknowledged to be the sector with the most serious and rapidly-escalating problems.

a) Price/Super-Levy

12. A threshold has been in existence for 2 years. For 1983 it was set at 'deliveries in 1981 +1%'. For deliveries beyond the threshold the Council is required to "adopt appropriate measures to offset the additional expenditure". In practice the 'appropriate measures' taken have been a 1% price reduction for every 1% of production over the threshold. This has not been effective.

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13. The Commission now argues that a price cut of 12% would be needed next year to operate the threshold by means of price policy alone. They consider that this would be politically unacceptable. UK disputes this figure, and argues, in any case, that we should not throw out the good (a 6% cut, say) in pursuit of the best.

14. Instead the Commission propose to operate the threshold through a super-levy/quota system involving a penal (75%) tax on excess production.

15. The clearest support for a super levy has come from FRG (which is determined that prices should not be reduced in DM terms), the Netherlands and Denmark. Ireland is violently opposed and seeks exemption, as does Greece.

16. The UK would prefer to operate the threshold through price policy alone. We seek the super-levy as a bad option. It will be hard to administer. Farmers will seek to avoid it, (UK will be hit specially hard as a high proportion of our milk flows through dairies. Furthermore, off-dairy sales will tend to undermine the Milk Marketing Boards.) It will tend to rigidify patterns of production. It is likely to be discriminatory, especially if exemptions creep in. Its effectiveness will depend crucially on the technical minutiae. Nevertheless, we recognise that this is now the only realistic option in the field, and we have now said we are willing to consider a super-levy on condition that this is linked to a rigorous price policy (at least a 4-year price freeze) and can be made fair, legal and effective.

Operation of the Super-Levy

17. On price our position is clear, and we should not compromise. A point to note, however, is that the FRG will be reluctant to accept a price-freeze if they think this would mean nominal price-cuts for them as a consequence of MCA dismantlement. If this emerges as a sticking point it would be much cheaper to pay of the Germans through degressive aids to compensate for MCA dismantlement than to force them into opposing a milk price

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freeze.

18. As regards the level of the threshold, we want 97.2 million tonnes, as in the Commission's proposals. France, by contrast called for 110 million tonnes at the 28 November Special Council. Even 97 million tonnes is well above consumption levels, and we should fight hard for a threshold which will bite.

20. The base year for computing the threshold affects the distribution of the threshold between member states. A 1981 base would discriminate against the UK, Ireland and the Netherlands (in decreasing order of severity) because productions in these countries was depressed by bad weather in 1981. Better to work from existing, 1983, base.

21. Ownership of quotas is another crucial issue. It is not clear how far quotas would be owned (and could be traded) by farmers, and how far they would be tied to the land. There are also suggestions (notably from FRG and Denmark that same quotas might go into a national pool for distribution to ease the pain where the quota was really biting). A balance has to be struck between necessary flexibility for fair and effective operation of the levy, and arrangement which would reduce its practical impact. The Council cannot take specific decisions but we should seek to avoid language which would leave room for loopholes when the detailed arrangements are hammered out by experts.

22. As regards exemptions, only Ireland has made this the sticking point in their position on the post-Stuttgart negotiations as a whole. We are not convinced by their arguments for special dispensation (though we accept that the super-levy will hit them hard). A Working Group set up by the Commission to examine the Irish case noted, for example that milk accounts for 32% of Ireland's agricultural output, 40% of Luxembourg's, 27% of the Netherlands. They concluded that "there appears to be no justification for an Irish exemption "from the super-levy. We should hold out for no exemptions, but be ready to concede a more

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advantageous base-year for the calculation of Ireland's threshold. Greece, too, seeks exemption - and at different times Luxembourg and Italy have talked of it. This strengthens the case for firm UK opposition to exemptions.

b) Other proposals on milk

23. The Commission have also proposed:

(i) a levy on intensive producers of milk. This would penalise as much as 5% of Community production, although the Commission seems unclear about its real scope and impact. FRG, Ireland, Italy and France have all supported. UK, Denmark, Belgium and Netherlands have opposed and tended to ridicule the idea as being unworkable. The Commission have been unconvincing in defence.

(ii) Commission powers to suspend intervention for skimmed milk powder in the winter. This scheme has major technical flaws. Most Member States have reacted cautiously, though Luxembourg and Italy have supported, and the Netherlands would like to suspend intervention entirely. The measure would bear hard on the UK, particularly because of our heavy reliance on winter intervention.

(iii) An end to the general butter subsidy. This would directly affect UK, Luxembourg, Ireland and Denmark - the countries which apply it. Denmark has said she would be prepared to accept the loss of subsidy as an element in an overall package. UK would lose a direct benefit of £80m from Community funds, and there would be a sharp political reaction in UK to ending the subsidy. The economic case for the subsidy is not strong, but the impact on consumption could be greater than the Commission predict.

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

CEREALS/CEREALS SUBSTITUTES

OBJECTIVE

1. To secure a firm commitment to price reductions in the cereals sector without conceding action (particularly unilateral EC action within GATT) - to limit cereals substitutes imports.

POINTS TO MAKE

Cereals

1. Price reductions must be the focus of our efforts to control cereals surpluses. Threefold benefits:

- lower grain export refunds
- a better balance between crops and livestock (as proposed by the Commission)
- reduced demand for substitutes.

2. The narrowing of the gap between EC and world cereals prices is an important objective on which there is general agreement. But if it is to be more than an empty promise we need to establish a timetable and call for proposals on the mechanics of how the goal is to be achieved.

3. The guarantee threshold scheme can help bring down prices, but it needs tightening to make it bite.

Cereal Substitutes

4. The case for limiting imports has not been made. They are, in any case, levelling off - and a lower EC cereals price would reduce demand.

5. Current access to the EC is secured in GATT. This suggests two possibilities if we decide to limit imports:

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either compensation for unbinding
or retaliation against unilateral action.

Both would be disproportionately costly to the EC.

6. [Fall-back] Willing to consider asking the Commission to submit a mandate for discussions with the Americans provided that:

(i) EC can offer specific commitments to bring down cereals prices;

(ii) There is no presumption of the GATT deconsolidation option if the talks do not lead to agreement. [Fall-back: agreement to consider the case for GATT talks in that event].

BACKGROUND

7. The main issues are cereals substitutes (whether to introduce new limits on imports), and price policy (Commission propose to narrow the gap between Community prices and world prices). Little consensus has emerged.

a) Prices:

8. The UK supports the Commission's aim of narrowing the gap between EC and US prices and we want to impose a (5-year) timetable for the process. We see this as the most effective reform which the Community could introduce in this field. The Commission have proposed it as a long-term objective though without saying precisely what they think needs to be done. Others prefer to talk of a more nebulous 'prudent price policy', and the Germans oppose any price cut. Lower prices for cereals are one of the few CAP topics on which the UK and France are in broad agreement.

b) Cereals Substitutes:

9. The UK argues for open trade. All other member states accept that imports of substitutes need to be curbed, but there are marked differences of emphasis. A majority led by France (with Italy, Greece, Denmark, Ireland Luxembourg) support the Commission case for restrictions, and point out that the Community is

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entitled by Articles 19 and 28 of GATT to impose restrictions - after consultation - whether or not the supplying countries agree. The Germans, who have traditionally favoured free trade in substitutes, weakened their line over the autumn, and now argue for 'stabilisation' provided, (as Genscher made clear at the Special Council on 28 November) that there was no mandate to negotiate under a GATT article which might open the possibility of compensation in the industrial sector. The Dutch are closest to the UK position, arguing that the Community should proceed through bilateral discussions and only impose restrictions if the suppliers agree.

10. Any attempt to limit imports would provoke the US in particular, who are resisting even bilateral discussion. The Americans have consistently made clear that they would retaliate against any unilaterally imposed EC restrictions with measures that might hit at either agricultural or non-agricultural trade. This could well become an issue in the US presidential election campaign, and the Americans have little flexibility.

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EUROPEAN COUNCIL, ATHENS
4/6 DECEMBER 1983

OILS AND FATS TAX

OBJECTIVE

1. To secure total rejection of the proposal for a tax on oils and fats.

POINTS TO MAKE

2. I hope we can dispose of this quickly, to save time. The proposal is utterly misconceived.
3. For a start, we question the legality. We asked, at Stuttgart, for proposals for savings in the CAP. This, by contrast, is a proposal for raising new resources, and should be treated as such: (Article 201 procedure, requiring unanimity).
4. In any case, the proposed tax would be damaging, both domestically and internationally:

Internationally The tax would have an effect equivalent to an import tariff, and is widely seen as an attempt to evade GATT bindings (whatever the strict legal position). We would face retaliation. Developing countries would be very hard hit.

Domestically The tax would be regressive, hitting the poorest consumers in our society (eg margarine taxed). It would be an administrative nightmare. And it would produce distortions (eg through the arbitrary list of products to which it would be applied).

BACKGROUND

5. The Commission proposed a "non-discriminatory internal tax" of 75 ecu/tonne on animal and vegetable oils and fats other than those used for industrial purposes. The idea of such a tax has been around for 20 years, but this is the first time the Commission have tabled a formal proposal.

6. The proposal is opposed by the UK, FRG, Denmark and the Netherlands and supported by the rest of the Community, although Italy and Greece would like the tax to discriminate in favour of olive oil. The French were insistent at the Special Council on 28 November that the proposal must remain on the European Council agenda.

7. The Commission justify their proposal as being a counterbalance to the measures which have been taken to limit milk production. Some Member States (notably Belgium) make a political link between this proposal and the proposal for a super-levy on milk. It is clear, however, that the real objects of the proposal are:

- a) to act as a surrogate import tariff, reducing imports and hence improving the market for butter; and
- b) to raise revenue.

8. The proposal disingenuously refers to neither of these objects because a) would involve a breach of GATT bindings and b) would require a reference to Article 201 and national ratification.

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

OTHER PRODUCTS

OBJECTIVE

1. To ensure that the package of CAP reform is balanced, biting on Mediterranean products as well as northern ones.
2. To resist attempts to single out for especially harsh attention those aids and premiums of particular benefit to the UK.

POINTS TO MAKE

Other Products

3. The CAP package must be balanced, covering all sectors. It is essential that the imbalances in the South should be checked, just as they are being tackled in the milk and cereals sectors. Expenditure on Mediterranean products is rising at an alarming rate.

4. We should express explicitly the need to apply a rigorous price policy and guarantee thresholds to all products which meet the agreed criteria, and confirm that effective measures will be taken to restrain production and CAP costs if the thresholds are overshot.

Aids and Premiums

5. We welcome the Danish initiative for action to re-examine the purposes and continued justification of all aids and premiums. This dossier is, unfortunately, in no state to discuss in detail here, but work should now be accelerated.

6. Decisions will only be possible when all aids are looked at even-handedly. The final package must be balanced.

BACKGROUND

7. This heading covers:

- a) All products apart from milk and cereals.
- b) Scrutiny of aids and premiums.

a) Products other than milk and cereals

8. In the absence of substantive discussion in the post-Stuttgart negotiations of any commodity regimes apart from milk and cereals it is inconceivable that the Council can agree detailed texts on 'other products'. The key question therefore is whether the Council will require that all products should be subject to the same criteria, or whether particular commodities are to be identified for urgent or special treatment (or special exemption). (For this reason it is possible that the discussion of "other products" could be assimilated into that on prices and guarantee thresholds.)

9. The Mediterranean states, and notably Italy, are determined to secure protection for Mediterranean products both from outside competition and from the rigours of price policy/ guarantee thresholds. They tend to argue, indeed, that these products are not yet enough supported. Our concern will be to ensure that no prejudicial wording creeps in to exclude Mediterranean products (eg by reference to self-sufficiency as the only criterion for 'surplus'). Ideally, we would wish to see explicit reference to the need for early decisions on the application of price policy and guarantee thresholds to products other than milk and cereals.

b) Aids and Premiums

10. The original Commission proposals for re-examination of aids and premiums were unbalanced, making particularly strong attacks on aids in which the UK has a particular interest (particularly sheepmeat and beef variable premiums) while ignoring others.

11. There has been little discussion of these proposals, however, in the preparations for Athens, and detailed decisions are not likely to be taken. At the 28 November Council Denmark expressed

astonishment at the thinness of the Presidency text on this issue, and tabled a list of aids which should be cut, to balance the action being taken on milk and cereals. FRG supported. We should support this initiative (while being careful not to suggest that we ~~can~~ give anything away except as part of a balanced package of cuts).

Beef variable premium (defensive)

12. Unlike most aids and premia this is a basic support mechanism and an alternative to intervention. Commission's proposal would nearly double FEOGA expenditure in the UK and should not be part of a package designed to restrain CAP spending.

Sheepmeat (defensive)

12. Sheep variable and annual premia are basic support measures. The variable premium should not, therefore, be seen as transitional (as the French, in particular, sometimes argue). UK producers should not be put at a disadvantage relative to producers in other member states, yet this could be the result of the Commission's proposals.

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

MONETARY COMPENSATORY AMOUNTS (MCAS)

OBJECTIVE

1. To prevent decisions on MCAs which would be inflationary or expensive, and to retain maximum flexibility for the UK.

POINTS TO MAKE

2. This subject, though obviously very important, is to some extent peripheral to the main task we have set ourselves, which is to control CAP spending.

3. Above all, we must avoid new MCA arrangements which would be inflationary or expensive.

4. Many detailed decisions, (eg on methods of calculation) will have to be remitted for expert discussion. Variable MCAs also raise special problems which require more detailed examination.

5. [If the DM solution is going through]
This is a bad decision. We can mitigate some of the damage, at least, by imposing strict control over dismantling of negative MCAs.

BACKGROUND

6. MCAs are a special component of the CAP designed to compensate for the fact that because exchange rates used for the CAP differ from the market or central rate the national support price differs from the common prices set in ecus. Positive MCAs (export subsidies and import levies) apply when green rates are under-valued, and negative MCAs when they are over-valued. In the UK, Greece and Italy the MCA can vary weekly in line with the fluctuations in the market rate - for other Member States it is fixed in relation to their central rate in the EMS. In the past

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Member States have obtained green rate devaluations (ie removal of negative MCAs and increases in support prices in national currency terms) almost on demand; but green rate revaluations (ie reducing or getting rid of positive MCAs), which imply cuts in support prices in national currency terms, have only been contemplated in the context of annual price-fixings, when their effect can be offset by increases in common prices.

7. The Commission, with the support of several Member States, has long wished to secure agreement on a system which would provide for a return to a unified market through the dismantlement of MCAs, to achieve genuinely common price levels and equality of competition between farmers. A potential hindrance to trade would be eliminated. Sustained positive MCAs are also seen as an incentive to additional production which weighs on the budget and gives competitive advantages to producers in the countries concerned.

8. In 1979 the Member States except the UK bound themselves under a "Gentleman's Agreement" to phase out new MCAs within 2 years subject to a proviso that revaluations should not lead to cuts in national support prices.

9. The post-Stuttgart agenda covers three aspects of the MCA issue:

- (a) Dismantlement of existing MCAs;
- (b) Dismantlement or avoidance of future MCAs;
- (c) Changes in the methods for calculating MCAs.

Dismantlement of existing MCAs

10. The Commission have suggested that existing MCAs (currently +9.8 for the FRG; +7.6 for the UK; and +5.8 for the Netherlands) should be dismantled by green rate changes at the next 2 price fixings (with special rules to cover the problem of the UK' variable MCA). There would no let-out if these revaluations led to price cuts, but degressive national aids with some (undefined) element of Community financing would be allowed for up to three

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years.

11. Until recently the FRG rejected any cuts in national support prices which might result from the dismantling of existing MCAs, and refused to go beyond the existing Gentlemen's Agreement. At the Special Council on 28 November, however, Genscher showed some interest in the Commission proposal for existing MCAs conditional upon agreement being reached on the "DM solution" (qv) for future MCAs.

12. Other Member States have supported the Commission proposal - with France and Italy being strongly in favour.

13. The UK has been able to keep a low profile in this debate by concentrating on the difficulties of applying automatic rules to variable MCAs which have still not been discussed in any detail. Annex I shows how volatile sterling has been since 1979. If the proposal does go through, however, we should give some consideration to accepting degressive aids if and only if this was a price we had to pay for achieving a milk price freeze. [With a milk price freeze in place the German nominal price will fall when their existing MCA is dismantled. It would be preferable to compensate German farmers for this (on a degressive basis) than cause the Germans to press for milk price rises.]

Dismantlement of future MCAs

14. The Commission's proposal for future MCAs is similar to that for existing MCAs except that the MCA would be adjusted in 3 stages. The FRG has utterly rejected the Commission's proposal since not only would it be likely to lead to nominal price cuts at annual price-fixings but also to price cuts at all EMS realignments. The FRG has instead suggested that new MCAs should be calculated on the basis of the strongest currency (the so-called "DM solution"). This would prevent the creation of new positive MCAs: all new MCAs would be negative, according to their strength of the various green currencies relative to the DM (or whichever is the strongest currency).

15. In our view this arrangement would be both inflationary and expensive in budgetary terms. It is hard to say how costly and inflationary, because there would be two opposing effects:

- First, currency realignments would have worse implications than at present for CAP spending. We have calculated, as an example, that a realignment in which the DM was revalued by 4% and the other currencies devalued by 2% would add more than twice as much to the budgetary costs of the CAP under the "strongest currency" approach as under the present arrangements.

- Second, there are the effects in subsequent years. Member States' attitude in the annual price-fixing is determined by effective support in national currency terms. Under the DM Solution all countries except the FRG would have extra scope for national price increases through green rate devaluations. We might, therefore, expect that they could accept smaller common price rises. But it would be rash to rely on that effect fully offsetting the inflationary bias of the German proposal.

16. Others have supported us in our opposition to the "DM solution" on broadly the same grounds. France is also concerned about the creation of a "DM zone".

17. France, however, is determined, above all, to be rid of German positive MCAs. This is a major negotiating objective. And the Germans show no intention of accepting anything other than the "DM solution". It is therefore possible that the French will eventually settle for this option (though at the Franco-German Summit on 25 November, and at the subsequent Special Council they appeared less ready to do so than we had been led to expect).

18. UK interest remains to oppose the "DM solution" but if it looks like going through despite our opposition we should at least insist on very strict rules to govern the dismantlement of negative MCAs. This could mitigate some of the inflationary effects.

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Methods for calculating MCAs

19. The Commission has tabled ideas for reducing the application of MCAs by making them less effective at covering the differences between national and common prices. The individual proposals are extremely technical, and mostly contrary to UK interests. They have not been properly considered by experts. We should therefore avoid any commitment at the European Council, and ensure that further expert discussion takes place thereafter.

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COPY NO

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30 November 1983

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

OTHER POLICIES

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To demonstrate that the UK has clear ideas about the future development of the Community and that our interest in the Community is not purely budgetary; and to ensure that as many of our priorities as possible are endorsed in the conclusions of the Council.

POINTS TO MAKE

General

2. Work on the relaunch of the Community through the development of new policies is an important part of the Stuttgart mandate. We need to show by our decisions now that the Community is capable of acting to solve its common problems. Public opinion will not be convinced by empty rhetoric.

3. As the UK paper on 'other policies' shows, the Community can move forward in important and worthwhile ways within the inevitable financial constraints.

4. We should therefore aim to take firm decisions at this Council in key areas. For example in the strengthening of the internal market both in goods and services, transport, environment, energy and industrial policy and R and D. The groundwork has been done. Now what is needed is the political will to carry matters forward. Do not accept that

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those matters should be left to the specialised Councils. We have the responsibility to give a clear lead.

Internal Market

5. Completion of the Community's internal market for goods and services is fundamental. The November Internal Market Council made some invaluable advances. But we have not achieved the progress we called for collectively at Copenhagen and in services we have made no progress at all. Deplorable that after 8 years of discussion no progress has been made in such a vital sector as non-life insurance services. We must now proceed to the establishment of a liberal Community regime consistent with the Treaty without further delay. Essential we go further and faster to win the economic and financial benefits that completion of the internal market will bring to us all. We need to give a new impetus to the EC's standards harmonisation programme by agreeing the package of blocked directives discussed by the Internal Market Council, and by endorsing the standards initiative which that Council virtually agreed. We must agree a single administrative document for customs purposes under the French Presidency. On external trade, the Common Commercial Policy Regulation remains to be settled.

Transport

6. We should aim for a firm decision now to increase the existing Community road haulage quota - of immediate benefit to the Community as a whole - and a decision early next year on a timetable for the abolition of all road haulage quotas. We should call for the fastest possible progress to permit greater scope for free competition in air transport. Hope French Presidency will arrange for early Council discussion of the Commission's air transport policy paper.

Environment

7. Another area where action at Community level is desirable and is widely perceived to be so. Believe it should be

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possible to set a firm date for the introduction of unleaded petrol in Europe - 1990 or earlier, if possible

Energy

8. Previous European Councils have too often confined themselves to statements of general intentions about Energy policy. But on this occasion the Energy Council has done its work well and we have a firm proposal for action. The Commission's proposals on solid fuels are consistent with the energy objectives of the Community and would make a useful contribution to the promotion of more economic production and use of coal. The Community has been discussing proposals for a coal policy for years and not a single decision has been taken. Now is the time for action.

Industrial Policy

9. Discussion of new policies has stimulated a number of interesting and useful ideas on industrial policy. The French contributions to the debate have been particularly stimulating and challenging. We attach importance to achieving agreement at this Council on appropriate ways of facilitating closer and more extensive collaboration between European firms, particularly in the technologies of the future, to enable them to compete more effectively with their international rivals in an open trading system..

French ideas on new technologies, employment and social policy [If necessary]

10. The UK recognises the importance of new technology and industrial developments to the generation of new employment opportunities. The social consequences of technological change require flexible attitudes by the social partners. However we do not consider that a new action programme is the best way forward. Our economic policies are already designed to make the most of developing opportunities. Also, many of the issues suggested for the programme are already under active consideration in the EC.

BACKGROUND

References: None.

11. The Stuttgart European Council expressed its determination to take "broad action to ensure the relaunch of the Community;" and to "develop and make more effective Community action in research, innovation and the new technologies with a view to facilitating cooperation between enterprises", and "improving the international competitiveness of enterprises".

12. A number of Member States, including the UK, have tabled papers setting out their ideas on the future development of the Community. Our own paper, while stressing the need for cost effectiveness and for action to be taken within the framework of the finances available, seeks to demonstrate that much can be done which would be of real benefit to the Community in ways which cost little. We have also stressed that a small number of firm decisions on new policies at Athens would be preferable to numerous generalisations and have concentrated our fire on policies which are considered genuinely "communautaire", on which specific proposals are already on the table, and, above all, on which early decisions would be in the UK interest.

13. Our priorities are:

Internal Market

- . removal of barriers to intra Community trade in goods and services (ie renewed impetus to the Community's standards harmonisation programme; early and genuine liberalisation of non-life insurance services in line with Treaty requirements).
- . Adoption before 1 July 1984 of a single administrative document to simplify customs formalities.

External Trade

. Adoption (on the right terms) of the Common Commercial Policy Regulation - the French have made this a precondition for unblocking the standards programme.

Transport

. Free lorry movement by (a) increasing the EC road haulage quota and (b) deciding during the French Presidency on a timetable for the abolition of all road haulage quotas.

. Early liberalisation of air transport services: French Presidency to chair a meeting of Aviation Ministers and report back to the March European Council.

Environment

. A firm deadline (no later than 1990) for the introduction of unleaded petrol.

Energy

. A solid fuels policy to promote the economic production and use of coal.

14. The text of the Council conclusions on new policies which is emerging from discussions in the Special Council, specialized Councils and expert groups is broadly satisfactory to the UK. But we shall have to press hard to ensure that our requirements are met. Our ideas on transport and solid fuels have both been challenged by other Member States, notably France and Germany. On the internal market it may be possible to negotiate a satisfactory text which meets our concerns and those of the French. Insurance is more contentious, since the Commission have decided to start legal proceedings against France, and are contemplating action against other restrictive states (eg Germany). We welcome this as our best hope for early progress to open up the insurance markets of other Member States, and need to ensure that the Commission's resolve is not weakened by vague protestations of good intent from those seeking to avert

European Court action. We should therefore avoid any conclusion which would deflect the Commission from the pursuit of litigation.

15. French ideas on new policies have attracted interest. They argue that Europe faces an historical challenge in the new technologies; that the Community will fail if it cannot mobilize its resources to compete with its rivals in the US and Japan; and that the price of failure will be increasing technological dependence. To meet this challenge the French advocate a number of measures designed to enhance the Community's Research effort and to create a better environment for cooperation between enterprises. There is much in this analysis with which we agree but some ideas (eg temporary tariff protection for industries of the future; tighter definitions of EC origin for Community products; Community rules for inward investment) are unacceptable and will have to be resisted. But the French are unlikely to press these in the face of opposition from a number of Member States (particularly the Germans).

French ideas on employment and social policy

16. The UK has general objections of principle to the French proposal for an action programme in the social field. We would have particular difficulties with some of the detailed suggestions, such as reorganisation of working time, and migrant labour. The former is already under discussion as a draft Recommendation, which the UK has resisted strongly because of scepticism at the effectiveness of any reorganisation in generating additional employment, and concern at the cost and effect on the competitive position of firms. As to migrant labour, we would hesitate to endorse a fresh proposal for Community involvement in a sensitive area for our immigration policy.

Foreign and Commonwealth Office
30 November 1983

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COPY NO

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29 November 1983

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER, 1983

SCIENCE AND TECHNOLOGY ASPECTS OF "NEW POLICIES"

Brief by Cabinet Office

OBJECTIVE

1 To start the process of redirecting EC R & D resources to more efficient and relevant programmes; to cut out waste in the Joint Research Centre of the EC; to control the overall cost of the Commission's proposals.

POINTS TO MAKE

2 If R & D in Europe is to be successfully exploited, the internal European market for high technology products must be a genuine common market. The proposals in the Commission paper to remove obstacles which currently prevent this are welcome.

3 R & D in European private sector industry must be competitive with that in Japan and the USA. In some industries this will require collaborative private sector research which can be stimulated by the EC as in the ESPRIT programme.

4 The Community's R & D resources must be used more efficiently. Experience shows that large joint European laboratories are only effective if they have a clear single task of limited lifetime which is beyond the capability of individual Member States. Other research research is best carried out by 'indirect' action and 'concerted action' programmes in the best available laboratories in Member States and resources should be shifted from 'direct action' towards these. Initial steps should be taken to redirect current spend. Any increase in budget should only be agreed when demonstrable progress of more efficient use of resources has been made.

5 Measures to improve the mobility of scientists in Europe will bring a European dimension to the laboratories of Member States and further enhance the effectiveness of 'indirect action' and 'concerted action' programmes. The proposals to improve mobility deserve serious examination.

BACKGROUND

6 The European Community has not been effective in using its scientific and technological capability to build up competitive high technology industries. As a result the EC has a large and growing trade deficit with the USA and Japan in high technology products.

7 The main reasons for this failure are:-

- (a) The absence of a genuine common market in Europe for high technology products because of hidden tariffs, differing national standards and protectionist public procurement policies.
- (b) The fragmented nature and small scale of much European private sector R & D.
- (c) The low quality and poor focus of much of the EC R & D programme.

8 Some of the actions necessary to solve these problems are proposed in the Commission paper, viz:

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the development of the internal market;
the removal of obstacles to the proper collaboration
between private (and public) sector companies.

9 However, the proposals on "Research and development and advanced technologies" are only partially supportive of the right solutions. The ESPRIT programme will, if successful, help to generate an advanced and competitive European Information Technology industry. Similar (but smaller) programmes in areas like telecommunications and biotechnology might also be valuable but the Commission is not yet proposing programmes on the ESPRIT model.

10 The major difficulty is the Joint Research Centre which currently consumes 150 Mecu pa or 30 per cent of EC R & D resources. These four laboratories which were diversified when their original Euratom role was no longer sufficient to justify their size, have failed to produce research of high quality or of relevance to the EC.

11 Research in the JRC is called 'direct action'. The EC also has programmes of 'indirect action' (projects centrally managed by the Commission but contracted out to research organisations in the Member States on a cost-sharing basis) and 'concerted action' (projects co-ordinated by the Commission but carried out and financed by organisations in Member States).

12 Experience has shown that 'direct action' is only efficient and effective for major focussed projects which are beyond the capability of individual Member States and which have a finite lifetime; JET is a good example. For all other work 'indirect action' and 'concerted action' in the best available laboratories in Europe are to be preferred. There is therefore a need to put any new resources into 'indirect action' and 'concerted action' and to shift existing resources away from 'direct action'. This will cause closures and redundancies in the JRC laboratories in Italy

(especially), Germany, Belgium and Holland and/or the transfer of these laboratories to their respective national budgets.

13 Concurrent with reducing JRC laboratories, the best laboratories of Member States need to acquire a European dimension if the full benefit of Europe's skills in science and technology are to be felt. This can be accomplished by increased mobility of scientists and technologists between laboratories in different Member States. Both France and the Commission have proposals to promote mobility.

Cabinet Office

29 November 1983

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COPY NO

1

30 November 1983

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

STRUCTURAL FUNDS

Brief by Foreign and Commonwealth Office

OBJECTIVES

1. To keep discussion of this subject as brief as possible; to avoid any commitments on a substantial increase in the size of the funds or on the introduction of Integrated Mediterranean Programmes (IMPs).

POINTS TO MAKE

General

2. This is an important part of the Stuttgart mandate and we are grateful for the work which has been done on it by the Commission and by the Council.

3. Real progress has been made on a number of points: for example in definition of the objectives of the funds; in recognition of the way in which concentration of resources can increase the effectiveness of the funds; in recognition of the useful role which multiannual financial planning and better coordination of the funds can play in achieving better results and greater financial discipline. More work remains to be done but we are moving in the right direction.

Size of Funds

4. Believe it would certainly be wrong to prejudge the optimum size by setting arbitrary targets. This would be inconsistent with our agreed objectives of increased effectiveness and greater financial discipline. We support an increase in the size of the funds, but this must be

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carefully related to available financial resources and real needs.

IMPs

5. Of course IMPs could have an important role to play. But we all recognise that IMPs cannot and should not be detached from the Community's existing efforts. They must be looked at in the overall context of the discussion of the structural funds, which are still under review. Examination of new proposals on ERDF and FEOGA Guidance have barely started. We are clearly not in a position yet to make decisions on the funds, let alone the role of IMPs within them. Moreover the role of IMPs in the enlarged Community has also not been adequately examined. Inconceivable that Spain and Portugal will not seek to benefit, whatever the parameters currently envisaged.

6. It would therefore be premature to reach firm conclusions on IMPs at this stage: work must continue on proposals for IMPs within the framework of the Community's structural policies.

ERDF

7. We attach importance to early agreement on a new ERDF regulation. Hope we can give impetus to this process. Commission proposals need to be urgently examined by experts. But we support the main thrust of the Commission's approach.

BACKGROUND

References: None

8. The Stuttgart European Council stressed the need for control of expenditure in areas other than agriculture and called for the development of policies within the bounds of financial feasibility. It asked the Commission to propose

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ways of increasing the cost effectiveness of the structural funds (ERDF, Social Fund and the FEOGA Guidance Section) with the aim of avoiding duplication of effort and expenditure. The Commission duly produced a paper recommending inter alia better coordination between the various funds and between Community and national policies, more Commission involvement in the programmes and more concentration of the funds resources, in the sense of concentration on areas of need and higher rates of intervention.

ERDF

9. Negotiations on a new ERDF Regulation became bogged down mainly over the question of national quota shares. In the light of the call by Stuttgart for a review of the structural funds, the Commission have produced revised proposals, the main features of which are greater concentration; experimental financing by programmes as opposed to projects as at present; and replacement of the present system of national quotas by a system of brackets or "fourchettes", whereby each member state would have both a guaranteed minimum share and a maximum which it could obtain if its applications met the right criteria. Discussions of these and other detailed points are about to begin at expert level. We can support the Commission ideas (including brackets) in principle but will need to look carefully at the implications in the course of expert discussions before finally agreeing them. We do not expect early agreement and the 1 April 1984 deadline which is being suggested is probably an unrealistic one.

Social Fund

10. Although nominally part of the structural funds review, the Social Fund has not featured in the current discussion: all member states and the Commission are content to proceed on the basis of the regulation agreed earlier in the year.

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FEOGA Guidance Section

11. The FEOGA Guidance Section, representing about 5% of total FEOGA funds, is devoted to achieving the first objective of the CAP as set out in Article 39, (to increase productivity through technical progress and other means). The money is channelled through a number of different regulations and directives, the most important of which concern: modernisation of farms; measures to encourage cessation of farming and amalgamation of small farms; job training; help for farmers in 'less favoured areas'; measures to improve processing and marketing. These measures were originally to expire at the end of 1982. In that year they were extended to December 1983 (and, for the Marketing Directive to the end of 1984). Discussion of the Commission's proposals have barely begun. Our objective at the Athens Summit should be to ensure that the outcome of these discussions is not prejudiced.

IMPs

12. These proposals cover agriculture and other sectors in designated rural areas of Italy, Greece and France. Their aim is to increase income levels and employment, primarily through an extension of existing Community schemes under the Regional, Social and FEOGA Guidance Section Funds. The Commission propose to devote 6½ billion ecu over the period 1985-1990. The money would go primarily to agricultural structural programmes, as well as to infrastructure projects, industrial development and job creation. The Greeks and Italians are aiming for a commitment to IMPs at the summit. France is insisting that IMPs be limited in time and area to the regions affected by enlargement in the present Community. Other member states have major reservations about the financial implications.

Foreign and Commonwealth Office
30 November 1983

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COPY NO

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30 November 1983

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

GREEK MEMORANDUM

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To avoid financial commitment to various specific Commission proposals arising out of Greek Memorandum exercise before post-Stuttgart negotiation is concluded, and revenue/expenditure implications can be properly assessed. To emphasise without getting too far ahead of our partners need for "balanced" view of Community's response to Memorandum. And to reinforce need for Greece to comply with her existing Treaty obligations.

POINTS TO MAKE

2. Regret that Community is not in a position to take concrete decisions on Greek Memorandum proposals. Not all the proposals have been submitted yet (eg those in the environment field, and those in connexion with 5 year plan). Recognise Greek concern to make progress on those that have (ie Greek IMP, measures in the social, transport, and agricultural fields). But impossible to ignore the effect of available revenue (under present or any future financing arrangements) when considering any expenditure proposals, including those of special assistance to Greece. Simply not possible to divorce revenue from expenditure.

3. Understand that Commission have now produced draft directive postponing introduction of VAT in Greece for 2 years. Recognise Greece's difficulties in introducing VAT. Right that we should want to help. European Council should therefore formally agree principle of 2-year deferment.

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If the directive is agreed, Greece must commit itself to meeting the new timetable for the introduction of VAT - ie 1 January 1986.

4. But right also to recognise that the financial benefit of deferment (estimated at 236 mecus over 2 years) represents an important and valuable addition to Greece's existing benefits from the Community. Nor should we lose sight of measures already taken eg single regulatory tax on imports; safeguard measures under Article 130 of Accession Treaty - which demonstrate Community's concern to help Greece adapt to membership. Taken together, these represent substantial concessions by the Community with the aim of helping Greece adapt to membership. They should be taken into account when considering the Community's overall response to the Greek Memorandum.

5. Other Member States are faced with the justifiable irritation of their own exporters at Greece's continuing failure to fulfil her Treaty obligations. Essential that Greece does not add to her import restrictions and that she makes strenuous efforts to remove those in force as quickly as possible. Commission response to Greek Memorandum specifically refers to effort required from Greece to integrate, particularly in fiscal field. Commission should monitor progress on this and report regularly to the Council.

Essential Facts

1. European Council at Stuttgart recognised the special economic and social problems faced by Greece and agreed that the Community should play its part in helping to overcome these difficulties. It welcomed the fact that the Commission intended shortly to submit specific proposals (including their financial aspects) and invited the Council to examine these proposals with a view to concrete decisions before the next European Council. The Commission indicated that it intended submitting proposals under three main headings:

- A: an Integrated Mediterranean Programme (IMP) for Greece;
- B: additional funds via the administration of existing instruments (ERDF, Social Fund etc)
- C: special supplementary programmes.

2. Both the Commission and Greece see the Greek IMP as the main vehicle for easing Greece's integration with the Community. The proposal is under consideration in the ad hoc Working Group set up to consider the Commission's IMPs proposal as a whole (ie including French and Italian IMPs). These proposals are particularly unwelcome to the UK on a number of grounds. The total cost of the IMPs is estimated at 6628 mecu over 6 years (Greek share 2518 mecu). The cost to us, averaging 250 mecu pa over the 6 year period of the programmes, would worsen our budget position. The proposals take no account of the present pattern of net benefits among Member States and would preempt available funds. There is no economic rationale for the proposals and no justification for the reduced element of financial control envisaged in some areas. Other Member States (notably FRG, the Netherlands and France) share our misgivings.

3. Not all the proposals foreshadowed by the Commission under the other two headings have yet been submitted. Of the three which have, two (transport and agriculture) have made only minor progress in their respective specialist Working

Groups. (On Transport, the Greeks are pressing for the 1 December Transport Council to agree a minutes statement guaranteeing Greece 25 mecu for transport infrastructure in 1984.) The third (social measures) is making rather more headway. Most of the technical issues have been resolved, and it is likely that by the time of the Social Council on 8 December only the budgetary reserves put in by a number of Member States (including UK, France, FRG) will stand in the way of its adoption.

4. Greece is upset that none of the proposals has yet been agreed. Papandreou is expected to deplore lack of progress in fulfilling Stuttgart mandate, and to argue that member states should not link decisions on Greek Memorandum proposals to decisions on the post-Stuttgart negotiations. However, opposition to the proposals generally is strong on grounds of cost and their duplication of existing structural fund arrangements. The agricultural proposals, for example, would overlap with IMPs which themselves overlap with FEOGA Guidance and the ERDF. Similarly, it is unclear to what extent the social and transport proposals overlap with the Social Fund and the ERDF. In these circumstances it would not make sense to agree to any proposals before the outcome of the post-Stuttgart negotiation is known, and the revenue/expenditure implications can be properly assessed. (UK Ministers have yet to decide how much if anything Greece should receive from any special supplementary measures. They will need to do so once all the Commission's proposals have been discussed.) Other Member States (notably FRG and the Netherlands) hold similar views. There should therefore be no particular need for the UK to put itself out in front in opposing Greece's efforts to obtain financial commitments now to the proposals.

5. Greek membership of the EC is in HMG's overall interest. As the poorest and least developed of the Ten, it is also right that Greece should be a major beneficiary under the

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Community budget (685 mecu net benefit in 1982). Given the Stuttgart wording, we recognise that we may have to concede some additional financial gains to Papandreou to enable him to demonstrate that his "renegotiation" was successful. But we have no interest in seeing Greece's benefits increase substantially, whatever the outcome of the post-Stuttgart negotiation, particularly when Greece is proving an uncooperative partner not only in complying with existing Treaty obligations (cf her large number of fiscal and non-fiscal infractions), but in PoCo and bilaterally. A primary objective is therefore to minimise the cost of the Commission's proposed programmes. In pursuit of this, we have argued strongly in Coreper and the Council (so far without much support) for Ministers to be given a proper "balance sheet" with which to judge progress in the Greek Memorandum exercise. The "balance sheet" should point up what Greece is already getting from the Community (ie her net budgetary benefit), will get from measures recently agreed (or about to be agreed), and hopes to get in the future. Such a report would help the Greeks to point to progress in the Greek Memorandum exercise, and thus help them to accept a modest outcome to "renegotiation".

6. We can in fact fairly point to a number of measures agreed (or about to be agreed) since Stuttgart which demonstrate the Community's concern to assist Greece to adapt to membership. In particular, it is now tacitly accepted that Greece will not be able to introduce VAT by 1 January 1984, as laid down in the Treaty of Accession. The Commission have proposed a directive to meet the Greek demand for postponement. They estimate that acceptance of the directive will reduce Greece's budgetary contribution by 236 mecu (105 mecu in 1984 and 131 mecu in 1985). It therefore represents an important and valuable concession to Greece. We do not wish to challenge the principle of its acceptance (which would attract little support) but we should ensure that the size of the benefit is clearly recognised,

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and that the Greeks give a clear commitment to meet the new timetable for the introduction of VAT. In July, the Commission approved the introduction by Greece of a single regulatory tax on imports. The tax amounts in practice to a 5 year derogation for the Greeks from Article 95 EEC, which outlaws discriminatory taxation. The new tax is to be phased out by 1989. Additionally in February 1983 the Community agreed to a Greek request for a number of safeguard measures on imports under Article 130 of the Accession Treaty.

7. Despite these measures designed to help Greece adapt to membership, and to regularise the position on Greece's many fiscal and non-fiscal infractions, rumours are circulating in Athens that Greece is considering further import restrictions - import deposits, cash against documents etc. Any such measures would be bound to provoke further justified complaints from UK exporters already irritated by what they see as Greece's continuing refusal to dismantle import restrictions in line with her Treaty obligations. We should maintain pressure on Greece and the Commission to implement the acquis and refrain from further infractory measures. It would help us to do this if the Commission were obliged to report regularly on infractions to the ad hoc Working Group and to the Council.

Foreign and Commonwealth Office
30 November 1983

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30 November 1983

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

STEEL

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To avoid substantive discussion, but if raised to stress our overriding concern that the Community should not get distracted from the essential task of capacity reductions; and to avoid linkage by Germany with solution to budget question.

POINTS TO MAKE

2. We have made major sacrifices to restructure our industry. By the end of 1985 the UK will have made 20% of the total capacity reductions in the Community. Now all other Member States must face up to the need to make substantial capacity reductions. Essential that the burden of restructuring is shared equally.

3. We accept the need for a short sharp psychological shock which the recent short term measures (mandatory minimum prices) proposed by the Commission entail. But it is absolutely essential that these should indeed be short term measures. Details including legal aspects will need to be sorted out by Council when it meets on 14 December.

4. (If Germans seek to make link with budget question) We understand the major concerns of German Ministers. We share many of them ourselves. But the right forum for a discussion of steel problems is the Steel Council and it would not be helpful to complicate the Athens agenda further

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by linking steel to the budget question.

BACKGROUND

References

None

Steel Anti-Crisis Measures

5. Steel anti-crisis measures consist of a combination of production quotas and price rules as well as controls in imports from third countries. These are intended to help the industry in the immediate and short term, but the key to long term recovery lies in the Aids Decision, whereby State Aids to steel companies are permitted only if they are linked to restructuring (ie capacity reductions) and give reasonable prospects of viability. Under the Aids Decision, aid must be phased out by 1985. The detailed implementation of the arrangements agreed by Member States with the Commission is the responsibility of a European grouping of steel manufacturers (Eurofer).

6. On 29 June the Commission wrote to each steel producing Member State giving their assessment of the capacity cuts already promised or undertaken and their requirement for further cuts to be identified by the end of January 1984 (see attached table). The Commission had also proposed prolongation of the Article 58 quota arrangements (which were due to expire on 1 July) until the end of 1985. The Steel Council on 25 July agreed to an extension until 31 January 1984 and gave a political commitment to extend the system to the end of 1985. Renewal of the quotas to the end of January will be a key element in the anti crisis measures, to which we remain committed.

Position of the German Government

7. If this subject is raised at the Summit, it will almost certainly be at the insistence of the Germans. The German

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Government is under considerable pressure from its steel industry because:

- . discussions on the restructuring of the German steel industry appear to be getting bogged down. One problem has been the German Government's unwillingness to provide financial assistance on the scale sought by the industry;
- . there is much concern about the volume of imports into Germany from other member states (which the Germans claim are subsidised) and from third countries (which they claim are dumped);
- . the German industry are unhappy with the terms upon which the Article 58 production quota regime was prolonged in July. Essentially they want a larger share of the EC market.

8. The German Government have sought to divert this pressure it onto the Commission and the Community. They have:

- . initiated European Court proceedings against the Commission's 29 June decisions on aids and restructuring in alleging that too much aid was authorised for inadequate capacity cuts in four countries: the UK, France, Italy and Belgium;
- . pressed for a larger share for German industry of the Community market under the Article 58 quota regime;
- . publicly made clear their position that there would be no solution to the Community's financial problems without a sensible solution to the steel problem which took account of German interests;
- . challenged the legal basis of the Commission's proposed short term measures (see para 9 below).

New Short Term Measures

9. In the face of deteriorating steel prices on the continental markets, and as a result of the breakdown of any

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consensus in Eurofer on production quotas, the Commission decided in November to introduce new short term measures consisting of:

- from 1 December 1983 the establishment under Article 61 of minimum prices, by determining a maximum permissible rebate below published non mandatory guidance prices for certain flat products (hot rolled coil, cold rolled sheet and reversing mill plate; and, possibly, heavy sections);
- from 1 January 1984 a deposits system (also under Article 61 ECSC) under which producers affected would lodge bank guarantees or cash deposits with Member States, based on the previous month's sales of minimum price products to the EC. This collateral would be refunded at the end of the following month. In the event of apparent breaches of the price or the Article 58 quota rules, however, release of a portion of the collateral equivalent to the potential fine would be blocked pending proof of innocence;
- a monitoring system, using works based independent accountants, financed by producers.

The Commission are determined to implement these measures as soon as possible and certainly by 1 January 1984 believing that Article 61 ECSC is a sufficient legal basis. At the steel session of the Foreign Affairs Council on 29 November there was acceptance of minimum prices but concern about the level at which the floor would be fixed (too low for UK steel which now sells at a higher than average price) because the maximum price would quickly become the standard price, thereby reducing the profits. There was a favourable attitude to deposits and monitoring but some Member States (including the UK) registered problems of substance about legal aspects. There will be a further Ministerial discussion on 14 December.

BSC

10. BSC has to date made actual capacity reductions of 4 million tons, and by the end of 1985 we expect the UK to

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have achieved at least 20% of the total capacity reductions in the Community. The Germans have made about 1.8 million tons reduction in the same period and have indicated that further substantial (but unspecified) cuts will follow. The Commission's 29 June decision sought a further 500,000 tons reduction from BSC in return for authorising aid to the end of 1985. But Commission doubt BSC's ability to return to viability by that date.

Foreign and Commonwealth Office
30 November 1983

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STEEL: CAPACITY CUTS

The Commission's decisions on capacity cuts by each Member State were announced on 29 June as follows:

Member State	1980 capacity m tonnes	cuts already offered m tonnes	additional Commission request m tonnes	total cut m tonnes	% reduction from 1980
Germany	53.117	4.81	1.20	6.01	11.3
Belgium	16.028	1.705	1.40	3.105	19.4
France	26.869	4.681	0.630	5.311	19.7
<u>UK</u>	<u>22.84</u>	<u>4.00</u>	<u>0.50</u>	<u>4.50</u>	<u>19.7</u>
Italy	36.294	2.374	3.46	5.834	16.1
Luxembourg	5.215	0.55	0.41	0.96	18.4
Netherlands	7.297	0.25	0.70	0.95	13.0
Denmark	0.941	0.666	-	0.066	7.0
Ireland	-	-	-	-	-
EC 9	168.601	18.436	8.300	26.736	15.8

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EHG(A)83(10)

COPY NO 1

25 November 1983

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER, 1983

ENLARGEMENT

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. (a) To secure the inclusion in the European Council conclusions of a timetable for the conclusion of the substantive part of the accession negotiations with Spain and Portugal, and to be seen to work for progress;

(b) if (as is probable) this is unacceptable to the French, to secure as strong a commitment to early completion of the negotiations as possible.

POINTS TO MAKE

2. Both Dr Soares and Sr Gonzalez have now written to heads of EC governments. Can well understand their mounting frustration at the slow pace of accession negotiations.

3. Politically important for both countries that

negotiations be completed during 1984 with the aim that they can become members of the Community by 1 January 1986. Wider Western interests will be at risk if major obstacles remain in the way of enlargement at the time of the 1985 Spanish referendum on NATO membership. We believe that this European Council must now give a final necessary push to the negotiations by establishing a timetable for their substantial completion by mid-1984.

4. Do not dispute that a great deal of work remains to be done in the accession negotiations particularly with Spain, or underestimate the political sensitivity of the issues for some Member States. But Spain and Portugal have publicly invested a good deal of political capital in getting a clear message of commitment to early completion of the negotiations from this meeting, and they should be given it. Hope we can thereafter press ahead as fast as possible with all outstanding chapters of the negotiations - including in particular Spanish agriculture - before the March European Council.

Further points for use as necessary in discussion

Link between accession and post-Stuttgart negotiations

5. Regard Stuttgart conclusions as requiring the earliest possible progress on the parallel fronts of

the negotiations on Community financing and accession negotiations. We cannot afford to let the process lag too far behind the Community's internal negotiations if the 1986 target for entry is to remain realistic. (If necessary) It certainly does not imply that either set of negotiations should mark time to keep in step with the other. Both require to be finished as soon as possible.

Mediterranean Agriculture

6. Greatly welcome the fact that Agriculture Ministers were finally able to reach agreement on revised regimes for Mediterranean fruit and vegetables and thus permit work to begin on Spanish agriculture. But the external side of these arrangements which increases Community protection against her preferential partners (including Spain and Portugal) can not come into effect until the Community presents substantive declarations with proposals for all the main agricultural sectors including fruit and vegetables to Spain and Portugal. This was the basis on which we agreed to the package.

ANNEXES:

- A. Letter from Dr Soares and Prime Minister's reply
- B. Letter from Sr Gonzalez

BACKGROUND

7. Both the Spanish and Portuguese Prime Ministers have written within the last few weeks to Heads of EC Governments to express concern about delays in the accession process and restate their strong wish to become members of the Community by 1 January 1986. (Letters attached, with a copy of the Prime Minister's reply to Dr Soares). Both Dr Soares and Sr Gonzalez attach the greatest possible importance to a successful outcome at the Athens Summit both as regards the negotiations on Community financing and in terms of a positive signal to Spain and Portugal. Especially if a settlement of future financing and agricultural reform is held over to the March European Council, such a signal will need to set a timetable for conclusion of the substantive part of the accession negotiations. A deadline of mid-1984 is realistic in terms of the Portuguese negotiations, but problematical in the case of Spain; French pre-occupations over the European elections in June are likely to prevent any real breakthrough on Spanish agriculture during their Presidency since the strongly Socialist farmers of SW France will in effect exercise a veto over any concessions. The French will therefore - as at Stuttgart - almost certainly not accept. But it would

be right to press for a mid-1984 deadline to keep up the pressure on the French and take credit with Spain and Portugal.

8. Sr Gonzalez's letter laid particular stress on the link in the Stuttgart conclusions between ratification of the accession treaties and the outcome of the negotiations on Community financing. We have interpreted this link in practice as requiring progress on both fronts. We do not accept the implication that it would involve slowing down the negotiation or implementation of the post-Stuttgart negotiations to coincide with an accession timetable, which however accelerated, could not involve ratification of treaties before well on 1985 (too late to help us with 1984 refunds which will be due for payment in 1985 budget).

9. The decision by Agriculture Ministers on reform of the Mediterranean agricultural regimes stipulated that the external trade arrangements should enter into force when the Community make a declaration on fruit and vegetables to Spain in the accession negotiations. All member states but France are clear that this means a substantive declaration on agriculture to Spain which includes fruit and vegetables. The French interest in the earliest possible introduction of the (protectionist) external trade arrangements is useful

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pressure on the French to make substantive progress on Spanish agriculture during their Presidency.

Foreign and Commonwealth Office

25 November 1983

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EHC(A)(83)11

COPY NO

1

28 November 1983

EUROPEAN COUNCIL, ATHENS
4-6 DECEMBER, 1983

ECONOMIC AND SOCIAL SITUATION
Brief by HM Treasury

Objective

1. To ensure that firm but flexible policies in other individual European countries lead to a broad and sustainable recovery. To stress the UK's own early and significant contribution to this process.

Points to make

2. Economic recovery in the industrial world as a whole is now under way, but growth in the Community has been slow to pick up and prospects are not as encouraging as in North America and Japan.
3. Nevertheless, important progress with adjustment has been made in many European countries and this should lay basis for recovery. Commission rightly stresses weakness of world trade. Community, therefore, must look to domestic growth.
4. UK's 3 per cent GDP growth in 1983 is already making a significant contribution to European recovery. We expect similar growth next year.

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5. Recognise difficult decisions taken in France and welcome progress in reducing inflation and improving balance of payments. Acknowledge efforts being made in Italy and in many smaller countries to deal with budgetary and inflation problems. Important to persevere.

6. Welcome progress made in Germany in lowering inflation and tackling budget deficit. Essential that this is now translated into firm growth of domestic economy if continental Europe as a whole is to recover.

7. Sound policies and domestically based recovery offer best prospect of shielding Community from international interest rate and exchange rate disturbances.

8. US budget deficit and high interest rates still pose threat to global recovery. Growing payments imbalances between US and elsewhere also add to dollar exchange rate uncertainties.

9. Important in these circumstances that Community should work with its **other** major partners to secure better co-ordination of policies and improved working of international monetary system. Welcome studies that G10 Finance Ministers are undertaking. Commonwealth group hopes also to make its own contribution.

Background

References: Commission paper on The Economic and Social Situation in the Community (COM(83)722 final).

10. The Commission along with most other forecasters, such as OECD, is expecting the overall recovery in industrial countries to continue next year. **CONFIDENTIAL**, however, that growth is

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being led by North America and to a lesser extent Japan with Europe for the most part lagging.

11. GDP in the Community is expected to rise by only $\frac{1}{2}$ per cent this year and $1\frac{1}{2}$ per cent next. Within the total, the Commission expects the UK to show the fastest growth - 2.8 per cent in 1983 and 2.2 per cent in 1984. Our own Autumn Statement was rather more optimistic with 3 per cent in both years. Among the other European countries, Germany is expected to show a modest recovery next year but the upturn elsewhere is likely to be slow. (The Commission's latest forecasts are annexed to its document for the Council COM(83)722 final).

12. Unemployment seems likely to continue to rise in Europe next year though at a slower pace.

13. Consumer price inflation, however, is expected to slow down a little further to around $5\frac{1}{2}$ per cent on average although wide disparities will remain between countries. The Commission is slightly more pessimistic than our own forecasts for the UK.

14. Current payments balances should improve in many countries with lower deficits next year in France, Italy and Belgium, and continued surpluses in Germany and the Netherlands. The UK is shown as moving into small deficit in contrast to our own forecast of broad balance.

Policies

15. The Commission urges that countries should continue to give priority to reducing inflation. It calls for policies to encourage confidence and investment. It seeks wage restraint

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to maintain competitiveness. These are all well in line with UK policies.

16. The Commission suggests that budgetary policies should give priority to reducing deficits and public spending. This is clearly applicable in countries such as France and Italy where the adjustment process still has some way to go. The Commission adds, however, that in those countries where inflation and balance of payments performance are good, the reduction of budget deficits should take account of the conjunctural situation and deficits should not be reduced too quickly.

17. This is directed mainly at the UK and Germany. In our own case this ignores the strong growth of the economy over the past two years and the likelihood of continued growth next year. The German recovery, however, is less strong and the government is continuing to follow a very stringent fiscal policy which is tending to restrain the growth of domestic activity.

18. The Commission suggests a continued need for steady monetary policies in the face of external constraints and the need to reduce inflation and interest rates.

19. We can endorse the need for sound policies in Europe, particularly in view of the uncertain international background. The US budget deficit seems likely to continue at close to \$200 billion a year, and no firm action to reduce it

seems likely until after next year's Presidential election. This is one factor contributing to the continued high level of US interest rates which are in turn helping to keep the dollar high and limit other countries' room for reducing their own interest rates.

20. This position, however, may not be sustainable. The US current balance of payments is likely to show a deficit of around \$40 billion this year rising to more than \$80 billion next year. The combination of this and a gradual rise in US inflation may tend to put downward pressure on the dollar and risk a new period of currency instability.

21. European countries have a common interest in ensuring that any exchange rate adjustments are orderly. This implies readiness to work with the US and others in co-ordination of economic policies. G10 Deputies at the request of Finance Ministers have now begun to study with the major international agencies (IMF, OECD and BIS) ways of improving the Fund's surveillance of major countries' economies as agreed at Versailles and Williamsburg. Studies of international liquidity and exchange rates are also in progress.

22. The Commonwealth Heads of Government meeting in New Delhi also agreed to set up a consultative group to study the reform of the international monetary system. The UK view, however, is that this is best pursued through existing institutions.

Structural policies

23. The Commission's paper ends with a number of policy suggestions both for improving the working of the Community and particularly for tackling unemployment. We favour better working of the internal market, particularly for insurance services. We should want to consider very carefully any proposals for Community intervention to promote new technology. The UK has already contributed to capital market integration by removing exchange controls.

24. The Commission's suggestions for improving employment prospects by youth training and local initiatives seem sensible. Any moves to shorter working hours should certainly safeguard firms' competitiveness, as the Commission notes. Any increase in early retirement should also take account of budgetary and demographic considerations.

HM Treasury

28 November 1983

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REFERENCE A
BRIEF 11

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(83) 722 final

Brussels, 28th November 1983

① Per ^{Done} MUST to Mr Heath, ECSC

② copy to Sir M Butler
Mr Elliott
Mr Shepherd
Mr Smith
Mr Bebb
Mr Lewis
Mr Duffery
Mr Nixon

to Mr Heath, by bag

③ Per Fax
11/11/83

THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

(Communication from the Commission to the European Council,
Athens, 5-6 December 1983)

COM(83) 722 final

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THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

(Communication from the Commission to the European Council,
5-6 December 1983)

CONTENTS

- I. The European economy: the outturn for 1983 and the outlook for 1984
- II. The factors of uncertainty
 - A. The instability of the international environment
 - B. The revival of investment
 - C. The reinforcement of the Community's economic structures
- III. Economic policy guidelines
 - A. Domestic economic policies
 - B. The Community's contribution
- IV. Unemployment: particular considerations

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This Communication on the economic and social situation addresses the questions raised by the European Council at its meeting in Stuttgart on the extent of the upturn and the conditions for a lasting recovery of the European economies, as well as increasing employment and productive investment.

It follows on, in particular, from the Annual Economic Report 1983-84, which contains a detailed analysis of the economic situation and immediate outlook, the structural difficulties still confronting the Community and the conditions for consolidating the economic upturn. In addition the European Council has received a number of communications on the development of a range of new policies at Community level.

The first part of this Communication on the economic and social situation examines the economic upturn for 1983 and the outlook for 1984. The second part describes the factors of uncertainty affecting a lasting recovery, and the third part presents proposals for bringing about such a recovery.

I. THE EUROPEAN ECONOMY : THE UPTURN FOR 1983 AND THE OUTLOOK FOR 1984

A. There are some signs of economic recovery in the Community, and this should be confirmed in 1984; real growth, which was negative in 1982 (-0.4%), is expected to be +0.5% in 1983 and +1.5% in 1984. This recovery has three characteristics :

- the upturn is slow and, for example, significantly weaker than in the United States (+3.5% in 1983; 4.5% in 1984) and in Japan (+2.8% in 1983; +3.6% in 1984);
- it is unevenly distributed amongst the Member States; the average figure for the Community is largely due to the performance of the economy in Germany (+0.7% in 1983 and +2.1% in 1984) and in the United Kingdom (+2.8% in 1983 and +2.2% in 1984); but in five Member States growth is expected to be negative in 1983 and still weak in 1984;

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- it is fragile in that it is due mainly to rising private consumption, stock replenishment and a temporary increase in house-building. Investment and export demand will have contributed little in 1983; but in 1984 world imports could increase at a rate of some 3.5% in volume terms (0.1% in 1983), which will help to underpin the recovery.

B. The rise in unemployment slowed down in 1983, and even levelled off in the first half of the year. Two points must be made to qualify this statement :

- the initial levelling-off of unemployment towards the end of the first half of 1983 must be interpreted with caution; it is difficult to say whether, after three unbroken years of sharply rising unemployment, a change in trend has really occurred in the Community. Uncertainties remain as regards behaviour affecting the trend of activity rates and the labour supply in general, and as regards the possible effect of incipient economic recovery and specific employment measures on the demand for labour;

- both the level of unemployment (10.4% of the labour force in 1983) and the outlook for 1984 (around 10.9%) confirm that, in spite of the recovery which is beginning, the problem of unemployment remains serious and, consequently, the objective of reversing the present trend and then reducing the rate of unemployment must remain a central consideration in the formulation of economic policies.

C. Convergence in economic performance has improved significantly :

1. inflation has fallen rapidly : after years of sharp rises in consumer prices (11.2% in 1980, 10.1% in 1981 and 8.7% in 1982), inflation should be down to 6.3% in 1983 and is expected to fall to 5.6% in 1984.

These Community averages mask increased convergence between national rates of inflation: the spread in 1980 was from 5.5% (Germany) to more than 20% (Italy and Greece) and will narrow in 1983 to a range of 3% (Netherlands) to some 15% (Italy and Greece) and, in 1984, to a range of 3.5% (Germany) to some 11.5% (Italy), leaving aside Greece where inflation will still be 18.5%.

2. The Community's balance of payments on current account is gradually moving back into equilibrium; following deficits of 1.3% of GDP in 1980 and 0.6% in 1981 and 1982, equilibrium should be achieved in 1984 (deficit of 0.3% in 1983).

Here too, the wide divergences between Member States in 1981 and 1982 should be reduced, mainly because of a significant improvement in the balance of payments positions of Belgium, Denmark, France and Italy.

3. Lastly, the average level of general government borrowing requirements, while remaining high at around 5.4% of GDP in 1983, is tending to stabilize and could indeed be reduced to some 4.7% of GDP in 1984. The public debt burden accounts for a considerable proportion of the deficit: if net interest payments were excluded, the deficit would account for only 0.6% of GDP in 1984.

II. THE FACTORS OF UNCERTAINTY

The prospects for a lasting recovery with satisfactory stability are influenced by three factors, namely the international monetary and financial situation, the revival of investment and the strengthening of the Community's economic structures.

A. The instability of the international environment

(1) The level of interest rates, in real terms, is still too high, largely as a result of the fiscal policy pursued by the United States. Quite apart from the fact that it is not normal for the cost of money to be so high during a period when activity is picking up again, persistent high real interest rates are seriously handicapping the economies of the developing countries, where the burden of the external debt continues to stultify development potential. In addition, they could

affect the recovery in the industrialized countries, where a fall in interest rates is needed for the revival in investment that is crucial to a return to lasting growth.

(2) Similarly, exchange rates continue to fluctuate widely, at levels which do not reflect basic economic realities. This sort of situation inevitably encourages purely speculative activities that absorb an undue proportion of savings. It is also liable to provoke protectionist reactions; it is therefore a factor of uncertainty hampering the recovery in investment in the exporting sectors.

The sharp rise in the dollar during recent months has improved Europe's competitiveness vis-à-vis the United States; but since at the same time the yen and the currencies of the other South-East Asian countries have remained weak, the Community's real gains have been rather limited.

(3) Lastly, the question of international indebtedness : stabilization of the financial situation, accompanied by appropriate adjustment policies, the reinforcement of the financial resources and of the supervisory rôle of international institutions, and, above all, the strengthening of the recovery in the industrialized countries, are the main conditions for a lasting solution to this problem.

B. The revival of investment

Only a revival of investment, and especially productive investment, can sustain the recovery and gradually increase the potential rate of growth of the European economies¹, which has fallen from 4.7% per year over the period 1969-73 to some 2% over the period 1975-83. At the same time, investment as a proportion of GDP has fallen from 21% per year over the period 1971-80 to less than 19% in 1983.

¹ The potential rate of growth is defined as the rate of growth which can be achieved assuming maximum use of productive capacity.

The reinforcement of the Community's economic structures

The European economy has suffered a number of rude shocks over the last ten years : oil prices have tripled in six years; the labour force has grown on average by 0.8% per year; the international monetary system has been disrupted, whilst an immense international financial market has grown up which has facilitated massive capital movements; and competition from newly industrialized countries has considerably increased.

Generally speaking, Europe has reacted effectively to the shocks which have befallen the world economy. In the energy sector, for example, it has made significant progress in uncoupling essential energy consumption and GDP growth : the elasticity of energy consumption with respect to GDP growth fell from 1 in 1973 to 0.65 in 1981.

However, Europe lags behind its principal competitors (notably the United States and Japan) in certain fields which, by reason of their technical and technological content, will determine, in future, whether or not Europe can maintain and increase its market share : an improved performance in these fields would contribute, directly and indirectly, to strengthening the productive base of European economies and to the creation of viable employment.

For example, Community exports of plant and machinery over the period 1978-81 increased by only 5.2% per year in real terms compared with an increase in United States exports over the same period of 8.7% per year and in Japanese exports of 11.5% per year. The situation concerning the spread of new technologies is the same : at the end of 1982, for example, the number of robots in use stood at 3 000 in Germany, 1 000 in the United Kingdom, 750 in France and 600 in Italy, compared with 13 000 in Japan.

To sum up, although the European economy has begun a series of structural adaptations, it is still faced with the dual imperative of modernization and competitiveness, on which the solution of the employment problem largely depends. It is therefore still of paramount importance to continue, and in some fields step up, the process of adapting productive structures to the new conditions governing international competition and demand. This medium term action cannot be separated from that required to correct fundamental disequilibria (prices and balance of payments). Short-term economic policy and structural policy must be mutually coherent : they interact with each other.

III. ECONOMIC POLICY GUIDELINES

While economic developments in 1983 and the forecasts for 1984 firmly indicate that the corner is being turned, they also show that recovery so far is limited, patchy and hesitant.

The present upturn - the first since 1979 - must be consolidated as a first stage in re-establishing lasting and stable growth. However, the room for manoeuvre available to each Member State is limited and the influence of external uncertainties is powerful : organizing and establishing the conditions for a lasting recovery are, therefore, at least as important as the first signs of an improvement, perhaps short-lived, in the economic situation.

The attainment of this objective will require both coherent national economic policies and the full use of the Community framework.

A. Domestic economic policies

Economic policies in 1984 should be such as to :

- reaffirm the priority given to reducing the rate of inflation;
- establish the conditions for a progressive, lasting and stable revival of activity, especially by the introduction of policies which stimulate investment, in order to boost the confidence of producers, distributors and consumers;
- be credible, which means that these policies must be applied with determination; this implies, in particular, the establishment of realistic objectives, careful timing, and, if necessary, flexibility in application;
- within this framework, the growth of incomes must be compatible with the objective of restoring fundamental equilibrium and competitiveness.

1. In the budgetary field, the Member States have already initiated difficult adjustments without waiting for recovery to begin; these efforts must continue. At a time when the first successes are being won, priority must, indeed, continue to be given to the drive to reduce deficits and steadily bring down the share of output accounted for by public expenditure. This stance is necessary, both because of the economic effects of excessive deficits, on investment for example, and because of the high level of national debt in most Member States. However, budgetary policy should not be pursued without regard for the impact it may have on supply and demand. Account must be taken of economic developments when pursuing the clear objective of reducing deficits; for example, those countries which have made large strides in their adjustment process (in terms of inflation and external balance) and have modest public deficits should not try to make further inroads into those deficits too abruptly. Whatever the circumstances, in the event of a renewed deterioration in activity, the automatic stabilizers should be allowed free play.

2. In the monetary field, external factors continue to exert a strong influence. Experience shows, however, that a policy which gives priority to an easing of real interest rates, albeit at the cost of increased differentials in relation to rates obtaining on international markets, is feasible: so important is the need for a fall in interest rates to consolidate recovery that such a policy should be maintained provided that there is a continued slowdown in inflation. This approach means that monetary aggregates should be managed accordingly and, at the same time, that abrupt changes in monetary policy should be avoided.

B. The Community's contribution

1. As the experience of the last few years has shown, the close coordination of ~~economic policies at~~ Community level - both overall policies and those in specific fields like public finances - enhances their impact and boosts confidence. The EMS has become an essential frame of reference for the conduct of economic policies at Community level. It assists the processes of analysis, diagnosis and the agreed ordering of priorities; it is a direct, fundamental force for convergence and for the economic cohesion of the Community. In addition, the EMS has the effect of strengthening and amplifying the results of policies introduced in each Member State by emphasising the linkages between these policies within the Community. Strengthening the EMS would therefore be one means of making progress towards monetary stability, greater economic discipline and more effective policies.

On the international scene, exchange rate uncertainties, high interest rates and the consequences for the financial situation of heavily indebted countries, are still a very serious threat to the economic situation. International monetary and financial relations must, therefore, be stabilised. Recent developments like the undertaking by the United States and Japan on the rate of the yen confirm, as the Community has urged on many occasions, that national economies cannot cope with exchange rates that, for too long, are utterly divorced from basic economic realities. Member States must adopt, particularly in the discussions following the Williamsburg Summit, a tightly co-ordinated position on the need to organize concerted international action in the monetary field. It is most important that the Community should be committed to arriving at common positions and, if possible, to putting forward commonly agreed proposals in forthcoming discussions on such matters as the role of the IMF, the problems of liquidity creation and distribution, and on exchange rates.

2. The Community is an economic entity which, if used systematically, could have a direct and positive impact on current economic difficulties by providing a framework for joint initiatives designed to stimulate investment, to accelerate the adjustment process in European economies and to strengthen the competitive structures of Member States. The Commission has sent the Council a series of proposals for exploiting the Community's advantages, which discuss the following broad policy guidelines :

- bringing greater depth and substance to the single market in the broad sense (i.e. including standards), in order to give companies better conditions in which to develop at a higher level of productivity;
- a joint approach to the use and development of advanced technologies and more coherent organization of the means deployed by Member States, should increase the effect of measures to adjust production structures;
- a new impetus to the process of building an integrated financial market commensurate with the overall savings resources in the Community, as a means of harnessing, at lower cost and with greater efficiency, increased financial resources for the benefit of investment, especially in industry.

IV. UNEMPLOYMENT : PARTICULAR CONSIDERATIONS

Unemployment remains, the principal problem facing the Community. Even the prospect of moderate recovery in 1984 offers no hope for a fall in the rate of unemployment. In these circumstances, specific employment policy measures are therefore still necessary. They must have a direct and rapid effect on unemployment as the economy recovers.

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Vocational training programmes are a means, in particular, of attacking structural unemployment by adjusting skills to technological change. These programmes are of the greatest importance, especially for the young unemployed, and priority must be given to their further expansion.

The expansion of programmes of local measures can help to create, on a highly decentralized basis, new small businesses or new jobs in very small industrial and service sector companies. Such programmes should be given every encouragement, especially by the provision of advisory services covering management, tax matters and relations with officialdom.

The reduction and adaptation of working time is still at the top of the agenda in employment policy discussions, while all manner of measures affecting working time are being tried out. How far such measures will help to create lasting jobs will depend directly on how they are applied and especially on the extent to which they are accompanied by increased flexibility in the use of equipment and on their sensitivity to the requirement that companies remain competitive.

Amongst the different methods of reducing working time, early retirement schemes act directly on the number of unemployed. However, this type of measure must take into account the possible effects on the social security budget and demographic prospects.

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MAIN ECONOMIC INDICATORS FOR THE EUROPEAN COMMUNITY ⁽¹⁾

TABLE 1 : GROSS DOMESTIC PRODUCT (PERCENT. CHANGE AT CONSTANT PRICES OF PRECEDING YEAR, EC, 1970-1984)

	1970 - 1979	1979	1980	1981	1982	1983	1984
B	3.2	2.4	3.0	-1.8	1.0	-0.8	0.6
DK	2.8	3.7	-2.1	.1	3.4	2.2	1.2
D	2.9	4.1	1.8	-.2	-1.3	-.7	2.1
FR	4.8	1.7	1.8	-7.7	.0	-.4	1.5
F	1.6	3.2	1.3	.2	1.8	-0.3	.4
IRL	4.4	3.5	2.8	2.1	1.2	-.5	1.8
I	3.2	4.9	3.9	-2.2	-0.3	-0.8	1.5
L	3.1	4.0	1.7	-2.8	-1.1	-2.4	-1.0
NL	3.5	2.1	.9	-2.2	-1.6	.3	-.0
UK	2.2	1.6	-2.0	-2.0	1.5	2.8	2.2
EC	3.1	3.3	2.3	-.4	.4	.5	1.5

TABLE 2 : DEPLETION OF PRIVATE CONSUMPTION (PERCENT. CHANGE ON PRECEDING YEAR, EC, 1970-1984)

	1970 - 1979	1979	1980	1981	1982	1983	1984
B	6.7	3.8	7.0	8.8	7.4	7.8	5.5
DK	9.8	10.2	11.2	12.8	9.8	6.6	5.4
D	5.1	4.2	5.4	5.8	8.3	3.0	3.2
FR	11.5	17.5	22.2	24.4	21.2	20.5	18.5
F	9.6	10.6	13.3	12.9	10.9	8.0	7.2
IRL	12.3	14.2	17.5	19.5	17.1	11.0	8.8
I	13.1	15.0	20.3	19.0	16.7	15.0	11.5
L	5.3	5.8	7.7	7.7	10.0	8.4	7.7
NL	7.5	4.0	5.7	5.2	5.7	2.8	3.6
UK	12.1	13.2	16.4	11.0	8.0	5.7	5.8
EC	9.1	8.9	11.2	10.1	8.7	6.3	6.6

TABLE 3 : NUMBER OF UNEMPLOYED AS PERCENTAGE OF WORKING POPULATION (EC, 1970-1984)

	1970 - 1979	1979	1980	1981	1982	1983	1984
B	5.0	8.7	8.4	11.6	12.5	14.4	15.3
DK	3.3	5.3	5.1	3.3	3.7	10.7	11.8
D	2.5	3.4	3.4	4.7	6.8	8.8	8.7
FR	-	(2.2)	(2.8)	(1.2)	(8.1)	(7.8)	(8.7)
F	3.3	5.0	6.4	7.8	8.7	8.9	9.7
IRL	7.1	7.4	3.3	10.2	11.7	14.5	15.5
I	5.6	7.5	8.0	8.8	8.7	9.0	9.4
L	.2	.7	.7	1.0	1.2	1.8	2.4
NL	3.0	4.1	4.7	7.1	12.7	15.8	17.6
UK	4.0	5.0	6.4	8.6	11.1	11.7	11.9
EC	3.8	5.3	5.9	7.9	9.3	10.4	10.9

TABLE 4 : BALANCE OF CURRENT ACCOUNT (PER CENT OF GDP, EC, 1970-1984)

	1970 - 1979	1979	1980	1981	1982	1983	1984
B	.4	-2.7	-4.7	-4.2	-3.8	-2.4	-1.5
DK	-2.9	-4.7	-3.7	-3.1	-4.2	-2.2	-1.3
D	.9	-.4	-1.3	-1.0	.9	.9	.8
FR	-2.8	-2.9	-.9	-.2	-3.8	-5.0	-5.1
F	-.3	.0	-1.4	-1.4	-2.9	-1.8	-1.2
IRL	-4.2	-11.2	-10.0	-13.1	-8.3	-2.5	-.8
I	-.2	1.7	-2.4	-2.3	-1.5	-.4	-.7
L	22.5	28.3	22.6	31.1	38.8	37.2	35.3
NL	-1.3	-1.1	-1.5	2.2	2.7	3.3	4.4
UK	-.9	.0	1.8	2.4	3.5	-.2	-.2
EC	-.1	-.4	-1.3	-.6	-.6	-.2	.0

TABLE 5 : GENERAL GOVERNMENT LENDING OR BORROWING (-) AS PERCENTAGE OF GDP (EC, 1970-1984)

	1970 - 1979	1979	1980	1981	1982	1983	1984
B	-4.2	-6.8	-9.4	-12.6	-11.8	-12.2	-11.1
DK	.0	-3.1	-5.9	-7.0	-9.1	-8.8	-7.8
D	-1.5	-3.0	-3.5	-3.9	-3.5	-3.3	-2.1
FR	-4.4	-4.8	-5.4	-10.1	-6.4	-5.3	-6.3
F	-.8	-.8	.5	-1.8	-2.7	-3.1	-3.3
IRL	-8.5	-11.8	-12.8	-15.8	-15.2	-13.4	-11.9
I	-8.5	-9.5	-8.4	-11.7	-11.8	-11.9	-10.0
L	2.3	.1	-1.8	-2.3	-2.0	-2.9	-1.5
NL	-1.3	-2.0	-3.4	-4.2	-4.9	-6.7	-7.1
UK	-3.2	-3.3	-3.5	-2.9	-2.1	-2.2	-2.1
EC	-2.9	-3.8	-1.5	-5.2	-5.2	-5.4	-4.7

TABLE 6 : NEWEST SUPPLY W/MS (PERCENTAGE CHANGE AT END OF YEAR ON SAME MONTHS EARLIER, EC, 1970-1984)

	1970 - 1979	1979	1980	1981	1982	1983	1984
B	10.8	5.0	2.7	4.6	5.7	5.0	6.7
DK	11.0	3.9	10.9	9.6	11.7	12.5	7.3
D	10.1	6.0	8.2	5.0	7.1	7.5	5.5
FR	23.3	18.4	24.7	34.3	29.1	22.6	20.7
F	15.4	14.4	8.7	11.4	10.8	8.8	8.5
IRL	18.2	19.0	15.8	17.4	12.9	14.4	14.4
I	19.1	20.3	12.0	15.0	17.2	15.0	11.0
L	-	-	-	-	-	-	-
NL	11.6	7.6	3.5	5.2	7.8	3.5	6.0
UK	13.6	12.7	18.5	14.6	9.3	10.6	8.6
EC	10.9	11.9	10.8	10.8	10.7	10.1	7.8

(1) The figures shown in this table are taken from forecasts made in October. It is possible that growth in the United States, in 1984, will be greater than foreseen; the forecasts of current account balances (and, to a much lesser extent, of growth) could therefore be generally better for the Community than the figures shown in the above tables.

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BRIEF 11
ANNEX A.

Portuguese Embassy
11, Grosvenor Square,
London, SW1X 8PP

London, 31st October, 1983

My Dear Prime Minister,

I am writing to you in order to raise again the subject of the accession of Portugal to the E.E.C., a subject, to which my Government attaches paramount importance and, consequently, of the next summit meeting in Athens.

On the 28th March 1977 I had the honour of presenting on behalf of the Portuguese Government, the formal demand of Portugal to join the European Economic Community.

The presentation of this request marked the end of an era of political and social agitation in Portugal and was in itself a clear affirmation of my country's new political and economic options.

Five years have elapsed since the solemn opening of negotiations on the 17th October 1978. I regret having to state my disappointment now for the lack of political will that led to the slackening of a process which at the start had the general support of the E.E.C. member states and did not present, already at that time, any unsurmountable difficulties for its conclusion. I must tell you that my disappointment is also shared by all the portuguese who believe in Europe and in its prominent role in the shaping of World economic and political realities.

.../...

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We are well aware of the difficulties the Community has to face but we believe that they can easily be solved if the will to build a stronger Europe prevails over the narrow approach that makes the survival of great political designs dependent on short-term economic interests. As an old european nation, Portugal has the right to participate in the definition and resolution of all the problems which Europe will be confronted with. This is also, I think, in the interest of Europe.

We think that the reinforcement of the European idea cannot be achieved without the strengthening of the solidarity between the North and the South of Europe, through a dialogue that pays due attention to the peculiarities and the specific problems of the different parts of Europe. We think therefore that, although accepting that the accession of Portugal and Spain could be simultaneously effective, that is to say on the 1st of January 1986, Portugal's treaty of accession should be signed earlier than Spain's, and already during the first half of 1984, as the portuguese dossiers do not present any difficulties for rapid conclusion. This would be the logical result of the separate consideration of each candidature and its appreciation on its own merits, in accordance with the provisions of the Treaty of Rome.

The portuguese people are going through a period of restraint meant to overcome a serious economic crisis. It is our duty to show now to the portuguese public opinion the new roads leading to the future, which cannot actually be defined if we do not know whether we can pursue the previously chosen trend which aimed at full E.E.C. membership or, failing that start in a different direction if Europe refuses us. It is now imperative to know if we are really going to join "Europe", under what conditions and when.

Every historical option has a proper time for its fulfilment. The time for the fulfilment of Portugal's european option is gradually coming to an end. It would be an error, in which we are not ready to incur, to further delay the necessary decisions in this matter. Portugal hopes that a decision

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.../3

will be taken soon because we cannot lose the opportunity to start in a different direction.

We want to be part of a politically and economically coherent Europe, and therefore we are waiting for an unequivocal answer and steps forward from the E.E.C. countries. The Athens Summit and the subsequent months should bring forth the completion of this process.

Yours sincerely,

s) Mario Soares
Prime Minister of Portugal

The Rt. Hon. Margaret Thatcher, MP
Prime Minister,
10 Downing Street,
London, S.W.1.

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10 DOWNING STREET

THE PRIME MINISTER

8 November, 1983

My dear Prime Minister,

Thank you for your letter of 31 October. I am glad to have this chance to reiterate the strength of British support for Portuguese accession and our determination to see democracy in Europe consolidated with the accession of your country to the European Community as soon as possible.

I sympathise with your sense of frustration at the sometimes slow and tortuous progress of your negotiations with the Community. These have in fact made considerable progress; I am particularly glad to see that, following the recent agreement among the Agriculture Ministers on the reform of arrangements for Mediterranean fruit and vegetables, the way is now clear for the Community to get down to serious discussion of the agricultural transitional arrangements with Portugal.

The post-Stuttgart negotiations are obviously of importance for Portugal, since these will change the Community for years to come. Our interest in an outcome which will ensure that no Member State is asked to bear a financial burden disproportionate to its means, and that agricultural expenditure is brought under effective control seems to me to coincide with points which you yourself have raised in your negotiations with the Community. We are doing all we can to bring these negotiations to an early and satisfactory conclusion, to put an end to the Community's internal debate and thus to lay a firm foundation for the essential task of enlargement.

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/Like you,

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- 2 -

Like you, we have always believed that the Portuguese and Spanish negotiations should be conducted entirely separately and on their respective merits. We share your hope that your negotiations will be completed during the first half of 1984, with the aim of signing a Treaty as soon as possible thereafter. We should like to see the Spanish negotiations brought to a successful conclusion in a similar timescale and we sympathise with the wish of both Spain and Portugal to enter the Community on 1 January, 1986. That is what we shall be working for.

Yours sincerely

Raymond Holden

His Excellency Dr. Mario Soares

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ECA/E/

W/S

Mr. Nisbaid

S: C. T. Chalk

10 DOWNING STREET

From the Private Secretary

18 November 1983

Dr. Henry

S.E.A.

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BRIEF II
ANNEX B

Dear Roger,

Spanish accession to the European Community

I enclose a copy of a message which the Ambassador of Spain delivered to No. 10 this afternoon.

I should be grateful if you could arrange to let me have a draft reply in due course.

I am copying this letter and enclosure to John Kerr (H.M. Treasury), Robert Lowson (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

Yours ever

the Secy.

[Handwritten signature]
[Handwritten signature]

Roger Bone, Esq.,
Foreign and Commonwealth Office.

Dear Prime Minister,

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The six years that have elapsed since the 28th July 1977, when Spain presented her request to accede to the European Community, have shown clearly that the obstacles which have arisen during the negotiations are basically derived from the problems that exist within the Community itself.

Aware of this situation, the European Council of Heads of State and Government have examined these problems at successive meetings, aiming to make an effort at the highest level to carry forward both the internal reform of the Community and its enlargement.

At the meeting held in Stuttgart last June, the European Council took an important decision on this point, when it agreed that the "negotiations for accession with Spain and Portugal should proceed with the aim of concluding them in such a manner that the Treaties of Accession might be submitted for ratification at the time that the results of the negotiations on the future financing of the Community are submitted".

The Stuttgart Summit, therefore, established a connection between these two processes, so that in future no thought can be given to the true reform of the Community without at the same time carrying out its enlargement. Briefly, as from Stuttgart the solution of the Community crisis and its enlargement are but two facets of the same political project: the necessary revitalising of the construction of Europe.

The best proof of the willingness of the Community Countries to build Europe lies precisely in their capacity to carry out its enlargement, including those European countries which, like Spain, wish to participate fully in this historic task.

The Spanish Government has repeatedly stated that the accession to the European Communities is a prime objective of its foreign policy. This opinion is shared by the General Cortes, which have also defined Spain's integration within the Community as a national matter.

My Government, therefore, looks to a clear attitude on the part of the Member States and of the Community Institutions which will make possible within a reasonable period of time Spain's integration into the European Communities. Anything else would be a grave historical responsibility on the part of the Community towards the Spanish people.

You may be sure that Spain will never renounce her legitimate aspiration to participate in the building of Europe. Nevertheless, as President of the Spanish Government I am concerned that frustration may take over my country's public opinion, which has serious doubts regarding the existence of a true political will on the part of the Community to see the completion of the Accession procedure.

For this reason, and due to the proximity of the European Council to be held in Athens, I have decided to write to you with the aim of establishing exactly the position of your Government on this matter, and to what extent I can look for a positive response at the forthcoming Summit.

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I hope that in overcoming existing difficulties the Athens European Council will take decisions that will enable the negotiations for Accession to be concluded during the course of the coming year, and that in this way our integration within the Community may become a definite fact on the 1st January 1986.

For my part, I think the moment has arrived to give practical effect to the many expressions of political will made by the Community Members at the highest level.

In any event, I should be most grateful if your reply could be as frank and precise as possible. I wish to know clearly the attitude of each and every one of the Governments, and of the Community as a whole, in order that I may report with exactitude to the Spanish people and take the decisions that are shown to be necessary.

I avail myself, Prime Minister, of this opportunity to assure you of my highest consideration.

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29 November 1983

EUROPEAN COUNCIL, ATHENS

4-6 DECEMBER 1983

POLITICAL COOPERATION

Briefs by Foreign and Commonwealth Office

The following Political Cooperation briefs are attached:

Brief (a) Arab/Israel

(b) Iraq/Iran

(c) East/West Relations (including CDE)

(d) Latin America

(e) Falklands/Argentina

Cyprus is covered in a separate brief (Brief No 12A).

FOREIGN AND COMMONWEALTH OFFICE

30 November 1983

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ARAB/ISRAEL

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To ensure that any statement on the Middle East concentrates on the key issues in Lebanon and to avoid unrealistic mandate for any follow-up action by Presidency/Ten.

POINTS TO MAKE

Lebanon

2. Failure to restore stability in Lebanon has consequences for all Ten, not just those directly involved in Multinational Force. US inevitably has leading role. But need to examine what constructive action Ten can take.

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3. Glad that parties agree on need for statement on Lebanon. No objection to mention of wider Middle East issues. But should not obscure key issues in Lebanon on which progress urgently needed: national reconciliation and withdrawal of foreign forces.

4. Important not to cut across US action and to show sensitivity to US/Israeli concerns about Israel/Lebanon agreement. Statement and any action by Ten should be designed to nudge Syrians/Israelis/Lebanese parties in the right direction. Some distancing between Ten and US positions in Lebanon probably inevitable.

5. (If Presidency or others press for follow-up action by the Ten). Presidency should first explain terms of statement to parties concerned. Further action by the Ten should be carefully considered in light of reactions.

6. (Reconstruction - if raised). Ready to participate in Ten's contribution to reconstruction in due course, within the limits of our resources.

Arab/Israel

7. Need to breath life into peace process, but outlook bleak. Stagnation puts moderate Arabs, especially

Jordan, in a difficult position. Need to consider how to persuade US of danger of neglecting peace process in an election year. Reagan plan must not be allowed to wither on the vine.

8. Difficult to forecast next steps until fate of Arafat clear. If he survives he is unlikely to be strong enough to resume talks with King Hussein on joint approach. Possible struggle are legitimacy of Syrian backed PLO.

9. Recall of Jordanian Parliament. Hussein not yet committed, but seems determined to go ahead. Syrian hostility guaranteed. He will look for support from moderate Arabs before using Parliament as springboard for mandate to negotiate on behalf of Palestinians. Arab support doubtful.

BACKGROUND

- A: Draft Ten statement on Lebanon, revised in the light of partners' comments.
- B: Draft conclusions of meeting of Ten Foreign Ministers. Brussels, 22 November (COREU CPE/MUL/ETR 4536)
- C: UKREP Brussels telno 4067 recording discussion at same meeting.

Lebanon

10. Reconciliation talks. First session

(Geneva, 31 October - 4 November) made some progress, agreeing inter alia:

i) on a formula confirming Lebanese Arab identity and commitment to Arab League Charter;

ii) to mandate President Gemayel to 'make the necessary international contacts to end the Israeli occupation' (a way of sidestepping the 17 May US-sponsored Israel/Lebanon agreement, which the Syrians and their clients in the Lebanese opposition refuse to accept);

iii) to submit proposals for constitutional and other reform to a preparatory commission, for discussion at the next round of talks.

11. Talks now in recess to allow President Gemayel to consult American, European and Arab leaders. He has already seen King Fahd and Signor Craxi and will visit Washington on 1 December for talks with President Reagan. Meeting with President Assad of Syria postponed due to latter's illness. Short working visit to UK likely in mid-December. Second session of reconciliation talks now unlikely to begin before mid-December, but preparatory commission has reached fair degree of consensus on

difficult subject of constitutional reform.

12. The meeting of the Ten Foreign Ministers in Brussels on 22 November (at which Mr Rifkind represented the UK) briefly considered a UK draft of a possible statement by the European Council, concentrating on the key issues in Lebanon on which compromise by all parties was needed if progress was to be made. All agreed that the European Council should say something on Lebanon, and with the UK arguments that this should be designed to (A) respond to the wish of many Arab governments that the Ten should be more active; (B) define the Ten's position on Lebanon and its place in the wider Middle East context and (C) provide the basis for a balanced programme of activity by the Ten if considered desirable.

13. Some, naturally the French, had reservations about the contents of the UK paper. A revised draft which takes account of partners' comments is attached (Annex A). A final draft will be produced by Political Directors in the margins of the European Council. The Greeks and French, have pressed for a statement which puts stress on the need for progress on the wider Arab/Israeli issues. While we can accept some mention of

the wider issues, it is the need for progress on national reconciliation and withdrawal of foreign forces from Lebanon which should be emphasised. The idea would be to confront each party with its responsibilities, as the Ten saw them.

14. The Americans, with whom we have discussed our ideas in confidence, are unhappy. Shultz is particularly concerned that any statement now risks taking pressure off Syria and has urged that specific mention should be made of the Israel/Lebanon agreement. The Americans appear determined to uphold this agreement, despite all parties at the reconciliation talks at Geneva in November having agreed on an improvised formula which effectively puts the agreement on one side (without abrogating it). We have told the Americans that although we welcomed the agreement at the time, others in the Ten have deliberately distanced themselves from it and that the Americans cannot seriously expect the Ten to go beyond the formula agreed at Geneva by the Lebanese themselves. The Israelis have also stressed the need for public statements of support for the agreement. Despite any plea President Gemayel may make during his visit to Washington the Americans are likely to refuse to consider an alternative basis for the withdrawal of foreign

forces. Some public expression of differences between the Ten and the US on this point is probably inevitable.

15. The Greeks and others may press for immediate follow-up action by the Ten. The most sensible course of immediate action would be for the Presidency to explain the thinking behind the Ten's statement to the parties concerned, including the Americans.

16. PLO. Fighting between Arafat Loyalists and PLO rebels supported (logistically at least) by Syria has been raging around the Lebanese port of Tripoli for several weeks. The latest mediation attempt has, however, secured a ceasefire: the Saudi/Syrian peace plan calls for the withdrawal of all Palestinian forces from Tripoli and talks between the opponents to restore the unity of the PLO. The Ten made a statement on 9 November deploring the violence, calling for a cessation of hostilities, and reaffirming their commitment to the Palestinians right to self-determination as part of a Middle East settlement. On 23 November a Security Council resolution was unanimously passed, repeating the call for a cessation of hostilities.

17. Recall of Jordanian Parliament. King Hussein has

been giving thought to the idea of recalling the Jordanian Parliament. The Parliament was prorogued in 1974 following the Rabat Summit resolution that the PLO was the sole legitimate representative. The King could expect strong opposition to a recall particularly from Syria. Given the risks involved for Hussein, the Prime Minister was careful not to express specific support for the move in a letter to him on 21 November. We would no doubt wish to be supportive, however, should the King decide on a recall.

Foreign and Commonwealth Office

29 November 1983

LEBANON

OUTLINE OF POSSIBLE STATEMENT BY THE TEN

Preamble

1. The Ten would:

- (a) recall previous statements by the Ten, with particular reference to Security Council Resolution 509 and subsequent calls by the Lebanese Government and the international community for the withdrawal of all foreign forces
- (b) recognise the right of Israel to security for her Northern border and legitimate Syrian security concerns, but emphasise that neither can be met at the expense of Lebanese security and independence.
- (c) emphasise that the re-establishment of normal conditions in Lebanon is essential, not only for its own sake, but also to remove a primary obstacle to the achievement of a just, lasting and comprehensive settlement in the Middle East.

2. In the Ten's view, the restoration of peace in Lebanon requires that all parties concerned agree to a balance of concessions on the following principles:

(a) Withdrawal of forces.

Stability in Lebanon cannot be achieved while foreign forces occupy three quarters of Lebanese territory. The withdrawal of these forces is therefore required, in a phased sequence preferably with set time-limits in accordance with terms and conditions agreed between Lebanon and its neighbours. Due regard will have to be paid to international verification of the withdrawals and agreed security arrangements; the Ten would also call upon all sides to release any prisoners held before or when they withdraw, and on the Arab League to organise the reception of Palestinian fighters from Lebanon in the territories of Arab states;

(b) National reconciliation.

The Ten would call upon the parties in Lebanon to respond positively to the invitation of the President of Lebanon to press forward the process of national reconciliation to a conclusion permitting the establishment in Beirut of a Government exercising authority throughout the territory of Lebanon and speaking for all its people. The Ten would also

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ask the Lebanese Government to accept, as an interim measure pending resolution of the Palestinian problem, that all Palestinian civilians now in Lebanon have the right to remain and enjoy appropriate rights while remaining fully subject to Lebanese laws.

(c) Withdrawal of the multinational force would take place within the same general timeframe. Urgent consideration should be given to the possibility of a wider mandate for UNIFIL which might be used firstly in the disengagement of Israeli and Syrian forces and then in security arrangements needed to ensure their swift withdrawal.

3. Subsequent arrangements.

The Ten would make clear their readiness to participate within the limits of their possibilities in subsequent arrangements necessary to consolidate the restoration of peace in Lebanon. These would include guarantees for the security and territorial integrity of Lebanon and her neighbours following the completion of the withdrawal process and help for reconstruction.

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ANNEX B

ARAB/ISRAEL

OBJET: PROJET DE RELEVÉ DE CONCLUSIONS DE LA 51ÈME
REUNION MINISTERIELLE DE COOPERATION POLITIQUE,
TENUE A BRUXELLES LE 22 NOVEMBRE 1983.

LA PRESIDENCE TRANSMET CI-APRES LE PROJET DE RELEVÉ DE
CONCLUSIONS DE LA 51ÈME REUNION MINISTERIELLE DE COOPERATION
POLITIQUE, TENUE A BRUXELLES LE 22 NOVEMBRE 1983:

1. CHYPRE

LES MINISTRES ONT EU UN ECHANGE DE VUES SUR LA SITUATION
CREEE A LA SUITE DE LA DECLARATION UNILATERALE D'INDEPENDANCE
DE LA PARTIE NORD DE LA REPUBLIQUE DE CHYPRE ET DE SA RECONNAIS-
SANCE PAR LA TURQUIE.

SE REFERANT A LA DECLARATION DES DIX DU 15 NOVEMBRE 1983, A
LA RESOLUTION DU PARLEMENT EUROPEEN DU 17 NOVEMBRE 1983 ET A
LA RESOLUTION 541 DU CONSEIL DE SECURITE DU 16 NOVEMBRE 1983,
LES MINISTRES ONT ETE UNANIMES A REITERER LEUR REFUS DE RECONNAITRE
LE FAIT ACCOMPLI. ILS ONT DECIDE DE POURSUIVRE LES EFFORTS
DEJA ENGAGES EN VUE DE DISSUADER D'AUTRES ETATS DE PROCEDER A
UNE TELLE RECONNAISSANCE. LA COMMISSION SOUMETTRA AU CONSEIL DES
MINISTRES, POUR SA REUNION DU 28 NOVEMBRE, UN RAPPORT SUR LES
IMPLICATIONS DE CETTE NON-RECONNAISSANCE SUR LES RELATIONS ECONO-
MIQUES ET COMMERCIALES DE LA COMMUNAUTE AVEC LA PARTIE OCCUPEE
DE LA REPUBLIQUE DE CHYPRE. ENTRETEMPS, LES ETATS-MEMBERS ONT
MANIFESTE LEUR VOLONTE DE NE PAS ADMETTRE L'IMPORTATION DES
PRODUITS PROVENANT DE CETTE PARTIE ET AYANT COMME PROVENANCE LA
((REPUBLIQUE TURQUE DE CHYPRE DU NORD)).

2. MOYEN ORIENT

LES MINISTRES ONT EXPRIME LEUR GRAVE PREOCCUPATION DEVANT
LA DETERIORATION DE LA SITUATION AU LIBAN ET EN PARTICULIER SUR
LE SORT TRAGIQUE DES POPULATIONS CIVILES, TANT LIBANAISES QUE
PALESTINIENNES. ILS ONT ESTIME QU'IL CONVENAIT A TOUT PRIX D'EVITER
LE RETOUR D'EVENEMENTS TELS QUE CEUX DE SABRA ET CHATILAH. ILS
SONT CONVENUS DE DEMANDER AU COMITE POLITIQUE QUI SE REUNIRA EN
MARGE DU CONSEIL EUROPEEN D'ATHENES, D'EXAMINER LA SITUATION AU
MOYEN ORIENT ET D'ENVISAGER UNE INITIATIVE QUI POURRAIT ETRE
PRISE PAR LES DIX A CE CONSEIL EUROPEEN.

LES.

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LES MINISTRES ONT EGALEMENT EVOQUE UNE CONTRIBUTION DES DIX A LA MISE EN OEUVRE DE LA RESOLUTION 540 DU CONSEIL DE SECURITE DES NATIONS UNIES CONCERNANT LE CONFLIT ENTRE L'IRAN ET L'IRAQ. CETTE QUESTION POURRAIT ETRE EGALEMENT EXAMINEE LORS DU PROCHAIN CONSEIL EUROPEEN.

3. RELATIONS EST-OUEST

LES MINISTRES ONT EU UN ECHANGE DE VUES SUR LES RELATIONS EST-OUEST, ET ONT EVOQUE EN PARTICULIER LA SITUATION EN POLOGNE, EN CONSTATANT QU'ELLE DEMEURE FONCIEREMENT INCHANGEE DEPUIS LEUR DERNIERE REUNION. ILS SONT TOUT DE MEME, CONVENU QU'IL SERAIT OPPORTUN, TOUT EN EVITANT EN PRINCIPE LES CONTACTS POLITIQUES SAUF A L'OCCASION DES REUNIONS INTERNATIONALES, DE REPRENDRE LES CONTACTS AU NIVEAU DES HAUTS FONCTIONNAIRES SANS POUR AUTANT QUE CECI PUISSE ETRE INTERPRETE COMME UN SIGNAL POLITIQUE IMPORTANT.

S'AGISSANT DE LA CONFERENCE PREPARATOIRE A LA CDE QUI S'EST TENUE A HELSINKI, LES MINISTRES SE SONT FELICITES DU RESULTAT DE CETTE CONFERENCE QUI A PU ETRE OBTENU GRACE A L'ESPRIT DE COOPERATION MANIFESTE PAR TOUTES LES PARTIES. COMPTE TENU DE L'IMPORTANCE QUE LES DIX ATTACHENT A LA CONFERENCE DE STOCKHOLM, PLUSIEURS MINISTRES ONT DEJA FAIT PART DE LEUR INTENTION DE PARTICIPER A SON OUVERTURE.

4. AMERIQUE LATINE

AMERIQUE CENTRALE-CARAIBES

LES MINISTRES ONT EVOQUE LES EVENEMENTS DE GRENAD E ET LEURS CONSEQUENCES DANS L'ENSEMBLE DE LA REGION.

ILS ONT ENVISAGE UNE COLLABORATION POLITIQUE ET ECONOMIQUE PLUS ETROITE ENTRE LES DIX ET L'AMERIQUE CENTRALE. CETTE QUESTION SERA EVOQUEE LORS DU CONSEIL DES MINISTRES DU 29 NOVEMBRE, ET ENSUITE AU CONSEIL EUROPEEN D'ATHENES.

ARGENTINE

LES MINISTRES ONT EXPRIME LEUR SATISFACTION POUR LE RETABLISSEMENT DE LA DEMOCRATIE EN ARGENTINE. LA PLUPART DES DIX SERONT REPRESENTES A UN HAUT NIVEAU A LA CEREMONIE D'INVESTITURE DU PRESIDENT ALFONSIN.

CHILI

IL A ETE CONSTATE QUE LA SITUATION AU CHILI CONTINUAIT A SE DETERIORER. LES MINISTRES ONT EXPRIME LEUR REPROBATION DEVANT LA POURSUITE DES GRAVES VIOLATIONS DES DROITS DE L'HOMME DANS CE PAYS. CETTE AFFAIRE DEVRAIT EGALEMENT ETRE EXAMINEE PAR LE CONSEIL EUROPEEN.

15.

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ARAB/ISRAEL

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FROM UKREP BRUSSELS 221630Z NOV 83
TO IMMEDIATE FCC

TELEGRAM NUMBER 4067 OF 22 NOVEMBER 1983

INFO IMMEDIATE WASHINGTON NEW DELHI (FOR SECRETARY OF ~~STATES PARTY~~)

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INFO SAVING LISBON MADRID STRASBOURG OSLO ANKARA OTTAWA WELLINGTON.

MEXICO CITY BAHRAIN DUBAI TRIPOLI ABU DHABI ADEN ALGIERS SANA

RABAT KUWAIT DOHA KHARTOUM MUSCAT TEHRAN TOKYO

EUROPEAN POLITICAL COOPERATION: MEETING OF MINISTERS:
BRUSSELS 22 NOVEMBER

MIDDLE EAST

SUMMARY

1. POSITIVE REACTION FROM MOST PARTNERS TO UK IDEA OF STATEMENT OF PRINCIPLES ON LEBANON BY EUROPEAN COUNCIL: ONLY FRENCH LUKE+WARM. GENERAL FEELING THAT ANYTHING SAID ON LEBANON SHOULD BE SET IN WIDER MIDDLE EAST CONTEXT. NO DETAILED DISCUSSION OF TEXT WHICH IS TO BE FINALISED BY POLITICAL DIRECTORS IN MARGINS OF EUROPEAN COUNCIL ON 4-5 DECEMBER.

2. FRENCH SUGGESTION THAT EUROPEAN COUNCIL SHOULD ALSO CALL FOR IMPLEMENTATION OF U.N. SECURITY COUNCIL RESOLUTION 540 ON IRAN/IRAQ.

DETAIL

3. HARALAMBOPOULOS (PRESIDENCY) NOTED THAT POSSIBILITIES FOR COMMON ACTION BY THE TEN ON LEBANON WERE VERY LIMITED. ISRAEL WAS NOT INCLINED TO RENEGOTIATE THE 17 MAY AGREEMENT. SYRIA WAS DETERMINED TO BRING THE PALESTINIAN MOVEMENT UNDER HER CONTROL. THE CONFLICT IN TRIPOLI WAS TRAGIC AND THE DISAPPEARANCE OF ARAFAT WOULD HAVE UNFORESEABLE CONSEQUENCES. ONE WAY OUT MIGHT BE TO REVIVE A "GLOBAL" APPROACH TO THE ARAB/ISRAEL DISPUTE BY ATTEMPTING TO COMBINE THE REAGAN AND FEZ INITIATIVES. THIS PRESUPPOSED SUFFICIENT POLITICAL WILL BY THE INSTIGATORS OF BOTH PLANS. THE TEN COULD HELP WITH DIPLOMATIC ACTIVITY. AFTER INITIAL CONSIDERATION OF THE IDEAS PUT FORWARD BY THE UK POLITICAL DIRECTORS COULD BE ASKED TO PRODUCE A TEXT OF A POSSIBLE STATEMENT IN THE MARGINS OF THE EUROPEAN COUNCIL.

4. MR RIFKIND (UK) SAID THERE WERE TWO ISSUES FACING THE TEN: THE CURRENT EVENTS IN TRIPOLI, AND THE LONGER TERM QUESTION OF WHAT POSITION THE TEN SHOULD ADOPT ON LEBANON AND THE MIDDLE EAST. THE FIGHTING IN TRIPOLI MIGHT CONCLUDE SHORTLY. THE OVERRIDING OBJECTIVE FOR THE TEN SHOULD BE TO DO WHATEVER WAS POSSIBLE TO ENSURE THAT THE NEED FOR PROTECTION OF PALESTINIAN CIVILIANS WAS PROPERLY RECOGNISED SO AS TO AVOID ANY REPETITION OF THE SABRA AND SHATILA MASSACRES.

5. AS FOR THE LONGER TERM, THERE WAS A CLEAR EXPECTATION THAT THE EUROPEAN COUNCIL SHOULD SHOW ITS CONCERN ABOUT THE MIDDLE EAST. FOLLOWING THE DISCUSSION AMONG POLITICAL DIRECTORS ON 14/15 NOVEMBER THE UK SAW VALUE IN A STATEMENT OF PRINCIPLES. THE OBJECTIVES OF SUCH A STATEMENT WOULD BE:

- (A) TO RESPOND TO THE WISH OF MANY ARAB GOVERNMENTS THAT EUROPE BE MORE ACTIVE;
- (B) TO DEFINE MORE CLEARLY THE TENS OBJECTIVES ON LEBANON AND ON ITS PLACE IN THE WIDER MIDDLE EAST CONTEXT;
- (C) TO PROVIDE THE BASIS FOR A BALANCED PROGRAMME OF DIPLOMATIC ACTIVITY IF THIS WAS CONSIDERED DESIRABLE.

THERE WAS NO INTENTION OF CUTTING ACROSS INITIATIVES FROM OTHER SOURCES EG UNITED STATES. BUT THERE WAS NO REASON WHY THE TEN SHOULD NOT PUT FORWARD THEIR OWN IDEAS. MR RIFKIND DESCRIBED THE MAIN ELEMENTS OF THE UK PROPOSAL (TEXT BEING SENT SEPARATELY TO POSTS WHO HAVE NOT YET RECEIVED IT). ONE DIFFICULT AND DELICATE POINT WAS HOW TO ADDRESS THE ISRAEL/LEBANON AGREEMENT OF 17 MAY WHICH WAS OF MAJOR AND CONTROVERSIAL CONCERN TO SOME PARTIES IN THE AREA. THE FORMULA IN PARAGRAPH 2A OF THE PAPER ("WITHDRAWAL OF FORCES.....IN ACCORDANCE WITH TERMS AND CONDITIONS AGREED BETWEEN LEBANON AND ITS NEIGHBOURS") WAS DELIBERATELY CHOSEN TO PROVIDE FLEXIBILITY ON HOW THE 17 MAY AGREEMENT SHOULD BE TAKEN INTO ACCOUNT. THE UK WOULD WELCOME THE VIEWS OF PARTNERS ON THIS POINT AND ON THE OTHERS COVERED IN THE BRITISH DRAFT. THE TEN WOULD ALSO NEED TO CONSIDER WHETHER THERE SHOULD BE ANY DIPLOMATIC FOLLOW-UP.

6. ~~BARRY~~ (IRELAND) THOUGHT THE UK PAPER VERY USEFUL. IRELAND COULD SUPPORT IT, SUBJECT TO SOME POINTS OF DRAFTING WHICH COULD BE DISCUSSED BY POLITICAL DIRECTORS. THE SITUATION IN TRIPOLI WAS CHANGING QUICKLY BUT IRELAND AGREED ON THE NEED TO ENSURE THE RIGHTS AND SAFETY OF PALESTINIAN CIVILIANS. THE TEN SHOULD KEEP THEIR SIGHTS FIXED ON 2 THINGS: THE WITHDRAWAL OF ALL FOREIGN FORCES AND THE STRENGTHENING OF THE LEBANESE GOVERNMENT. IN THE COMING YEAR THE ROLE OF THE TEN COULD BE CRUCIAL AS THE US BECAME INCREASINGLY PREOCCUPIED WITH PRESIDENTIAL ELECTIONS.

7. ~~BOTTAI~~ (ITALY) AND SCHAUER (FRG) BOTH AGREED THAT THE EUROPEAN COUNCIL SHOULD MAKE A STATEMENT ON THE MIDDLE EAST. BOTH WELCOMED THE UK PAPER. BOTH HAD SOME AMENDMENTS TO PROPOSE AND AGREED THAT A FINAL DRAFT SHOULD BE PRODUCED BY POLITICAL DIRECTORS IN THE MARGINS OF THE EUROPEAN COUNCIL.

8. ANDREANI (FRANCE) THOUGHT THAT THE EUROPEAN COUNCIL MIGHT NOT BE IN A POSITION TO DEAL WITH IMMEDIATE EVENTS IN TRIPOLI, WHICH MIGHT WELL BE OVER BY THEN. BUT IT WAS UNTHINKABLE THAT THE COUNCIL SHOULD MEET WITHOUT SAYING SOMETHING ON THE MIDDLE EAST. THE QUESTION WAS WHETHER THE TEN SHOULD CONFINE THEMSELVES TO ANOTHER GENERAL STATEMENT, WHICH WOULD PROBABLY BE IGNORED, OR GO FURTHER IN MAKING SPECIFIC PROPOSALS, WHICH WOULD RISK BEING REJECTED BY THE PARTIES IF THEY DID NOT DOVETAIL WITH THE REALITIES ON THE GROUND. HE FOUND THE BRITISH IDEAS "INTERESTING" AND A STEP IN

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THE RIGHT DIRECTION. THE REFLECTION. THERE WERE A NUMBER OF POINTS ON WHICH THE TEN DIFFERED FROM THE UNITED STATES. THE TEN WERE, FOR EXAMPLE, A PARTY TO THE ISRAEL/LEBANON AGREEMENT ON WHICH MUCH OF THE PRESENT CONTROVERSY HINGED; THEY WERE THEREFORE IN A POSITION TO PROPOSE A FORMULA FOR GETTING ROUND THAT PROBLEM. THE TEN COULD NOT SPEAK ABOUT LEBANON WITHOUT MENTIONING THE REST OF THE MIDDLE EAST, INCLUDING THE PALESTINIAN PROBLEM. SONNER OR LATER THE TEN WOULD HAVE TO COME TO GRIPS WITH THE REAGAN AND FEZ PLANS. THEY SHOULD CONSIDER TAKING UP SOME OF THE IDEAS IN THE EUROPEAN COUNCIL STATEMENT OF 29 JUNE 1982. THE IDEAS CONTAINED IN THE FRANCO/EGYPTIAN INITIATIVE IN THE SECURITY COUNCIL MIGHT ALSO BE REVIVED.

9. ANDREANI ALSO SUGGESTED, ON CHEYSSON'S INSTRUCTIONS, THAT A EUROPEAN COUNCIL STATEMENT SHOULD MAKE SOME REFERENCE TO IRAN/IRAQ. FRANCE HAD BEEN ACTIVE IN GETTING A U.N. SECURITY COUNCIL RESOLUTION ADOPTED WHICH WAS BALANCED AND TOOK ACCOUNT OF THE VIEWS OF BOTH SIDES. IRAN HAD NOT (NOT) DEFINITELY REJECTED IT. THE FRENCH WERE URING THE U.N. SECRETARY-GENERAL TO PURSUE HIS EFFORTS. THE TEN SHOULD LIKEWISE USE THEIR INFLUENCE TO GET THE RESOLUTION APPLIED.

10. TINDEMANS (BELGIUM) WELCOMED UK IDEAS ON LEBANON. THIS WAS A GOOD FORMULA FOR ADDRESSING THE IMMEDIATE PROBLEM WITHOUT IGNORING THE WIDER ISSUES. IT WOULD ALSO BREAK WITH THE 'PLATONIC RITUAL' OF EMPTY STATEMENTS BY THE TEN. THERE WAS A RISK OF REJECTION BY THE PARTIES CONCERNED. THE TEN NEEDED TO CONSIDER WHETHER DIPLOMATIC ACTIVITY WAS NEEDED BEFORE OR AT THE SAME TIME AS THE EUROPEAN COUNCIL STATEMENT: HE WAS SURE THE UK HAD SOME IDEAS ON THIS AS WELL.

11. SUMMING UP, HARALAMBOPOULOS SAID THAT IT WAS AGREED THAT THE UK DRAFT SHOULD BE STUDIED FURTHER. MEMBER STATES WOULD HAVE AMENDMENTS TO SUGGEST. ANY STATEMENT SHOULD REFER NOT ONLY TO LEBANON BUT ALSO TO THE WIDER MIDDLE EAST ISSUES. THE TEXT WOULD BE FINALISED BY POLITICAL DIRECTORS IN THE MARGINS OF THE EUROPEAN COUNCIL. THE TEN SHOULD NOT CONFINE THEMSELVES TO A STATEMENT BUT MAKE CONCRETE PROPOSALS WHICH MIGHT THEN BE FOLLOWED UP, AS THE TEN'S CONTRIBUTION TO RESTORING PEACE IN THE MIDDLE EAST.

FCO ADVANCE TO:-

FCO - PS/MR LUCE MR EGERTON MR LONG (NENAD)

FCO PASS SAVING TO LISBON MADRID STRASBOURG ANKARA OSLO TOKYO
OTTAWA WELLINGTON MEXICO CITY BAHRAIN DUBAI TRIFOLI ABU DHABI
ADEN ALGIERS SANAA RABAT KUWAIT DOHA KHARTOUM MUSCAT TEHRAN

BUTLER

SIR J LEAHY

LIMITED

SIR J BULLARD

NENAD

MR EGERTON

MIED

MR HANNAY

ECDE(E)

SIR C TICKELL

PS

PS/MR LUCE

3
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IRAN/IRAQ

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To promote a positive expression of the Ten's wish to see an end to the war and support for SCR 540, while avoiding the appearance of supporting either belligerent.

POINTS TO MAKE

2. UK anxious to see an early end to this conflict. At present negotiated settlement unlikely. Immediate aim to prevent escalation to attacks on economic targets, particularly those belonging to third countries. Any involvement of other regional state or super powers undesirable - outcome uncertain.

3. Concerned by recent attacks on neutral maritime targets, including Greek shipping, and Iraqi threat to use Scud B missiles against Kharg Island because of the danger of retaliation which could affect third countries. Such attacks, whether successful or not in military terms, could have immediate, and dire, repercussions, on spot prices and thus on the prospects for economic recovery for the West.

/UN Security Council Resolution 540

UN Security Council Resolution 540 (Annex A)

4. Adoption of UN Security Council Resolution 540 has not solved Gulf crisis. Important that both belligerents observe its provisions in practice, even if Iran has objections to principle. Do not accept Iraqi claim that Iranian offensive in Kurdistan breaches the Resolution, which applies to Gulf only.

Statement by European Council

5. General endorsement by Council of UNSC 540 by itself will not enhance immediate prospects for a settlement. A statement could have restraining influence on both parties, if it is expanded to include specific reference to the need to avoid attacks on civilian targets and neutral shipping, and emphasises scope for action by UN Secretary General. Latter is attracted by Iranian suggestion that a second Mission of Enquiry should investigate attacks on civilian targets (and the accusations of use of chemical weapons). May be scope in enlarging its mandate to assess extent of and to value damage.

Other Matters [If raised]

Views of Gulf States

6. Gulf States reluctant to appear dependent on US military support. But have made it clear that they regard maintenance of freedom of navigation through Straits of Hormuz as a Western responsibility. In last resort, would expect military assistance from US and other Western countries. Gulf defence co-operation is in its infancy. [If pressed: We would naturally consider any requests for help from our Gulf friends sympathetically, bearing in mind the limits of our capacity to respond.]

/Freedom of Navigation in the Gulf

Freedom of Navigation in the Gulf

7. UK concerned to preserve safe passage of neutral shipping. Would deplore action by either belligerent which threatened this.

World Oil Market

8. The oil market remains fragile. Escalation in the Gulf war could lead to sharp price rises threatening world economic recovery. However, in the longer term we hope that market will absorb any problems without serious threat.

Iranian Position

9. Iran has backed off noticeably in statements on Straits of Hormuz. Rafsanjani (Speaker of Iranian Parliament) has made it clear that Iran would only act if majority of its oil exports were blocked. Iran has also concentrated offensive action in areas a long way from Gulf, and has refused to retaliate against Iraqi attacks on civilian targets. [If raised: Iran's involvement in Lebanese bombing outrages has not been proved, though circumstantial evidence is strong. Officially, Iran has denied responsibility.]

BACKGROUND

References/Annexes

- A: UN Security Council Resolution 540
- B: Presidency Statement at the UN General Assembly on 1 September 1983
- C: Statement by European Council on 22 March 1983

Statement by European Council

10. At the meeting of Ministers on European Political Cooperation on 22 November, France suggested that a European Council statement should make reference to UN Security Council Resolution 540. The French were urging the UN Secretary-General to pursue his efforts and the Ten should likewise use their influence to implement the Resolution. Similar representations have been made by the Iraqis to our Embassy in Baghdad.

French Views

11. France wishes to encourage UNSG to be more active. France is a firm supporter of Iraq, has \$4 billion plus of export credit at risk and a major arms market. The French aimed at securing a Resolution which they expected would be rejected by Iran, thereby providing Iraq with a justification for the possible use of Super Etendard aircraft equipped with Exocet against oil tankers and cargoes from Iran. France resisted attempts to achieve a balanced resolution, and was not as M Cheysson claimed on 22 November, a neutral between the two belligerents. Anything stemming from a French initiative will probably be anathema to Iran which was particularly incensed by the international

/community's

community's failure to condemn Iraqi attacks on Iranian civilian targets.

Presidency View

12. The Greeks in general tilt towards Iraq, but have not abused their Presidency position in discussions on this subject. In a recent visit to France, Mr Papandreou deplored the 'accident' by which a Greek freighter was sunk in the Gulf after being struck by an Exocet missile. Greek shipping owners have lost several vessels in the war, and may be becoming alarmed at the prospects of further attacks.

The Rest of the Ten

13. Other partners are careful to maintain a neutral position in the war and periodically express the hope that it can be settled peacefully by negotiations on a basis acceptable to both sides. Italy and the FRG have particularly good export markets in Iran.

The War

14. The Iranian offensive launched on 19 October has recovered some previously Iraqi-occupied Iranian territory and has occupied a relatively large area of Iraq (700 sq kms.) Casualties may have been heavy. Iran's main aim is likely to have been to maintain the military initiative and reinforce pressure on Iraq's weakening economy. Iraq's counter-attacks have not met with success, and Iraqi forces have now evacuated the town of Panjwin after reducing it to rubble. Renewed Iranian efforts on 20 November. Fighting is continuing.

/6. The main

15. The main Iraqi response has been long-range Scud B missile attacks on Iranian towns, principally Dezful, Masjid-e-Suliman and Behbahan, which the Iranians allege caused several hundred civilian deaths and many more casualties. Iraq also announced on 20 October that the approaches to Iran's northern Gulf port of Bandar Khomeini had been mined. Greek ships have been hit on 31 October and 21 November, probably by helicopter-fired Exocet missiles. Iraqi attacks have severely reduced the number of vessels entering Bandar Khomeini; Iran has admitted that two of its own vessels have also been hit.

United Nations

16. UN Security Council on 31 October affirmed the right of free navigation in the international waters around the Gulf and called upon Iran and Iraq to accept a ceasefire in the Gulf area (Resolution 540). UK voted in favour of this French-inspired resolution in the interests of Western solidarity, despite serious misgivings about the way the exercise had been handled by the French. There were three non-aligned abstentions. Iranian representative at the UN, Rajai, said that by adopting SCR 540 the Council had lost its chance and his Government was no longer prepared to listen to it, but that the UNSG still had a useful role to play.

17. Iranians wish to persuade the UN Secretary General to send another Mission to the area to look at civilian damage and particularly to investigate the evidence of Iraq's use of chemical weapons. The Secretary General is apparently keen on

/the idea

the idea but has yet to secure Iraqi agreement.

Delivery of Super Etendards

18. Iraqi Foreign Minister announced on 2 November that aircraft had arrived in Iraq in October. M Cheysson, French Minister for External Affairs, confirmed this on 8 November.

Iraqi Intentions

19. Iraq has threatened to carry out Scud B ground-to-ground missile attacks of Kharg Island, and to use the Super Etendards against tankers carrying Iranian oil in the Gulf. Iraqi aim seems to be to goad Iran into some form of retaliation in the Gulf that might involve the West in the conflict.

Oil Supplies

20. Current exports of crude oil through the Straits of Hormuz are about 9 million barrels per day (mbd) against total free world consumption of about 44 mbd. Estimated overall deficiency resulting from a complete closure would be at least 4 mbd.

21. Such a shortfall could trigger the International Energy Agency's (IEA) emergency sharing system which, coupled with international agreements on demand restraint measures, should contain physical supply problems. But price would almost inevitably be affected.

FOREIGN AND COMMONWEALTH OFFICE

29 November 1983

UNITED
NATIONS

NBR 022/1.

S



Security Council

Distr.
GENERALS/RES/540 (1983)
31 October 1983

RESOLUTION 540 (1983)

Adopted by the Security Council at its 2493rd meeting
on 31 October 1983

The Security Council,

Having considered again the question entitled "The situation between Iran and Iraq",

Recalling its relevant resolutions and statements which, inter alia, call for a comprehensive cease-fire and an end to all military operations between the parties,

Recalling the report of the Secretary-General of 20 June 1983 (S/15834) on the mission appointed by him to inspect civilian areas in Iran and Iraq which have been subject to military attacks, and expressing its appreciation to the Secretary-General for presenting a factual, balanced and objective account,

Also noting with appreciation and encouragement the assistance and co-operation given to the Secretary-General's mission by the Governments of Iran and Iraq,

Deploring once again the conflict between the two countries, resulting in heavy losses of civilian lives and extensive damage caused to cities, property and economic infrastructures,

Affirming the desirability of an objective examination of the causes of the war,

1. Requests the Secretary-General to continue his mediation efforts with the parties concerned, with a view to achieving a comprehensive, just and honourable settlement acceptable to both sides;

2. Condemns all violations of international humanitarian law, in particular, the provisions of the Geneva Conventions of 1949 in all their aspects, and calls for the immediate cessation of all military operations against civilian targets, including city and residential areas;

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S/RES/540 (1983)

Page 2

3. Affirms the right of free navigation and commerce in international waters, calls on all States to respect this right and also calls upon the belligerents to cease immediately all hostilities in the region of the Gulf, including all sea-lanes, navigable waterways, harbour works, terminals, offshore installations and all ports with direct or indirect access to the sea, and to respect the integrity of the other littoral States;

4. Requests the Secretary-General to consult with the parties concerning ways to sustain and verify the cessation of hostilities, including the possible dispatch of United Nations observers, and to submit a report to the Council on the results of these consultations;

5. Calls upon both parties to refrain from any action that may endanger peace and security as well as marine life in the region of the Gulf;

6. Calls once more upon all other States to exercise the utmost restraint and to refrain from any act which may lead to a further escalation and widening of the conflict and, thus, to facilitate the implementation of the present resolution;

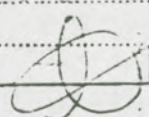
7. Requests the Secretary-General to consult with the parties regarding immediate and effective implementation of this resolution.

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1.9.1983 10.55 LT

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YES.....

NO

OBJET : UNGA PRESIDENCY SPEECH (MIDDLE EAST)

THE PRESIDENCY CIRCULATES THE TEXT OF THE UNGA PRESIDENCY SPEECH ON THE MIDDLE EAST AND THE WAR BETWEEN IRAN AND IRAQ AS REVISED BY THE MIDDLE EAST WORKING GROUP AT ITS LAST MEETING. IT IS OBVIOUS THAT THE TEXT WILL HAVE TO BE AMENDED AND/OR COMPLETED IN THE LIGHT OF DEVELOPMENTS BETWEEN NOW AND THE DELIVERY OF THE SPEECH.

QUOTE

THUS, IN THE MIDDLE EAST THE CONSEQUENCES OF THE ISRAELI INVASION OF LEBANON ARE STILL WITH US. THE TEN, WHO HAVE VIGOROUSLY CONDEMNED THIS INVASION, WISH TO REAFFIRM THEIR SUPPORT FOR THE SOVEREIGN AND INDEPENDENT STATE OF LEBANON AND FOR ITS GOVERNMENT, WHICH SHOULD URGENTLY BE ENABLED TO REESTABLISH, WITHOUT RESTRICTIONS, ITS AUTHORITY OVER THE WHOLE OF THE TERRITORY OF THE COUNTRY. THE TEN ALSO SUPPORT THE EFFORTS OF THE LEBANESE GOVERNMENT TO REBUILD A NATIONAL CONSENSUS AND BEGIN THE ENORMOUS TASK OF RECONSTRUCTION. NEVERTHELESS, IT IS THEIR CONVICTION THAT NONE OF THIS CAN BE ACCOMPLISHED WITHOUT THE COMPLETE AND PROMPT WITHDRAWAL OF ALL FOREIGN FORCES FROM ITS TERRITORY EXCEPT FOR THOSE WHOSE PRESENCE MAY BE REQUIRED BY THE LEBANESE GOVERNMENT. THE AGREEMENT OF LAST MAY BETWEEN LEBANON AND ISRAEL CAN CONTRIBUTE TO THIS AIM WITHIN A WIDER CONTEXT THAT COULD MEET WITH THE CONCURRENCE OF THE OTHER INTERESTED PARTIES. IN THIS RESPECT, THE TEN EXPRESS THE HOPE THAT THE PARTIAL WITHDRAWAL OF ISRAELI FORCES WILL BE THE FIRST STEP TOWARDS FULL WITHDRAWAL OF ISRAEL FROM LEBANON AS CALLED FOR IN THE RELEVANT UNITED NATIONS SECURITY COUNCIL RESOLUTIONS. MEANWHILE, THE TEN ALSO WISH TO EXPRESS THEIR CONCERN ABOUT THE SAFETY OF LEBANESE AND PALESTINIAN CIVILIANS.

A DIRECT CONSEQUENCE OF THE STALEMATE IN LEBANON IS THAT NO PROGRESS HAS BEEN MADE TOWARDS THE SOLUTION OF THE BROADER ARAB-ISRAELI CONFLICT. IT IS THE VIEW OF THE TEN THAT PEACE WILL NOT PREVAIL UNLESS THE SECURITY AND LEGITIMATE INTERESTS OF ALL STATES AND PEOPLES ARE TAKEN INTO ACCOUNT. TO BE MORE SPECIFIC, A LASTING PEACE CAN ONLY BE BUILT ON THE RIGHT TO A SECURE EXISTENCE FOR ALL STATES IN THE REGION, INCLUDING ISRAEL, AND JUSTICE FOR ALL PEOPLES, INCLUDING THE RIGHT OF THE PALESTINIAN PEOPLE TO SELF-DETERMINATION WITH ALL THAT THIS IMPLIES. THESE RIGHTS MUST BE MUTUALLY RECOGNISED BY THE PARTIES THEMSELVES. NEGOTIATIONS WILL HAVE TO EMBRACE, THEREFORE, ALL THE PARTIES CONCERNED, INCLUDING THE PALESTINIAN PEOPLE, AND THE P.L.O. WILL HAVE TO BE ASSOCIATED WITH THEM. THE THREAT OR USE OF FORCE MUST BE RENOUNCED BY ALL.

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/A WAY

A WAY TO PEACE WAS INDICATED BY PRESIDENT REAGAN'S INITIATIVE OF 1 SEPTEMBER 1982, AND THE ARAB SUMMIT MEETING AT FEZ DEMONSTRATED A READINESS FOR IT. IT IS NOW URGENT TO MOVE BEYOND STATEMENTS OF PRINCIPLE AND FIND A MEANS TO RECONCILE AND IMPLEMENT THE VARIOUS PEACE PROPOSALS. THE TEN LOOK TO THE ARAB STATES TO SUPPORT ANY EFFORT TOWARDS MEETING THESE PRINCIPLES BY POLITICAL MEANS. THEY CONSIDER, ABOVE ALL, THAT THE TIME HAS COME FOR ISRAEL TO SHOW THAT IT STANDS READY FOR GENUINE NEGOTIATIONS ON THE BASIS OF SECURITY COUNCIL RESOLUTIONS 242 AND 338, IN THE FIRST PLACE BY REFRAINING FROM ENLARGING EXISTING SETTLEMENTS OR CREATING NEW ONES IN BOTH THE WEST BANK AND GAZA. THESE SETTLEMENTS ARE CONTRARY TO INTERNATIONAL LAW AND A MAJOR AND GROWING OBSTACLE TO PEACE EFFORTS. EQUALLY CONTRARY TO INTERNATIONAL LAW AND THEREFORE INVALID ARE THE ISRAELI DECISIONS CONCERNING EAST JERUSALEM AND THE GOLAN HEIGHTS. I SHOULD LIKE TO STRESS, IN THIS CONTEXT, THE VERY SERIOUS CONCERN OF THE TEN AT ISRAEL'S POLICIES IN THE OCCUPIED TERRITORIES AND AT THE DISTRESS OF THE PALESTINIAN CIVILIAN POPULATION THAT THESE POLICIES ENTAIL.

FOR THEIR PART THE TEN ARE CLOSELY ASSOCIATED WITH EFFORTS TOWARDS PEACE IN THE MIDDLE EAST, AS DEMONSTRATED, AMONG OTHER THINGS, BY THEIR CONTINUING SUPPORT OF THE PEACE KEEPING ROLE OF THE UN AND THE MULTINATIONAL FORCES. HAVINWOT HICHNXSUOYITME IFMUQAXSSE OF THE AREA, THEY INTEND TO MAINTAIN THEIR CONTACTS WITH ALL PARTIES AND TO USE THEIR INFLUENCE TO ENCOURAGE MOVEMENTS TOWARDS COMPROMISE AND NEGOTIATED SOLUTIONS.

THE TEN STRONGLY DEPLORE THE LACK OF PROGRESS TOWARDS THE SOLUTION OF THE IRAN-IRAQ CONFLICT, WHICH CONSTITUTES A SERIOUS THREAT TO THE STABILITY OF THE REGION AND INTERNATIONAL SECURITY AND ENTAILS HEAVY SUFFERING FOR THE TWO PEOPLES INVOLVED. IN THIS RESPECT, THEY URGENTLY APPEAL TO THE TWO BELLIGERENTS TO SPARE THE CIVILIAN POPULATION AND TO ABIDE BY ALL INTERNATIONAL CONVENTIONS APPLICABLE IN TIME OF WAR. THEY DEEPLY REGRET THAT NONE OF THE PEACE INITIATIVES UNDERTAKEN HITHERTO HAS SUCCEEDED IN BRINGING THE FIGHTING TO AN END. THEY TAKE THIS OPPORTUNITY TO CALL ONCE MORE FOR A CEASE-FIRE, THE CESSATION OF ALL MILITARY OPERATIONS AND THE WITHDRAWAL OF FORCES TO INTERNATIONALLY RECOGNIZED FRONTIERS AND FOR A JUST AND HONOURABLE SETTLEMENT, NEGOTIATED IN ACCORDANCE WITH THE RESOLUTIONS OF THE UNITED NATIONS SECURITY COUNCIL AND ACCEPTABLE TO BOTH PARTIES. (THE TEN CONFIRM THEIR READINESS, IF REQUESTED BY BOTH PARTIES, TO PARTICIPATE IN THE EFFORTS AIMING AT RESTORING PEACE IN THE AREA).

UNQUOTE

FROM THE STRUCTURAL POINT OF VIEW, THE PARAGRAPH ON
IRAN-IRAQ WILL PRECEDE THE PASSAGE ON AFGHANISTAN.

FIN DE TEXTE
ATH COREU

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TELEGRAM NUMBER 1231 OF 20 MARCH 1983
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NSP 0-1-1

EUROPEAN COUNCIL, BRUSSELS, 21/22 MARCH 1983

FOLLOWING ARE EUROPEAN COUNCIL CONCLUSIONS ON MIDDLE EAST

1. THE EUROPEAN COUNCIL DISCUSSED THE SITUATION IN THE MIDDLE EAST, INCLUDING LEBANON AND THE WAR BETWEEN IRAN AND IRAQ.
2. THE TEN ARE DEEPLY DISTURBED BY THE CONTINUED LACK OF PROGRESS TOWARDS PEACE BETWEEN ISRAEL AND HER ARAB NEIGHBOURS. THEY ARE CONVINCED THAT ALL PARTIES MUST SEIZE THE PRESENT OPPORTUNITY TO ACHIEVE THE TWO MOST URGENT OBJECTIVES: THE WITHDRAWAL OF ALL FOREIGN FORCES FROM LEBANON AND A RESUMPTION OF NEGOTIATIONS AIMED AT A COMPREHENSIVE PEACE SETTLEMENT.
3. THE TEN REAFFIRM THEIR SUPPORT FOR THE SOVEREIGN AND INDEPENDENT STATE OF LEBANON AND FOR ITS GOVERNMENT, WHICH SHOULD URGENTLY BE ENABLED TO RE-ESTABLISH WITHOUT RESTRICTIONS ITS AUTHORITY OVER THE WHOLE OF ITS TERRITORY. THIS REQUIRES THE PROMPT WITHDRAWAL OF ISRAELI, SYRIAN AND PLO FORCES. THE TEN SUPPORT THE EFFORTS OF THE UNITED STATES TO ACHIEVE THIS OBJECTIVE. THEY CALL ON ALL CONCERNED TO CONCLUDE NEGOTIATIONS WITHOUT FURTHER DELAY. THEY CONTINUE TO SUPPORT THE PEACEKEEPING ROLE OF UN AND MULTINATIONAL FORCES IN LEBANON.
4. THE PRINCIPLES WHICH UNDERLIE THE TEN'S APPROACH TO WIDER PEACE NEGOTIATIONS, AS SET OUT IN MORE THAN ONE PREVIOUS STATEMENT, REMAIN VALID. A LASTING PEACE CAN ONLY BE BUILT ON THE RIGHT TO A SECURE EXISTENCE FOR ALL STATES IN THE REGION INCLUDING ISRAEL, AND JUSTICE FOR ALL THE PEOPLES, INCLUDING THE RIGHT OF THE PALESTINIAN PEOPLE TO SELF-DETERMINATION WITH ALL THAT THIS IMPLIES. THESE RIGHTS MUST BE MUTUALLY RECOGNISED BY THE PARTIES THEMSELVES. NEGOTIATIONS WILL HAVE TO EMBRACE ALL THE PARTIES CONCERNED INCLUDING THE PALESTINIAN PEOPLE: AND THE PLO WILL HAVE TO BE ASSOCIATED WITH THEM. THE THREAT OR USE OF FORCE MUST BE RENOUNCED BY ALL.
5. PRESIDENT REAGAN'S INITIATIVE OF 1 SEPTEMBER 1982 INDICATED A WAY TO PEACE, AND THE ARAB SUMMIT MEETING AT FEZ DEMONSTRATED A READINESS FOR IT. THE TASK NOW IS TO MOVE BEYOND STATEMENTS OF PRINCIPLE AND FIND A MEANS TO RECONCILE AND IMPLEMENT THE VARIOUS PEACE PROPOSALS. THE CONCLUSIONS OF THE RECENT MEETING OF THE PALESTINE NATIONAL COUNCIL CAN AND SHOULD CONTRIBUTE TO THE PEACE PROCESS. THE TEN THEREFORE WELCOME THE DISCUSSIONS BETWEEN JORDAN

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AND

PRECEDENT OPPORTUNITY BY DECLARING THE CEASE-FIRE PART OF PEACE NEGOTIATIONS. THIS WOULD BE A MAJOR STEP FORWARD, TO WHICH THE TEN WOULD EXPECT ALL CONCERNED TO RESPOND CONSTRUCTIVELY.

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6. THE TEN LOOK TO THE ARAB STATES TO PLAY THEIR PART BY SUPPORTING THOSE WHO SEEK A SOLUTION TO THE DEMANDS OF THE PALESTINIAN PEOPLE BY POLITICAL MEANS.

7. THE EFFORTS OF THE US WILL CONTINUE TO BE INDISPENSABLE TO CREATE THE CONDITIONS IN WHICH NEGOTIATIONS CAN BEGIN.

8. ABOVE ALL THE TIME HAS COME FOR ISRAEL TO SHOW THAT IT STANDS READY FOR GENUINE NEGOTIATIONS ON THE BASIS OF SECURITY COUNCIL RESOLUTIONS 242 AND 338, IN THE FIRST PLACE BY REFRAINING FROM ENLARGING EXISTING SETTLEMENTS OR CREATING NEW ONES. THESE SETTLEMENTS ARE CONTRARY TO INTERNATIONAL LAW AND A MAJOR AND GROWING OBSTACLE TO PEACE EFFORTS.

9. THE MIDDLE EAST IS A REGION WITH WHICH THE TEN HAVE LONG BEEN CLOSELY ASSOCIATED AND IN WHOSE FUTURE THEY HAVE A DEEP INTEREST. THEY INTEND TO MAINTAIN THEIR CONTACTS WITH ALL THE PARTIES AND TO USE THEIR INFLUENCE TO ENCOURAGE MOVEMENT TOWARDS COMPROMISE AND NEGOTIATED SOLUTIONS. THEY BELIEVE THAT THIS IS IN THE BEST INTEREST OF THE COUNTRIES AND THE PEOPLES OF THE REGION, OF THE TEN THEMSELVES AND OF THEIR MUTUAL RELATIONS.

10. THE TEN EXPRESSED ONCE AGAIN THEIR GROWING CONCERN AT THE CONTINUED CONFLICT BETWEEN IRAQ AND IRAN, WHICH CONSTITUTES AN EVER MORE SERIOUS THREAT TO THE SECURITY AND STABILITY OF THE ENTIRE REGION.

11. THE TEN DEEPLY REGRET THAT NONE OF THE PEACE INITIATIVES ORGANISED HITHERTO HAS SUCCEEDED IN BRINGING THE FIGHTING TO AN END. THEY CALL FOR A CEASE-FIRE, THE CESSATION OF ALL MILITARY OPERATIONS AND THE WITHDRAWAL OF FORCES TO INTERNATIONALLY RECOGNISED FRONTIERS: AND FOR A JUST AND HONOURABLE SETTLEMENT NEGOTIATED IN ACCORDANCE WITH THE RESOLUTIONS OF THE UN SECURITY COUNCIL AND ACCEPTABLE TO BOTH PARTIES.

FCC ADVANCE TO:-

FCC - HD NENAD

FCC PASS SAVING STRASBOURG LISBON MADRID UKDEL NATO BUTLER

REPEATED AS REQUESTED

MIDDLE EAST

STANDARD

NENAD	MAED
MED	ESSD
NAD	ERD
SAD	ESID
UND	CONS D
EESD	CONS EM UNIT
ECD	MR EGERTON
WED	MR THOMAS
RID	MR HAYES
SEC D	CABINET OFFICE

ADDITIONAL DISTRIBUTION

ARAB/ISRAEL DISPUTES

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EAST/WEST RELATIONS (INCLUDING CDE)

OBJECTIVES

1. To compare assessments of Soviet aims, and emphasise need for a closely coordinated and consistent East/West policy for the Ten.
2. To counter any allegations that East/West relations are in a state of imminent crisis and to underline the need for realism in what it may be possible to achieve in improving East/West relations in 1984.

POINTS TO MAKE

Management of East/West Relations

3. Period of strained relations inevitable and expected. Aim of INF walk-out and Andropov's statement of 24 November to divide US from Europe and Western peoples from their own governments.

4. Key to our approach must remain: a) consistent and measured policies; and b) close coordination with Allies and Partners with emphasis on Western Unity. Should take care not to echo Soviet assertions that (i) East/West relations are in crisis, (ii) this is result of US policy.

5. Need to talk to the East as part of Copenhagen policy "Firmness and Dialogue". High level contacts can help put over Western views directly and prevent misunderstandings. Have announced visit to Hungary early in 1984.

6. But should be realistic about our expectations. Building confidence will be a long term process and depends more on Soviet Union than West.

Andropov

7. Not seen in public since mid-August. But fact that statement of 24 November on INF walk out was issued in his name implies that he is still operational. With or without him, decisions will continue to be taken by consensus.

Poland

8. Need coordinated and consistent long term strategy, not event orientated, if Western influence in Poland to be effectively exerted.

Afghanistan

9. Fifth UN vote shows unflagging international concern. Welcome UN Secretary-General's efforts to bring about Soviet withdrawal. Pakistanis standing firm. Vital to maintain public awareness of issue. Hope to mark fourth anniversary of invasion with coordinated EC and national statements (27 December)..

CSCE/CDE

10. Madrid not the end of the story. Important now to maintain pressure on Soviet Union and East European countries through CSCE process using Madrid Final Act.

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Human rights remain a priority. Committed to CDE: important forum for East/West discussion post INF deployment. But here too need to be realistic about how much can be achieved quickly.

11. No decision yet on level of UK representation at CDE opening (17 January 1984). Support ministerial representation (Foreign Ministers or their deputies), but will want to take others' intentions into account. What are others' intentions? Shultz? Gromyko and East European ministers?

BACKGROUND

Management of East/West Relations

12. Russians can now be expected to maximise efforts to isolate US and appeal direct to European public opinion. Aim of Andropov's statement of 24 November to strike responsible posture and to demonstrate that Soviet response is reasonable and justified by self defence. Letters to leaders of three European basing states intended to put pressure on them through bilateral channels.

13. European/Soviet contacts may become more frequent. FRG/Soviet exchanges continue. Gromyko may visit Bonn in January. Possible that Mitterrand may aim for

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summit in 1984. Might be worth sounding warning about Soviet skill at exploiting visits for wedge-driving purposes.

Andropov

14. Andropov's absence from parade on 7 November (which Brezhnev attended every year) a significant setback. Nothing known of his illness: possibilities include bronchial infection, kidney or heart problems. If his illness is permanently incapacitating, this will certainly affect both Andropov's drive for greater economic efficiency and Soviet flexibility in foreign policy. But consensus decision making established under Brezhnev will continue.

Poland

15. Recent developments confirm Jaruzelski's continued consolidation of control in Poland. Ten's Foreign Ministers at Athens on 12 September agreed on desirability of reengaging Western influence, and on gradual resumption of contact starting at official/technical level. Premature to consider resumption of formal contacts at ministerial level.

16. Rescheduling: negotiations resumed between Poles and Western Creditors in Paris on 16/17 November.

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First meeting made no progress: Poles insisted that no repayments could be made until West grants IMF membership and new export credits, and ends trade sanctions. Indications that they might be more forthcoming at next meeting in late January. We are seeking to persuade US to make a less specific link between rescheduling and political liberalisation.

Afghanistan

17. At fifth UN General Assembly debate on Afghanistan, 21-23 November, Pakistani resolution calling for immediate withdrawal of foreign (ie Soviet) troops was adopted by a record majority of 96 (116-20-17). Pakistan Foreign Minister's statement reaffirmed Pakistan's commitment to principled settlement. But UN indirect talks remains blocked by Soviet refusal to agree a specific timetable for withdrawal. Pakistanis have agreed to UN Secretariat proposals for a memorandum of understanding covering ground discussed at the talks so far. The Karmal regime's position is not known. Cordovez may return to the area in the New Year.

18. Plans this year to mark fourth anniversary of Soviet invasion on 27 December with Presidency and national statements.

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CSCE/CDE

19. Further meetings have been agreed before the next follow-up conference in Vienna in 1986: Conference on Confidence and Security Building Measures and Disarmament in Europe (CDE), opening in Stockholm on 17 January, meeting of experts on human rights in Ottawa beginning in April 1985, and experts meeting on Human contacts in Berne in 1986.

20. In first phase of CDE, signatories of Helsinki Final Act will attempt to negotiate set of confidence and security building measures (CSBMs) designed to reduce the risk of military confrontation in Europe. In NATO view, these must essentially consist of exchange of information and the establishment of patterns of military behaviour which would lower fears of surprise attack. Actual arms limitation or reduction will not be discussed at this stage.

21. East, which generally dislikes increased inspection and verification, is likely to launch a set of declaratory proposals (non-use of force, freezes, nuclear weapon free zones etc).

22. NATO is primary focus for coordinating Western proposals. However EC consultation is also necessary since Ireland, whose support we seek, is not member of

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NATO.

23. Several EC partners (FRG, France) and others (Canada) are anxious for high level representation at CDE opening to show Western continued commitment to serious arms control negotiations with the East. Shultz however is apparently reluctant to go since he wants to avoid a further "sterile" meeting with Gromyko. We have told our EC and NATO partners that we support Ministerial representation, but have not decided yet on level. Others' intentions will effect our final decision, which is likely to be taken after consultation with the Americans and others in margins of NATO ministerial meeting on 8/9 December.

Foreign and Commonwealth Office

30 November 1983

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LATIN AMERICA

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To work for balanced language on Chile. To resist ill-considered initiatives towards Central America.

POINTS TO MAKE

2. Fully share concern about human rights violations in Chile and need for early return to democracy.
3. Right to repeat our concern publicly. But to encourage return to democracy in Chile best to use moderate language. If we can balance concern with acknowledgement of legitimate improvements, this will strengthen hand of moderates.
4. Grave doubts about European initiative towards Central America. Danger of cutting across US efforts. Cannot contemplate increase in already generous aid to Central America while greater priorities exist.

/5.

5. Where doubts exist about US policy towards Central America, continue to believe that private persuasion, rather than public criticism, is the most productive course.

BACKGROUND

References

- A: CPE/MUL/ETR 4536 : Presidency Report of POCO Ministerial meeting on 22 November.
- B: CPE/MUL/ETR 4568 : UK's suggested amendments.
- C: UKREP Brussels telegram no 4112 of 23 November : report of COREPER meeting on EC/Central America.

CHILE

Statement by European Council

6. The French suggested a statement on Chile in October and again in November. We expressed reservations on both occasions, arguing there was no reason for singling out Chile. At the Foreign Ministers meeting on 22 November (CPE/MUL/ETR 4536) the Presidency, supported by the Dutch, reverted to the idea. The French then suggested a wider statement on Latin America, to include Argentina, Chile, Central America and the neutrality of Costa Rica.

Internal Political Situation

7. Some 50 people have been killed and thousands arrested since May in the anti-government protests. In August the

/Government

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Government announced a number of concessions and thus seized the initiative but since then there has been increasing doubt as to whether the Government is genuinely concerned to move towards democracy. Unless they show further goodwill, political tension may well increase.

8. The State of Emergency in force since 1973 was lifted in August (although a state of internal disturbance, under which similar powers are available to the Government, is still in force). The Commission for the Study of Constitutional Organic Laws was abolished thus simplifying and accelerating the process for the consideration of these laws; and the Government released the names of over 3,000 political exiles allowed to return. The Interior Minister, Jarpa, also opened a dialogue with the opposition Democratic Alliance.

9. Since then the atmosphere has soured. Following reiteration by Pinochet and Jarpa of the Government's commitment to the 1980 constitution, the Alliance have accused the Government of breaking off the dialogue. The Government have also come under criticism in recent weeks for announcing that no further lists of exiles will be issued and introducing a new system which places the onus on exiles to approach the authorities if they wish to return to Chile. In October, President Pinochet pushed through a new state security law making the organisers of protest responsible for the consequences.

/10.

10. The continued momentum behind the opposition movement was demonstrated by the most recent day of protest on 18 November, when the Democratic Alliance supported by the Popular Democratic Movement (MDP) held a mass meeting with Government approval attended by some 150-250,000 people.

UK Attitude

11. We were associated with three EC démarches in July and August. We also subscribed to the Presidency's statement expressing grave concern at the régime's behaviour during the August days of protest. We joined in the EC boycott of the 10th Anniversary celebrations of the coup. We issued our own statement on 31 August welcoming the steps announced by Jarpa and calling for a peaceful return to democracy. The Secretary of State told the Chilean Foreign Minister in New York of the continuing concern in this country about human rights and later repeated this to the Chilean Ambassador. We have, however, argued throughout that there should be a balanced criticism of Chile's performance with some acknowledgement of the improvements, limited as they are, in human rights practices. We have attempted to steer the Ten away from automatically seizing every opportunity to express criticism of the Chilean régime. Such unbalanced criticisms risk giving ammunition to the hard liners, including President Pinochet. It weakens the position of the moderates who argue in favour of improvements in human rights practices, suggesting these will be given due credit and support in Western Europe.

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CENTRAL AMERICA

12. The FRG have proposed a stronger Community presence in Central America and the Caribbean, an idea in which Herr Genscher is taking a strong personal interest. They are supported by France and the Netherlands; only the Danes and the Commission share our doubts. The proposal would involve greatly increased economic assistance by the Ten for Central America, with the purpose of extending European political influence to the region. It appears to respond to appeals made by Central American states, and by President Betancur of Colombia who has espoused their cause.

13. (For use) Central America already receives considerable US economic assistance, and even higher levels can be expected when the Kissinger Commission reports on 10 January. The region's problems will not be solved by mere applications of more money : a political settlement and peace are required to restore investors' confidence. The region already receives substantial Community aid (65.5 mecu in 1982). The UK has made clear its opposition to an increase in the overall Community aid budget, and its view that priority should continue to be given to the poorest (which does not include Central America).

14. (Not for use) There is already a strong disposition among many of the Ten to give the Community a political rôle in Central America. The US would probably regard such an initiative, in whatever form, as unhelpfully cutting

/across

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across their efforts. The Central Americans would pocket further European assistance without there being any likelihood of it contributing materially to a solution of the region's conflicts. The idea is therefore a bad one, and carries the danger of contributing more to the problem than solving it. But we are likely to be isolated among the Ten, although we may reasonably argue in favour of a prolonged study of the questions.

15. US psychological pressure on Nicaragua to negotiate resulted in war hysteria there following the invasion of Grenada. It suits both the US and the Nicaraguan government to magnify fears of an American attack. The US continues to keep its options open, including that of military action, although this is not likely to materialise in the short-term. In El Salvador the army's poor performance against the insurgents has led to new concern about the survival of democracy there, although Presidential elections have been announced for 25 March.

FOREIGN AND COMMONWEALTH OFFICE

29 NOVEMBER 1983

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CPE/MUL/ETR 4536
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ANNEX A

LATIN AMERICA

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OBJET: PROJET DE RELEVÉ DE CONCLUSIONS DE LA 51EME
REUNION MINISTERIELLE DE COOPERATION POLITIQUE,
TENUE A BRUXELLES LE 22 NOVEMBRE 1983.

ALL OR/1

LA PRESIDENCE TRANSMET CI-APRES LE PROJET DE RELEVÉ DE
CONCLUSIONS DE LA 51EME REUNION MINISTERIELLE DE COOPERATION
POLITIQUE, TENUE A BRUXELLES LE 22 NOVEMBRE 1983:

1. CHYPRE

LES MINISTRES ONT EU UN ECHANGE DE VUES SUR LA SITUATION
CREEE A LA SUITE DE LA DECLARATION UNILATERALE D INDEPENDANCE
DE LA PARTIE NORD DE LA REPUBLIQUE DE CHYPRE ET DE SA RECONNAIS-
SANCE PAR LA TURQUIE.

SE REFERANT A LA DECLARATION DES DIX DU 15 NOVEMBRE 1983, A
LA RESOLUTION DU PARLEMENT EUROPEEN DU 17 NOVEMBRE 1983 ET A
LA RESOLUTION 541 DU CONSEIL DE SECURITE DU 18 NOVEMBRE 1983,
LES MINISTRES ONT ETE UNANIMES A REITERER LEUR REFUS DE RECONNAITRE
LE FAIT ACCOMPLI. ILS ONT DECIDE DE POURSUIVRE LES EFFORTS
DEJA ENGAGES EN VUE DE DISSUADER D AUTRES ETATS DE PROCEDER A
UNE TELLE RECONNAISSANCE. LA COMMISSION SOUMETTRA AU CONSEIL DES
MINISTRES, POUR SA REUNION DU 28 NOVEMBRE, UN RAPPORT SUR LES
IMPLICATIONS DE CETTE NON-RECONNAISSANCE SUR LES RELATIONS ECONO-
MIQUES ET COMMERCIALES DE LA COMMUNAUTE AVEC LA PARTIE OCCUPEE
DE LA REPUBLIQUE DE CHYPRE. ENTRETEMPS, LES ETATS-MEMBRES ONT
MANIFESTE LEUR VOLONTE DE NE PAS ADMETTRE L'IMPORTATION DES
PRODUITS PROVENANT DE CETTE PARTIE ET AYANT COMME PROVENANCE LA
((REPUBLIQUE TURQUE DE CHYPRE DU NORD)).

2. MOYEN ORIENT

LES MINISTRES ONT EXPRIME LEUR GRAVE PREOCCUPATION DEVANT
LA DETERIORATION DE LA SITUATION AU LIBAN ET EN PARTICULIER SUR
LE SORT TRAGIQUE DES POPULATIONS CIVILES, TANT LIBANAISES QUE
PALESTINIENNES. ILS ONT ESTIME QU'IL CONVENAIT A TOUT PRIX D'EVITER
LE RETOUR D'EVENEMENTS TELS QUE CEUX DE SABRA ET CHATILAH. ILS
SONT CONVENUS DE DEMANDER AU COMITE POLITIQUE QUI SE REUNIRA EN
MARGE DU CONSEIL EUROPEEN D'ATHENES, D'EXAMINER LA SITUATION AU
MOYEN ORIENT ET D'ENVISAGER UNE INITIATIVE QUI POURRAIT ETRE
PRISE PAR LES DIX A CE CONSEIL EUROPEEN.

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LES MINISTRES ONT EGALEMENT EVOQUE LA POSSIBILITE D UNE CONTRIBU-
TION DES DIX A LA MISE EN OEUVRE DE LA RESOLUTION 540 DU CONSEIL
DE SECURITE DES NATIONS UNIES CONCERNANT LE CONFLIT ENTRE L IRAN
ET L IRAK. CETTE QUESTION POURRAIT ETRE EGALEMENT EXAMINEE LORS
DU PROCHAIN CONSEIL EUROPEEN.

3. RELATIONS EST-OUEST

LES MINISTRES ONT EU UN ECHANGE DE VUES SUR LES RELATIONS EST-
OUEST, ET ONT EVOQUE EN PARTICULIER LA SITUATION EN POLOGNE,
EN CONSTATANT QU'ELLE DEMEURE FONCIEREMENT INCHANGEE DEPUIS LEUR
DERNIERE REUNION . ILS SONT TOUT DE MEME, CONVENU QU'IL SERAIT
OPPORTUN, TOUT EN EVITANT EN PRINCIPE LES CONTACTS POLITIQUES
SAUF A L'OCCASION DES REUNIONS INTERNATIONALES, DE REPRENDRE
LES CONTACTS AU NIVEAU DES HAUTS FONCTIONNAIRES SANS POUR AUTANT
QUE CECI PUISSE ETRE INTERPRETE COMME UN SIGNAL POLITIQUE IMPORTANT.

S AGISSANT DE LA CONFERENCE PREPARATOIRE A LA CDE QUI S EST
TENUE A HELSINKI, LES MINISTRES SE SONT FELICITES DU RESULTAT
DE CETTE CONFERENCE QUI A PU ETRE OBTENU GRACE A L ESPRIT DE
COOPERATION MANIFESTE PAR TOUTES LES PARTIES. COMPTE TENU DE
L IMPORTANCE QUE LES DIX ATTACHENT A LA CONFERENCE DE STOCKHOLM,
PLUSIEURS MINISTRES ONT DEJA FAIT PART DE LEUR INTENTION DE PARTICI-
PER A SON OUVERTURE.

**4. AMERIQUE LATINE
AMERIQUE CENTRALE-CARAIBES**

LES MINISTRES ONT EVOQUE LES EVENEMENTS DE GRENAD E ET LEURS
CONSEQUENCES DANS L ENSEMBLE DE LA REGION.

ILS ONT ENVISAGE UNE COLLABORATION POLITIQUE ET ECONOMIQUE
PLUS ETROITE ENTRE LES DIX ET L AMERIQUE CENTRALE. CETTE QUESTION
SERA EVOQUEE LORS DU CONSEIL DES MINISTRES DU 29 NOVEMBRE, ET
ENSUITE AU CONSEIL EUROPEEN D ATHENES.

ARGENTINE

LES MINISTRES ONT EXPRIME LEUR SATISFACTION POUR LE RETABLISSE-
MENT DE LA DEMOCRATIE EN ARGENTINE. LA PLUPART DES DIX SERONT
REPRESENTES A UN HAUT NIVEAU A LA CEREMONIE D'INVESTITURE DU
PRESIDENT ALFONSIN.

CHILI

IL A ETE CONSTATE QUE LA SITUATION AU CHILI CONTINUAIT A SE
DETERIORER. LES MINISTRES ONT EXPRIME LEUR REPROBATION DEVANT
LA POURSUITE DES GRAVES VIOLATIONS DES DROITS DE L HOMME DANS
CE PAYS. CETTE AFFAIRE DEVRAIT EGALEMENT ETRE EXAMINEE PAR LE
CONSEIL EUROPEEN.

5. CONSEIL EUROPEEN.

LES MINISTRES SONT CONVENUS QUE LES SUJETS SUIVANTS POURRAIENT FAIRE L'OBJET DES DECLARATIONS LORS DU PROCHAIN CONSEIL EUROPEEN: MOYENT ORIENT, SOUS TOUTS SES ASPECTS (LIBAN, PROBLEME PALESTINIEN, CONFLIT ISRAELO-ARABE, GUERRE IRAN-IRAQ) & RELATIONS EST-OUEST Y COMPRIS LA POLOGNE, L'AFGHANISTAN ET LA CDEE AMERIQUE LATINE, A SAVOIR AMERIQUE CENTRALE, ARGENTINE CHILI ET NEUTRALITE DU COSTA-RICAE CHYPRE.

6. COREE

COMPTE TENU DU RESULTAT DE L ENQUETE EFFECTUEE PAR LES AUTORITES BIRMANES ET QUI A FAIT APPARAITRE LA RESPONSABILITE DE LA COREE DU NORD DANS L ACTE DE TERRORISME QUI, LE 9 OCTOBRE A RANGOON, A COUTE LA VIE A PLUSIEURS MEMBRES DU CABINET SUD COREEN, LES MINISTRES ONT CHARGE LA PRESIDENCE DE CONDAMNER PUBLIQUEMENT CET ATTENTAT PERPETRE PAR LA COREE DU NORD.

7
FIN DE TEXTE

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COREU

MEETINGS OF FOREIGN MINISTERS
& THE POLITICAL COMMITTEE

LIMITED

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- ECD (I) NED
- FED MCAD
- MED S AM D
- NENAD SIR J BULLARD
- TRED MR WRIGHT
- UND SIR J LEAHY
- WED SIR C TICKELL
- S AF D MR HANNAY
- OADS MR GIFFARD
- EED MR DONALD
- SOVIET D MR EGERTON
- SED MR JENKINS
- MAED MR SQUIRE
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ANNEX B

LATIN AMERICA

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FM:ATH COREU
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SUBJECT: RELEVÉ DE CONCLUSIONS OF THE 51ST MEETING OF MINISTERS
IN POLITICAL COOPERATION

(17) REFERENCE: CPE/MUL/ETR 4536

1. THE UK THANKS THE PRESIDENCY FOR ITS DRAFT RELEVÉ DE CONCLUSIONS AND HAS THE FOLLOWING COMMENTS:

(A) CYPRUS: THE UNITED KINGDOM SUPPORTS THE VIEWS OF BELGIUM AND DENMARK ON THE FINAL SENTENCE OF THIS SECTION (CPE/MUL/ETR 4545 AND 4546)

(B) MIDDLE-EAST: THE UNITED KINGDOM WOULD PREFER THE SECOND SENTENCE OF THIS SECTION TO BE REPLACED BY THE FOLLOWING -
'ILS SONT CONVENU DE DEMANDER AU COMITE POLITIQUE QUI SE REUNIRA EN MARGE DU CONSEIL EUROPEEN D'ATHENES, D'EXAMINER QUELQUES IDEES POUR LA RESOLUTION DE LA CRISE LIBANAISE EN VUE D'UNE EVENTUELLE ACTION, EUROPEENNE ET EN PARTICULIER EN VUE D'UNE EVENTUELLE DECLARATION DE LA PART DU CONSEIL EUROPEEN'

(C) LATIN AND CENTRAL AMERICA: THE UK WOULD PREFER THIS PASSAGE TO READ AS FOLLOWS -

'LES MINISTRES ONT EVOQUE LES EVENEMENTS DE GRENADE ET LEURS CONSEQUENCES DANS L'ENSEMBLE DE LA REGION.

/LA QUESTION

CONFIDENTIAL

LA QUESTION D'UNE COLLABORATION POLITIQUE ET ECONOMIQUE PLUS ETROITE ENTRE LES DIX ET L'AMERIQUE CENTRALE A ETE EVOQUEE. CETTE QUESTION SERA EGALEMENT EVOQUEE LORS DU CONSEIL DES MINISTRES DU 29 NOVEMBRE, ET ENSUITE AU CONSEIL EUROPEEN D'ATHENES'.

(D) CHILE: THE UNITED KINGDOM WOULD PREFER THIS PASSAGE TO READ AS FOLLOWS -

'LA QUESTION DE LA VIOLATION DES DROITS DE L'HOMME AU CHILE A ETE EVOQUEE. IL EST CONVENU QUE CETTE QUESTION POURRAIT ETRE EXAMINEE PAR LE CONSEIL EUROPEEN'.

FIN DE TEXTE

COREU

MEETINGS OF FOREIGN MINISTERS & THE POLITICAL COMMITTEE

LIMITED

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ECD (I)	NED
FED	MCAD
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NENAD	SIR J BULLARD
TRED	MR WRIGHT
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FM UKREP BRUSSELS 232117Z NOV 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 4112 OF 23 NOVEMBER

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PANAMA CITY, SANTO DOMINGO.

COREPER (AMBASSADORS) 23 NOVEMBER: EC/CENTRAL AMERICA

SUMMARY

1. GERMAN PROPOSAL FOR COOPERATION AGREEMENTS BETWEEN THE
COMMUNITY AND VARIOUS CENTRAL AMERICAN COUNTRIES GIVEN A
RATHER POSITIVE RECEPTION WITH ONLY UK AND DENMARK URGING
CAUTION AND REFLECTION ON THE LIMITED SCOPE FOR PUTTING ANY
SUBSTANCE INTO INSTITUTIONAL LINKS. FOR DISCUSSION AT
FOREIGN AFFAIRS COUNCIL ON 29 NOVEMBER.

DETAIL

2. THE CHAIRMAN REFERRED TO GENSCHER'S LETTER TO THE PRESIDENT
OF THE COUNCIL (COPY BY BAG) PROPOSING THE CONCLUSION OF
COOPERATION AGREEMENTS BETWEEN THE COMMUNITY AND CENTRAL
AMERICAN COUNTRIES.

3. POENSGEN (FRG) AMPLIFIED GENSCHER'S VIEWS. THERE WAS A NEED
FOR A STRONGER COMMUNITY PRESENCE IN CENTRAL AMERICA AND THE
CARIBBEAN. THE COMMUNITY SHOULD ALSO CONTRIBUTE TO REDUCING
SOCIAL AND ECONOMIC INEQUALITIES WHICH WERE AT THE ROOT
OF POLITICAL INSTABILITY. THE CONCLUSION OF COOPERATION
AGREEMENTS WOULD DEMONSTRATE THE COMMUNITY'S INVOLVEMENT.
THERE WAS NO REGIONAL GROUPING IN CENTRAL AMERICA, SO THE
AGREEMENTS WOULD HAVE TO BE WITH INDIVIDUAL STATES. AN EARLY
DECISION WOULD BE NEEDED ON WHICH STATES. IN THE GERMAN VIEW,
THEY SHOULD INCLUDE COSTA RICA, HONDURAS, NICARAGUA, GUATEMALA,
EL SALVADOR, PANAMA AND THE DOMINICAN REPUBLIC. NORMAL
COOPERATION AGREEMENTS COVERING TRADE, ECONOMIC COOPERATION
AND AID WOULD BE APPROPRIATE. THE FRG HOPED THAT THERE WOULD
BE CONSENSUS AT THE FOREIGN AFFAIRS COUNCIL ON 29 NOVEMBER ON
THE PRINCIPLE OF WHAT GENSCHER PROPOSED, AS WELL AS A DECISION
ON THE COUNTRIES TO BE INCLUDED.

4. THE COMMISSION (VOLPI) THOUGHT THAT HAFERKAMP WOULD GIVE A
POSITIVE REACTION AT THE COUNCIL TO GENSCHER'S PROPOSAL. HE
WOULD SET OUT COMMISSION VIEWS ON THE POSSIBLE CONTENT OF SUCH
AGREEMENTS.

15.

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5. I SAID THAT THE COMMUNITY NEEDED TO REFLECT VERY CAREFULLY BEFORE PLUNGING INTO THIS. THE COUNTRIES CONCERNED WERE IMPORTANT. BUT WERE COOPERATION AGREEMENTS THE RIGHT WAY TO MARK THE COMMUNITY'S INTEREST IN THEM? THERE WAS ALREADY A PROBLEM IN GIVING SUFFICIENT SUBSTANCE TO EXISTING COOPERATION AGREEMENTS: NEW ONES MIGHT ONLY LEAD TO DISILLUSION. PROLIFERATION OF SUCH AGREEMENTS COULD ALSO DEVALUE THE CURRENCY, WHILE AT THE SAME TIME MAKING IT HARDER TO RESIST CONCLUSION OF EVEN MORE OF THEM. THEY WOULD RAISE EXPECTATIONS OF ADDITIONAL AID WHICH COULD NOT BE SATISFIED. THE COMMUNITY WAS ALREADY GIVING VERY SUBSTANTIAL AID TO THE AREA, WITH THE SPECIAL ACTION PROGRAMME, AND MORE WAS NOT JUSTIFIED. AN ADDITIONAL SEVEN OR EIGHT AGREEMENTS WOULD ALSO BE VERY TIME-CONSUMING FOR THE COMMUNITY IN TERMS OF JOINT COMMISSIONS, MINISTERIAL MEETINGS AND SO ON. IT WOULD BE WRONG FOR THE COMMUNITY TO GIVE A SIGNAL TO CENTRAL AMERICA IN THE TERMS SUGGESTED BY GENSCHER UNLESS IT WAS SURE THAT THERE WOULD BE SOME SUBSTANCE.

6. RUTTEN (NL) GRUMBLED ABOUT LACK OF PREPARATION FOR DISCUSSION AT THE COUNCIL. LEPRETTE (FRANCE) SUPPORTED THE GERMAN INITIATIVE: OPERATIONAL DECISIONS AND MEASURES WOULD BE NEEDED. BELGIUM EXPRESSED GREAT INTEREST. RIBERHOLT (DENMARK) ENTIRELY SHARED UK RESERVATIONS. IT WAS WRONG TO LAUNCH INITIATIVES BEFORE THERE HAD BEEN SERIOUS STUDY OF THE INPUT WHICH THE COMMUNITY COULD IN PRACTICE MAKE.

7. THE CHAIRMAN CONCLUDED THAT AT THE COUNCIL ON 29 NOVEMBER GERMANY WOULD MAKE A STATEMENT, THE COMMISSION WOULD ELABORATE ON THE PRACTICAL IMPLICATIONS, DELEGATIONS COULD GIVE THEIR FIRST REACTIONS. THE COUNCIL WOULD BE ASKED TO PRONOUNCE ON THE FURTHER HANDLING OF THE GERMAN PROPOSAL.

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LATIN/CENTRAL AMERICA : FALKLANDS/ARGENTINA

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To persuade our partners to tell the new Government of Argentina that our policy on normalisation of relations with Argentina is the realistic way ahead; and to obtain their help in eliciting a similarly realistic and positive statement from the new President of Argentina.

POINTS TO MAKE

2. Grateful to partners for abstention in General Assembly vote on Falklands.

3. We have publicly welcomed elections in Argentina, at the same time making clear our desire to normalise relations.

4. In the absence of diplomatic relations, Britain will not be officially represented at inauguration of new President. Helpful if partners could take that opportunity to draw attention of the incoming Argentine Government to our declared willingness to make progress on bilateral relations, and to persuade the Radicals that this must be the realistic way forward for both of us. Our own policy is positive and realistic; it would help if Argentine statements were also constructive.

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5. [For France and Italy only] The high level of your representation at Dr Alfonsin's inauguration and your relationship with Argentina, would make representations by you especially persuasive.

BACKGROUND

6. The Argentine resolution on the Falkland Islands was adopted on 16 November by 87 votes to 9 (UK) with 54 abstentions. All our Community partners abstained, Greece having switched from a vote for Argentina last year. Posts in EC countries have been instructed to convey our thanks as appropriate, and Paris and Bonn were instructed to convey the gratitude of the Prime Minister, following her personal messages to President Mitterrand and Sr Craxi.

7. Some of our partners were inclined to vote with Argentina in order to indicate their support for the return of democracy there. We urged that this was not the right way to encourage stable democratic rule in Argentina. They will therefore be looking to us all the more keenly to show that we recognise that the election of Alfonsin marks a real change in the outlook. Some of our partners have argued that an overture by us will make it easier for Alfonsin to behave constructively towards us. Whether we decide to send a message direct to Alfonsin or not, there would be advantage in asking our partners to help us to make our policy clear to the new government of Argentina.

8. There are close links between Alfonsin and socialists in Italy and France; given the particularly high level of Italian and French representation, and the Italians' well-known concern that we should adopt a forthcoming attitude towards the Alfonsin government, it would be

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appropriate to pay especial attention to these two in telling our partners of the line we would like them to take with Dr Alfonsin. But all of them should be left in no doubt of the thrust of our policy and of the need for some reciprocal word from the new Argentine Government.

8. We also propose in due course to ask the Community to agree that the Presidency should draw to the attention of the new Government that its offer of talks to normalise commercial and economic relations is still on the table.

Foreign and Commonwealth Office

29 November 1983

- 3 -

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EHG(A)(83)12(A)

COPY NO: 1

30 November 1983

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER, 1983

CYPRUS

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To ensure that any renewed Greek demands for Community action against northern Cyprus (or Turkey) are resisted without playing a more prominent role in opposing than we have to. We can, however, agree, if necessary, to a statement condemning Turkish Cypriot UDI.

POINTS TO MAKE

2. Good that Ten were able to agree quickly on statement reacting to the Turkish Cypriot declaration, and that all EC members on UN Security Council voted for resolution deploring it. Impressive example of Political Co-operation. [If necessary] Can agree to

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by Ten. It should also take account of UN Security Council Resolution, particularly reference to UN Secretary General's good offices.

3. We have proposed consultations between the Guarantor Powers and remain ready to hold them when other two governments are prepared to do so. Also strongly support UN Secretary General.

Action against Northern Cyprus. (Points for use if and as necessary).

4. Matter was discussed fully by Foreign Ministers on 22 and 29 November. Should await outcome of Commission visit to Nicosia before taking any new decisions.

5. We should be scrupulous in avoiding any action which might prejudice non-recognition of the Turkish Cypriot regime. But the Community's approach should also be consistent with the aim of nullifying effects of Turkish Cypriot decision. Should avoid action which will reinforce existing divisions.

6. Withdrawal of tariff preference from North Cyprus. Must await Commission's report but believe Community should continue to treat Cyprus as a unitary state: To accord different treatment to the north would play into the hands of those who wish to see Cyprus permanently divided. Effect on north Cypriots of withdrawal of tariff preference would be negligible; exports would

simply be diverted through Turkey with perverse effect of integrating Northern Cyprus more closely with Turkish mainland. (If necessary) Our existing practice on documentation for Turkish Cypriot exports does not, in our view, to prejudice our principles on recognition.

7. Financial Co-operation. Glad Foreign Affairs Council agreed that Financial Protocols should continue to be implemented for benefit of whole population. To do otherwise would penalise the poorest Cypriots and discredit Community's development philosophy. (If necessary) Implementing this principle may well in practice require some working contacts with the Turkish Cypriot authorities.

8. Customs Union. Have always support Cypriot wish for early negotiations on progress to Customs Union on its own merits, and not in response to Turkish Cypriot UDI. Glad that Commission have now agreed to speak to Cypriots very soon.

9. Freeze on EC/Turkey Association Agreement (If raised) This was a Turkish Cypriot action. Action against Turks not thought appropriate in 1974; even less so now. Unjustified, and likely to do more harm than good to the interests of the West, the Community and Cyprus.

BACKGROUND

References

A: EC statement on UDI (16 November)

B: UN Security Council Resolution (18 November)

[Paras 10 and 11 only may be drawn on freely]

10. On 15 November, following the Turkish Cypriot 'Assembly's' declaration purporting to establish an independent state in northern Cyprus earlier the same day, the Secretary of State said in the House of Commons that Her Majesty's Government deplored this action by the Turkish Cypriot community and considered it incompatible with the 1960 Treaties. So far only Turkey has recognised the new 'state'.

11. On 18 November the UN Security Council passed by 13-1-1 a resolution deploring the action, calling for its reversal, and instructing the Secretary General to pursue attempts to reach a solution to the Cyprus problem through his mission of good offices.

12. The Secretary of State has proposed to his Turkish and Greek colleagues joint consultations under the 1960 Treaty of Guarantee. The Greek Government refuse to talk to the Turks while Turkish troops are in northern Cyprus, and have maintained this stance despite a second message from the Secretary of State. But a

recent statement by Papandreou indicates that the Greek Government might be prepared to enter tripartite consultations if the Cyprus Government wished it. A meeting between Kyprianou and Papandreou will take place in Athens later this week.

Action to Exclude North Cyprus from the Benefits of the EC/Cyprus Association Agreement

13. The Greeks have demanded an end to all contacts between the EC and Turkish Cypriot authorities; the acceleration of talks on Customs Union between the EC and the Republic of Cyprus; an end to financial co-operation with the Turkish Cypriot authorities; and that Turkish Cypriot exports to the Community should be given third country treatment. The Cypriot government have also demanded an end to preferential treatment for north Cyprus exports, and rejected the idea that future EC aid should (as in the past) benefit the whole population of the island. We have no wish to take any actions which might make an eventual settlement more difficult: we need to keep our options open for the future, and avoid giving the Greek Cypriots a veto over any future concessions by the Community to the Turkish Cypriots. The Greeks made little headway with their partners in pressing for action to exclude north Cyprus from the aid and trade

benefits of the EC/Cyprus agreement at the Political Cooperation meeting on 22 November and the Foreign Affairs Council on 29 November, and if Papandreou raises the issue at the European Council he can expect a similarly unenthusiastic response.

Withdrawal of Tariff Preference

14. In order to benefit from Community preference Cyprus exports must be accompanied by a movement certificate (EUR 1) endorsed by the Cyprus Customs. Since 1974 UK Customs have refused to accept such certificates bearing any stamps which purport to be from a separate North Cyprus State. The Turkish Cypriot authorities therefore employ stamps simply saying 'Cyprus Customs Authorities'. A list of these stamps and the accompanying signatures is regularly updated and circulated by the Commission to Member States who import from North Cyprus. The Cyprus Government have complained about these arrangements and have now declared the Turkish Cypriot seals and signatures invalid in an attempt to force the Community to withdraw preference from exporters in the northern zone. North Cyprus exports could continue to enter the Community at normal third country rates of duty (but in practice are likely to be shipped via Turkey to benefit from Turkish preferential access).

15. We should much prefer to go on accepting the existing documentation. Since the UK takes three-quarters of all exports from Northern Cyprus, withdrawal of tariff preference would have little effect on the Turkish Cypriots but would penalise British importers and consumers. At the Foreign Affairs Council on 29 November Member States were reluctant to change the status quo, but agreed nothing should be done to prejudice the Community's refusal to recognise the authorities of the 'Turkish Republic of Northern Cyprus'. It was agreed that a Commission delegation should visit Nicosia to discuss the operation of the Association Agreement, including the question of tariff preference, with the Cyprus Government.

Financial Co-operation

16. Under the Second Financial Protocol to the Association Agreement agreed in July, but not yet signed, Cyprus will get 10 mecu in grants, 6 mecu in special (subsidised) loans from the Community budget and 28 mecu in EIB loans. The Cyprus Government expect the benefits of the Second Protocol in practice to be confined to the Greek Cypriot sector. Our agreement to the new protocol was conditional on the understanding applied to the First Protocol that the funds should be

of benefit to both communities and that the substantial grant element would be largely used to finance projects in the relatively poorer northern sector. We could not agree to the whole protocol being used to benefit only the relatively prosperous Greek Cypriot community. However can be blocked in the projects committee any schemes which do not meet this criteria.

Contacts with Turkish Cypriots

17. Commission contacts with the Turkish Cypriot authorities have been the minimum necessary for implementation of Community aid projects. Such contacts will continue to be necessary. Our own contacts have also been at a low level and because of our interests, including British residents, in the northern part of the island, we would want to keep these contacts open. We shall be reviewing the question of higher level contacts in the light of further developments (particularly an expected Greek Cypriot statement).

Customs Union

18. The Community has a commitment to enter into negotiations with Cyprus about progress to Customs Union. Although there is no prospect of early or even any agreement on a package to offer the Cypriots, we have nevertheless been pressing for the Commission to

hold early exploratory talks with the Cypriots. We can therefore welcome the Commission's intention in the wake of the FAC on 29 November to pay an early visit to Cyprus.

Sanctions Against Turkey

19. At the November Foreign Affairs Council, the Greeks did not press their demand for sanctions by the EC against Turkey, including the freezing of further dismantling of tariff barriers under the EC/Turkey association agreement. We are opposed to such sanctions. We do not believe that they would be effective (the Turks resisted the much greater pressure of the US arms embargo in 1974-78). For wider reasons, we would not wish Turkey to be isolated from the West. And we would not believe sanctions appropriate just as Turkey is turning towards democracy.

Foreign and Commonwealth Office
30 November 1983

FM : ATH COREU
TO : ALL COREU - IMMEDIAT DESK BY 151600Z

CYPRUS

CPE/MUL/ETR 4409
15.11.83 H:17.15 LT

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OBJET: COMMON STATEMENT OF THE TEN ON THE UNILATERAL DECLARATION
OF INDEPENDENCE OF NORTHERN CYPRUS

THE PRESIDENCY CIRCULATES HERewith THE DRAFT STATEMENT THAT
THE POLITICAL DIRECTORS PREPARED TODAY ON THE PROCLAMATION OF IN-
DEPENDENCE OF THE OCCUPIED ZONE OF CYPRUS:

QUOTE

THE TEN MEMBER STATES OF THE EUROPEAN COMMUNITY ARE DEEPLY
CONCERNED BY THE DECLARATION PURPORTING TO ESTABLISH A "TURK-
ISH REPUBLIC OF NORTHERN CYPRUS" AS AN INDEPENDENT STATE. THEY
REJECT THIS DECLARATION, WHICH IS IN DISREGARD OF SUCCESSIVE RESO-
LUTIONS OF THE UNITED NATIONS. THE TEN REITERATE THEIR UNCONDITIONAL
SUPPORT FOR THE INDEPENDENCE, SOVEREIGNTY, TERRITORIAL INTEGRITY AND
UNITY OF THE REPUBLIC OF CYPRUS. THEY CONTINUE TO REGARD THE GOVERN-
MENT OF PRESIDENT KYPRIANOU AS THE SOLE LEGITIMATE GOVERNMENT OF THE
REPUBLIC OF CYPRUS. THEY CALL UPON ALL INTERESTED PARTIES NOT TO
RECOGNIZE THIS ACT, WHICH CREATES A VERY SERIOUS SITUATION IN THE
AREA.

UNQUOTE

IF NO COMMENTS ARE RECEIVED BY 10.00 A.M. GMT TOMORROW,
OCTOBER 16, THIS TEXT WILL BE ISSUED AS A STATEMENT OF THE TEN.

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158

MY TWO IPTS: TURKISH CYPRIOT DECLARATION OF INDEPENDENCE.

1. FOLLOWING IS TEXT OF THE UK DRAFT RESOLUTION AS FORMALLY TABLED THIS EVENING (17 NOVEMBER).

BEGINS
THE SECURITY COUNCIL
HAVING HEARD THE STATEMENT OF THE FOREIGN MINISTER OF THE GOVERNMENT OF THE REPUBLIC OF CYPRUS,
CONCERNED AT THE DECLARATION BY THE TURKISH CYPRIOT AUTHORITIES ISSUED ON 15 NOVEMBER 1983 WHICH PURPORTS TO CREATE AN INDEPENDENT STATE IN NORTHERN CYPRUS,
CONSIDERING THAT THIS DECLARATION IS INCOMPATIBLE WITH THE 1960 TREATY CONCERNING THE ESTABLISHMENT OF THE REPUBLIC OF CYPRUS AND THE 1960 TREATY OF GUARANTEE,
CONSIDERING THEREFORE THAT THE ATTEMPT TO CREATE A "TURKISH REPUBLIC OF NORTHERN CYPRUS" IS INVALID AND WILL CONTRIBUTE TO A WORSENING OF THE SITUATION IN CYPRUS,
REAFFIRMING ITS RESOLUTION 365 (1974) AND (1975),
AWARE OF THE NEED FOR A SOLUTION OF THE CYPRUS PROBLEM, BASED ON THE MISSION OF GOOD OFFICES UNDERTAKEN BY THE SECRETARY-GENERAL.

AFFIRMING ITS CONTINUING SUPPORT FOR UNFICYP,
TAKING NOTE OF THE SECRETARY GENERAL'S STATEMENT OF 17 NOVEMBER 1983,

1. DEPLORES THE DECLARATION OF THE TURKISH CYPRIOT AUTHORITIES OF THE PURPORTED SECESSION OF PART OF THE REPUBLIC OF CYPRUS:
2. CONSIDERS THE DECLARATION REFERRED TO ABOVE AS LEGALLY INVALID AND CALLS FOR ITS WITHDRAWAL:
3. CALLS FOR THE URGENT AND EFFECTIVE IMPLEMENTATION OF ITS RESOLUTIONS 365(1974) AND 367(1975):
4. REQUESTS THE SECRETARY GENERAL TO PURSUE HIS MISSION OF GOOD OFFICES IN ORDER TO ACHIEVE THE EARLIEST POSSIBLE PROGRESS TOWARDS A JUST AND LASTING SETTLEMENT IN CYPRUS:
5. CALLS UPON THE PARTIES TO CO-OPERATE FULLY WITH THE SECRETARY GENERAL IN HIS MISSION OF GOOD OFFICES:
- 6 CALLS UPON ALL STATES TO RESPECT THE SOVEREIGNTY , INDEPENDENCE TERRITORIAL INTEGRITY AND NON-ALIGNMENT OF THE REPUBLIC OF CYPRUS:

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7. CALLS UPON ALL STATES NOT TO RECOGNIZE ANY CYPRIOT STATE OTHER THAN THE REPUBLIC OF CYPRUS:
8. CALLS UPON ALL STATES AND THE TWO COMMUNITIES IN CYPRUS TO REFRAIN FROM ANY ACTION WHICH MIGHT EXACERBATE THE SITUATION:
9. REQUESTS THE SECRETARY GENERAL TO KEEP THE SECURITY COUNCIL FULLY INFORMED.

ENDS.

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24 November 1983

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

INTERNATIONAL TRADE ISSUES

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE (Defensive)

1. EC has important role to play in implementing commitments.
UK supports Commission's proposals.

EC/JAPAN

2. Recent Japanese measures welcome sign of sensitivity about rising worldwide trade surpluses. But they seem unlikely to do much to improve the situation. EC must keep up pressure until the results show through in the trade figures. US are pressing Japanese to act on the yen; an exchange rate which more accurately reflected Japanese economic strength would be a great help.

EC/US

3. Support retaliation against US measures on special steels if US will not agree to adequate settlement.
4. Shultz seems anxious to avoid confrontation at forthcoming Ministerial talks on agriculture and other topics. Hope Community will too. An EC/US trade war would be disastrous.

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BACKGROUND

ROLLBACK

5. The Commission have put forward modest rollback proposals, including an acceleration of Tokyo Round tariff cuts. The date for these cuts will be determined by reference to economic growth in the EC. We and others at the less protectionist end of the EC spectrum do not think that the EC need wait for a specific level of growth before starting rollback. But the French and Italians are still wedded to a trigger of 2%. The Commission are currently working on a compromise version of the growth criterion for tariff cuts.

EC/JAPAN

6. The Japanese visible trade surplus with the EC over the first nine months of 1983 was \$7.9 billion (9% up on the same period in 1982). UK deficit even worse - up 25% in first six months of 1983. The yen has appreciated against European currencies but remains undervalued.

7. The Japanese Government announced in October a fourth package of measures to stimulate domestic demand and promote imports, and announced a number of monetary measures during President Reagan's recent visit. These show willing, but preliminary assessments are that they are unlikely to make much difference to EC/Japan trade figures.

8. An initial assessment of the export restraint package in ten key sectors negotiated by Viscount Davignon in Japan in mid-November suggests that it meets the needs of UK industry, at least in the consumer electronics sector.

EC/US

9. Consultations in the GATT to agree compensation for and exemptions from the import tariff and quota measures to protect

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the US special steel industry announced by President Reagan in July, have gone slowly. We have consistently supported retaliation if an adequate settlement cannot be reached by the extended deadline of 30 November. The EC and US are still far from agreement on key issues.

10. The US continue to threaten a trade war, not necessarily confined to agricultural products, if the EC approves recent Commission protectionist proposals (to which we also object) to impose an oils and fats tax and restrict imports of cereal substitutes. The oils and fats tax now looks an unlikely starter, but there is strong pressure in the Community for action on cereals substitutes [see Brief EHG(A)(83)(6)].

11. Both steel and agriculture will be on the agenda for the EC/US Ministerial level consultations on 9 December which will be led by Secretary of State Shultz and Mr Thorn. Mr Shultz made clear at a recent meeting of EC Ambassadors in Washington that he was approaching the consultations in a positive spirit; that it was not worth throwing away \$90 billion of trade for the sake of \$1-3 billion in dispute, and that it was important to find ways of alleviating the problems so as to retain the benefits of the open market system.

Foreign and Commonwealth Office

24 November 1983

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30 November 1983

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EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

GREENLAND

Brief by Foreign and Commonwealth Office

POINTS TO MAKE (IF NECESSARY)

General

1. Disappointing that we have not made more rapid progress towards agreement, particularly on crucial fisheries issue. But at least precise points of disagreement have been clarified. Strenuous effort is now called for to bridge the gap in order that negotiations should succeed as we all want.

On Fish

2. Importance of fisheries to Greenland economy is recognised. Right that Community should take this fully into account in the negotiations. But equally right that Denmark and Greenland should not seek to pursue this to the extreme of in some cases squeezing Community out of Greenland waters entirely. This is unrealistic and not helpful. We believe latest Commission proposals represent reasonable basis for negotiation. Disappointing that Denmark should have rejected them so strongly.

On Financial Provision

3. Danish demands for both development aid for Greenland and payments for fishing rights in Greenland waters not helpful. Prepared to consider payments to Greenland as part of satisfactory overall agreement, including fish. But the case for development aid is weak. We are opposed to payments from the European Development Fund.

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On Status

4. We do not consider OCT status appropriate. But this should be left for decision when main elements of package clear.

(If isolated on OCT status)

5. Ready to consider this at the end of the day, if other Member States prepared to accept it, and provided it is part of satisfactory overall settlement.

BACKGROUND

6. Greenland opted last year for withdrawal from full membership of the Community, and asked to be allowed to assume associated status under the Overseas Countries and Territories (OCT) arrangements. Member States have accepted the principle of withdrawal but the question of future status has been left open until the substance of the relationship has been worked out. An ad hoc Working Group has been considering the matter since February this year. Denmark is expected to take the opportunity to deplore lack of progress towards agreement. Detailed discussion is unlikely.

7. The negotiations are deadlocked on the crucial issue of fish. The Greenlanders see fish as their only significant economic resource in the foreseeable future (fish products account for about 60% of Greenland's total exports). To secure control of 'their own fisheries' is therefore the overriding purpose of their application to change Greenland's relationship with the Community. They make no bones about this. At the same time, Denmark is politically fully committed to seeing that Greenland gets its way, at least on this central issue. Denmark has therefore rejected the Commission's latest compromise proposals on Total Allowable Catches (TACs), quotas and burden sharing. Denmark insists that the Community should only be permitted to maintain current levels of fishing in Greenland waters if the TAC

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risers. If the TAC remains stable or decreases (as the Greenlanders want to see for conservation reasons) Community quotas should be phased down.

8. But the fishing opportunities in Greenland waters are a sensitive political and economic issue for the Community as well and especially so for Germany who claim that 50% of its fishing fleet's entire catch is taken there. Germany's prime objective is to preserve existing Community fishing rights in Greenland waters (and even if possible to increase them when Total Allowable Catches (TACs) increase) and to obtain long term agreement to this (the Germans propose 20 years). They are as equally determined as the Greenlanders to secure their basic objectives. Strong general support for the German line is evident in the Commission Fisheries Directorate, and among other Member States (particularly other Community fishing nations). Only Greece has displayed any real sympathy with the Danish/ Greenland aims.

9. Our own quotas in Greenland waters are relatively small (4 500 tonnes of cod proposed for 1983). However the availabilities at Greenland were an important element in securing the British deep sea fleet's acquiescence in the CFP settlement. Their loss would add weight to the industry's complaint that the CFP is in disarray. This would be politically embarrassing. But of much greater concern to us would be any reopening of quotas already agreed under the CFP if Germany were to seek compensation from other Member States (as she has said she would be bound to do) for any losses she might sustain at Greenland. Any redistribution of internal, or indeed external, quotas in Germany's favour would seriously call into question the UK industry's acquiescence in the CFP. We are in the comfortable position, therefore, of being able to agree with the Commission and the majority of delegations on nearly all points, while Denmark is in a minority of one virtually throughout.

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10. The separate questions of status and financial provisions remain for resolution as part of a satisfactory overall agreement, including fish. Denmark is looking for both development aid for Greenland and for payments to Greenland in return for fishing licences. We do not consider OCT status (intended for developing countries) appropriate but could ultimately concede the issue as the price for a satisfactory overall deal. OCT status however normally carries with it aid from the European Development Fund (EDF). In our view money for Greenland should only be conceded in the context of the total package and should not come from the EDF.

11. The Greenlanders have set a deadline of 1 January 1985 as the effective date for the change in relationship. Since the change will require Treaty amendment, and thus ratification by all Member States (which can take up to a year to complete), they are becoming impatient. On a number of occasions recently Denmark has warned that Greenland might, if agreement is held up much longer, opt to sever its link with the Community completely. At last week's Foreign Affairs Council, Elleman-Jensen warned once again that Greenland's patience was being tried to the limit. This was reinforced by Motzfeldt (Prime Minister of the Greenland Home Rule Government) who alleged that the Commission's proposals would leave Greenland worse off than she was at present. It is true that the Commission's proposals do not offer the Greenlanders the full liberty which they are seeking to manage their fisheries to their own best advantage. They are nonetheless a fair and legitimate response in defence of the Community's own interests. It is unrealistic to expect the Community to accept the virtual loss of fishing opportunities in Greenland waters.

12. A strict calculation of the balance sheet indicates that if Greenland were to withdraw completely, she would stand to lose proportionately more than the Community in economic terms. Such a move would for example risk the loss of

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duty-free access to the Community for Greenland fish products (although the Danes/ Greenlanders claim they could find alternative outlets in world markets eg USA, Canada, Japan). But it would also involve Denmark in putting up third country Community barriers against a constituent part of the Kingdom of Denmark. Greenland occupies a critical geographical position in the Western Alliance and has a key role to play in maintaining Western control over the Greenland-Iceland-UK (GIUK) gap. It would not be in the Community's strategic interest to weaken the Denmark/Greenland constitutional link in this way. It is important therefore that the negotiations do not break down.

13. Germany is also aware of the strategic implications. Denmark and Germany have been engaged in intensive discussion of the fisheries problem in recent weeks. No details have yet emerged to indicate any significant narrowing of differences between the two sides but Danish officials are reported to be less despondent about the German position following the most recent round of talks. This seems encouraging, but the Danes also believe strongly that the Commission's Fisheries Directorate is set on 'punishing' Greenland for leaving the Community. On balance it seems unlikely that Greenland will carry out its threat to withdraw completely, at least just yet. But time is running out as Danish/Greenland frustration grows. A major effort is likely to be needed at the next Foreign Affairs Council to keep the negotiations moving, and Denmark/Greenland talking.

Foreign and Commonwealth Office
30 November 1983

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EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

INSTITUTIONAL IMPLICATIONS OF ENLARGEMENT
Brief by Foreign and Commonwealth Office

OBJECTIVES

1. If the subject is raised, to reiterate the importance we attach to early consideration of the institutional implications of enlargement.

POINTS TO MAKE [If raised]

2. UK has already outlined some ideas on institutional aspects of enlargement. Believe that occasion of enlargement gives us an opportunity to take a hard look at all Community institutions to ensure that they are able to function effectively and economically in a Community of twelve - should not be just a question of technical adaptation. Question traditionally left to end of negotiations, but we believe that serious debate is necessary at early stage. Also, early discussion would give some encouragement to Spain and Portugal.

3. One idea which we favour is a Commission of 12, ie 1 per Member State, after enlargement. Commission of 17 would be too large to be effective. We would be prepared to forgo our second Commissioner provided other large Member States prepared to do the same.

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BACKGROUND

4. We began outlining our views on the institutional aspects of enlargement to COREPER in July. COREPER had some preliminary discussion in September and October. It is clear however that most other Member States have not given this detailed consideration and we have received little support for early discussion. It is unlikely, therefore, that any other Member State will raise this question and there is no need for us to do so on this occasion.

5. Our main objectives are:

(i) A Commission of 12, ie 1 per Member State, rather than 17 - the result of adding 2 for Spain and 1 for Portugal (Member Governments will need to focus on this question in advance of the other issues since it will have to be considered in connection with the appointment of the new Commission to take office from 1 January 1985);

(ii) as regards further delegation of responsibilities to the Commission, to continue to follow the line agreed by the European Council in December 1980 that, in principle, powers should be delegated more frequently, but that in each case the Council should take a separate decision;

(iii) maintenance of the principle that two existing large Member States can block a decision;

(iv) Spain should receive 8 votes in the Council (as proposed by Commission, as opposed to the 10 votes which present 4 large Member States have);

(v) maintenance of our existing line on majority voting namely to support its use where the Treaties so provide, on the assumption that the status of the Luxembourg compromise remains unchanged, but to resist any extension;

(vi) no more than a proportional increase in the number of seats to accommodate Spain and Portugal in the European Parliament;

(vii) to contain costs of interpretation/translation in

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the enlarged Community and to encourage the Council Secretariat and/or Commission to come forward with ideas to this effect.

6. There was some discussion of these ideas at the Anglo-French Summit on 20/21 October. There appeared to be a fair degree of similarity in our respective approaches, although it is clear that French preparations are less advanced than our own. On the future size of the Commission, the French appeared to agree that a Commission of 17 after enlargement would be too large, but they were not convinced that our suggestion of 12 (ie one per Member State) was right. They attach importance to preserving a degree of "weighting" in favour of the larger Member States. Cheysson mentioned "as a personal reflection" the possibility of the larger Member States appointing "deputy Commissioners" or of the smaller Member States sharing Commissioners on a rota basis. The latter would antagonise the small States however and would therefore almost certainly be unnegotiable.

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EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

ENVIRONMENT

Brief by Foreign and Commonwealth Office

POINTS TO MAKE (IF NECESSARY)

General

1. UK fully supports European Council affirmations of the importance of specific measures to combat dangers to the environment.

Lead in Petrol

2. UK, taking account of health risks on one hand and practical constraints on other, urges EC partners to agree that unleaded petrol should be introduced throughout the Community by 1990 or earlier if possible. However March 1984 not a realistic target for fixing a timetable. An early agreement would be most welcome - by say summer 1984 - but Commission report on the issue not due before April 1984.

3. Resist adoption of the German's target date of 1 January 1986 for the introduction of unleaded petrol, which is unrealistic given the time which industry will need to adjust.

Acid Rain

4. UK appreciates concern about forest damage and shares with other ECE (United Nations Economic Commission for Europe) countries a commitment to achieve a continuing effective decrease of SO₂ (sulphur dioxide) emissions from combustion plants over the next decade.

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5. Problem however is very complex. Continuing study is necessary to develop cost effective solution which will lead to genuine reduction in damage.

Air Pollution

6. UK welcomes proposal for a Framework Directive. Important that industries which are likely to give rise to significant air pollution should be controlled.

7. Pleased at practical tone of emerging text. Flexibility of control is necessary and we should avoid absolute requirements. UK would therefore like to see further discussion on emission limits and the range of industries to which the Directive should apply.

Trans-Frontier Shipment of Hazardous Waste

8. UK warmly welcomes the basis of the proposed Regulation. The main objective must be to introduce as quickly as possible a basic system of pre-notification and documentary control of trans-frontier shipment of hazardous waste.

9. Commission's revised regulation however contains a number of other provisions on which UK considers further work is required.

BACKGROUND

General

10. The Declaration adopted by the European Council at Stuttgart in June contained a call for more effective Community action for the protection of the environment, as one of the priorities in the development of new Community policies.

Lead in Petrol

11. France and Italy remain opposed to the introduction of unleaded petrol: most other Member States are probably in favour. The UK wants to take lead out on health grounds. Germany wants unleaded petrol as a precondition for requiring the use of catalytic convertors to reduce other vehicle emissions which contribute to forest damage. Catalysts reduce fuel efficiency (by 10%) and are very expensive (£500 per car), short lived and ruined at speed. The UK does not support their introduction, but is quite prepared to discuss other ways of reducing vehicle emissions.

Acid Rain

12. Acid rain is discussed under the UN/ECE Convention on long range trans-boundary air pollution. In the UK's view the processes which lead to the formation of acid rain are not yet fully understood. Polluting emissions from industrial plants are one of the chief suspects. As a result, the UN/ECE convention has agreed that emissions should be reduced over the next decade. Under pressure from the FRG which is greatly concerned at the possible damage to forests from acid rain, the Commission has prepared a directive imposing limits on industrial emissions. (See Air Pollution below). The UK stance has been to emphasise the need for international cooperation and for research to identify key factors so that environmentally and economically sound measures may be taken.

Air Pollution

13. The Environment Council which considered the Directive on 28 November failed to reach agreement on outstanding points, notably Community wide emission limits.

Trans-Frontier Shipment of Hazardous Waste

14. The Commission's revised proposal for a draft regulation has extended its scope and complexity, by introducing a number of additional controls into the proposed system. The UK has specific problems with these but more generally has consistently argued that only a simplified proposal embracing the essential documentary control system over the trans-frontier shipment of hazardous waste would be susceptible to early agreement. The Environment Council on 28 November failed to complete discussion on this issue (no fault of the UK) and will reconsider it when it reconvenes on 16 December.

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30 November 1983

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EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

ANNUAL REPORTS ON PROGRESS TOWARDS EUROPEAN UNION

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To have Foreign Ministers' and Commission annual reports on progress towards European Union accepted without discussion, subject to any necessary updating by Coreper to take account of the European Council's own conclusions.

POINTS TO MAKE [If necessary]

2. Can agree to take note of Foreign Ministers' and Commission annual reports on progress towards European Union, subject to any necessary updating by Coreper to take account of our own conclusions, and that they should be transmitted to the European Parliament.

BACKGROUND

References:

- A: Foreign Ministers' Report on progress towards European Union [text not yet available]
- B: Commission Report [text not yet available]

3. At its meeting on 29/30 November 1976, the European Council asked the Foreign Ministers and the Commission to report to it once a year on progress which had been made towards European Union. These reports in practice amount to little more than a summary of developments in each area of Community activity and little importance is attached to them. The draft of the Foreign Ministers' report is circulated to Member States for comment before it is adopted. This year's report has not yet been finally agreed at official level. The Foreign Affairs Council on 28/29 November will be asked to mandate Coreper to finalise

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the text, subject to any updating which may be necessary to take account of the European Council's conclusions. The European Council normally "takes note" of the reports without discussion. There will be a different procedure from this year onwards, however, since the Genscher/Colombo Solemn Declaration, adopted by Heads of Government at Stuttgart on 19 June, provides that the President of the European Council shall transmit the reports to the European Parliament, which may then debate them. This should not make any difference in substance, but it may mean that the reports attract greater attention than they have done in the past.

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EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

CULTURAL COOPERATION

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Meeting provided an opportunity for a useful exchange of views. Any further meetings should continue to be ad hoc, informal and based on proven need. Adequate preparation required. Next meeting should take account of the fact that Council of Europe Ministers of Culture will be meeting in May mainly to discuss audio-visual questions.

BACKGROUND

2. The Informal EC Culture Ministers meeting in Athens on 28 November resulted in a wide-ranging but inconclusive discussion on the Cultural Chapter of the Solemn Declaration, the Commission Communication on Culture of 1982, and audio-visual matters. The Presidency conclusions are likely to present the discussions in a much more structured fashion than they justified. In particular, they are likely to stress the significance of this "first" meeting of Ministers of Culture in a Community framework, and possibly to pave the way for the French to propose a formal Council during their Presidency to concentrate on audio-visual matters. Since this is the main theme for the Ministers of Culture of the Council of Europe Meeting in Berlin in May a decision to proceed in this way would be duplicatory and provocative.

Foreign and Commonwealth Office
30 November 1983

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