

EW 10/1

Foreign and Commonwealth Office

London SW1A 2AH

18 February 1981

LA
*Thorn**Dear Michael,*

CALL ON PRIME MINISTER BY MR TUGENDHAT ON 19 FEBRUARY AND M THORN ON 20 FEBRUARY

In your letter of 3 February you asked for briefs for these two calls by close of play today. They are to be discussed at a briefing meeting tomorrow. I attach:

- (a) points to raise with Tugendhat,
- (b) points to raise with M. Thorn,
- (c) a background brief to cover both calls. ✓ *cc to Thorn file EW 10/1 Feb 81*

The introductions to (a) and (b) indicate which are the main points in each case.

We understand that the meeting will be tête-à-tête and that Mr Tugendhat has said that he wishes to discuss the question of his relations with M. Thorn. He may wish to refer to the problems which arose over the allocation of portfolios in January. We are not aware of any recent problems between them.

You might like to remind the Prime Minister that Mr Tugendhat was shot at in Brussels in December but not hit.

Yours ever
Stephen Gomersall.

S J Gomersall

M O'D B Alexander Esq
10 Downing Street

/Copies to:



Copies to:

PS/Minister of Agriculture

PS/Financial Secretary

PS/Secretary of State for Trade

PS/Secretary of State for Industry

PS/Cabinet Secretary



PRIME MINISTERS MEETINGS WITH MR TUGENDHAT ON 19 FEBRUARY
AND M. THORN ON 20 FEBRUARY

Background Notes (for use at both meetings) on the following topics are included in the brief below:-

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EUROPEAN COUNCIL

1. Subjects that are likely to be on the agenda are:

Economic and Social Situation, including unemployment
(a standard item)

Budget Restructuring (a brief look at progress)

Fish (if not already solved)

Seat of the Institutions (for us a defensive item only)

Energy (another standard item, probably including US energy
pricing and oil supply problems)

North/South (preparation for the N/S Summit in June and progress
in the global negotiations)

Industrial Problems (steel, Japan)

Telematics (progress on Commission initiative)

Political Co-operation (East/West, US, Iran, Middle East)

2. Other possible subjects include:

New Zealand Butter

1981 Budget

EMS

Enlargement

BUDGET RESTRUCTURING AND CAP REFORM

3. M Thorn is visiting a number of European capitals in order to sound out Member States' views on restructuring to aid the Commission in the preparation of their paper by June. He has also said that he would like to raise the subject in the European Council in March. Whilst a progress report from the Commission then would be useful, we think that a full discussion at such an early stage and particularly before the French elections would not get far and could well lead to the taking up of rigid positions which would tend to tie the Commission's hands. In explaining our position to him it would be useful to emphasise the point that CAP reform and new policies will not in themselves solve our contribution problem on a permanent basis. Something more is needed and we hope the Commission will not come up with proposals which fail to deal with the problem. It would be better not to go into too much detail about our thinking with Thorn.

4. Mr Tugendhat may be able to provide more information on current thinking in the Commission. We know that the Commission discussed the mandate on 22 January and that Thorn took the line that they should not rule out any options at this stage. Detailed work on certain aspects of the Commission mandate has been continuing although progress appears to be slow. Mr Tugendhat is familiar with our general line on restructuring and it will be useful to take him into our confidence on our ideas for a ^{more}conscious Community decision about net budgetary flows to replace the present system under which these are determined as the random result of other policies. At the same time, we should make clear the importance of not having our ideas labelled as "the British" proposals, and that we are still considering a number of proposals.

5. Officials have touched on the idea of a budget adjustment mechanism in discussion with the Secretary General of the Commission, M. Noel, on 20 January. He himself believes that partial national financing of the CAP is a possible way forward, despite the Commission's criticism of it in their paper "Reflections on the CAP". He has not yet formally launched his ideas within the Commission and we should not attribute these ideas to Noel. A large degree of national financing would need to be coupled with other measures to have a major impact. But the fact that ideas of this kind, which are totally at variance with Community orthodoxy, are circulating in the Commission is encouraging. We hope the Commission will develop their ideas on this, but not to the exclusion of other ideas, for example on budgetary mechanisms.

1981 CAP Prices

6. The death of Mr Gundelach has delayed Commission proposals. We have been urging the Commission to keep the price increases they propose down to 4%-5%.

7. As far as we know, the main elements of the price proposals will be:-

- (a) price increases in range of 6-12%, with an average of 7½% or somewhat more;
- (b) measures involving greater financial responsibility for
/producers

producers in some of the main sectors;

- (c) revaluation of 4%-6% for the green currencies of the FRG and UK and elimination of positive MCAs for the Benelux.

Having started with proposed increases higher than we want, we would wish the Commission to resist pressures for further upward revision during negotiations in the Council. It would be useful to have Mr Tugendhat's assessment. The move towards greater producer responsibility for surpluses implements the ideas first outlined in the Commission's paper of last December "Reflections on the CAP".

8. Mr Tugendhat and M. Thorn may also want to know how we intend to react to the proposal for revaluation of the green pound. Ministers have not yet reached a view on this, but we shall certainly come under heavy pressure to make some adjustment. We should not in any case want to reveal our position at this stage. Even if we were to decide to revalue the green pound and thus to reduce the impact of the price settlement on UK inflation, this would not be an alternative to a tough common price settlement for the Community as a whole. It is the latter which influences the size of the Community surpluses and the level of budget expenditure.

Financial Guidelines

9. We are also pressing for Finance Ministers to consider the financial and budgetary background to the price fixing in order to enable them to impose a greater financial discipline on Agricultural Ministers. At our instigation, a preliminary discussion has been held in the ECOFIN Council on 16 February. It will hold a more substantive discussion in March in the light of the Commission's CAP price proposals.

EC/JAPAN

10. At the high level consultations in Tokyo on 26/28 January the Japanese made an unsatisfactory, temporising response to the Community which consisted essentially of vague indications of intent to moderate growth of exports of cars and television sets to Benelux and Germany. The Commission reacted by putting forward three main recommendations:



- (i) Community surveillance on imports of cars, colour televisions and tubes and some advanced machine tools from Japan;
- (ii) given its worldwide implications, the subject of trade and economic relations with Japan should be placed on the agenda for the Ottawa Summit;
- (iii) Member State's Ambassadors in Tokyo should make joint representations with the Commission to the Japanese. We hope something on these lines is going to be accepted at the 17 February Foreign Affairs Council, without too much of the kind of dissension of previous occasions which has left the Japanese with a strong impression of a divided Community. There is a good chance that this approach will succeed unless the French indulge in wrecking tactics or the Germans try to block agreement because of their doctrinaire opposition to trade restraint of any sort.

IMPORTS OF US TEXTILES AND CHEMICALS/US ENERGY PRICE CONTROLS

11. Acting on a proposal by the UK the December 1980 Foreign Affairs Council agreed a new and stronger EC initiative was required. The Commission were accordingly instructed to explore with the new US Administration the whole range of problems and possible solutions. The first meeting took place in Washington on 9/10 February. On gas de-regulation the Americans restated their aim of abolishing price controls without saying how or when. On textile exports they agreed to discuss the situation with their industry but argued that exports to the Community had peaked last year and were now likely to decline because of the strengthening dollar, the recession in the Community and the expected recovery in the US.

12. In fact UK imports of American bedlinen showed a rising trend throughout 1980. Our imports of both bedlinen and tufted carpets from the US were over 100% higher last year than in 1979.

13. We have made clear that we should much prefer an agreed solution to these problems. But in the meantime it is important that the EC should keep all options open (eg recourse to a GATT panel or Article 3 of the Multi-Fibre Arrangement (MFA)).

1980/81 BUDGETS

14. France, Germany and Belgium have withheld part of their contributions to the 1980 Supplementary Budget. France and Germany are also withholding part of their contributions to the 1981 Budget, but Belgium is paying in full.

15. In the last few weeks there have been several attempts to reach a compromise, both in Coreper and through bi-lateral contacts by the Presidency. Whilst the Belgians are clearly uneasy about the position which they are taking, there is no sign that the French or Germans are inclined towards a compromise solution. The Presidency has now abandoned its attempts to mediate.

16. The Commission decided on 4 February to begin the procedure for referring the issue to the European Court. The Member States have been invited to submit their observations. The Commission will then deliver a reasoned opinion, and if the States do not comply with the opinion, they will bring the matter before the Court. We have no interest in trying to speed up this procedure: the Commission are implementing the budget, including payment of our refunds, and the chances of a solution are likely to be better after the French election.

FISHERIES

17. No agreement at 9-12 February Fisheries Council on a revised CFP. Outstanding problem remains access. Discussion at next Council on 9-10 March will be based on Commission or Presidency proposals which will be presented after they have received from Member States information on current fishing patterns in disputed areas.

NEW ZEALAND BUTTER

18. Agriculture Council on 18 December failed to agree, due to French intransigence, on satisfactory long-term arrangements for access. Since 1 January, therefore, access based on roll forward of existing 1980 arrangements on pro rata basis, but this expires on 24 February. The French have some support from the Irish but are otherwise isolated. Nevertheless, they may continue to block the agreement we want. Presidency are seeking a package deal involving manufacturing beef and sugar, which may provide way out.

STAFFING AND A1 POSTS IN THE COMMISSION

19. Of the UK's four Directors-General in the Commission two, Mr le Goy (Transport) and Mr Williams (Energy) will shortly be leaving. We have put forward candidates to succeed them and M. Thorn should be left under no illusion of the importance we attach to retaining the posts. We hope that Mr Tugendhat who has now lost responsibility for personnel questions will continue to take an interest in UK staff.



SEAT OF EUROPEAN PARLIAMENT

20. The Conference of Member States discussing this question has met twice; on 28 October 1980 and 6 February. France continues to press for the Parliament's seat and activities to be in Strasbourg and Luxembourg for the status quo. Our preference, for reasons of efficiency, would be to see the Parliament in Brussels but we have not said so openly and have no interest in taking a lead on this subject. In the conference we are supporting a Dutch suggestion that the Parliament should be consulted before a decision is taken. This will delay an early decision, which would be more likely to be for Strasbourg, and allow time for pressure in favour of Brussels to build up.

INSURANCE

21. Since 1962 the EC has had a programme for establishing a common market in services, including insurance, but it has gone very slowly and so far only applies to small areas of insurance. The British insurance industry estimate they would gain substantially from freedom to provide insurance of industrial, commercial and professional risks throughout the Community (over £55 million net in a first year). A draft directive which would free such insurance services (the "Services directive") has been before the Council since 1975, but progress has been very slow.

22. The Prime Minister raised this problem at the last European Council and with Mr van Agt on 6 February. We have agreed with the Dutch to do all we can through our successive Presidencies to conclude the negotiations by the end of 1981. In December 1980, Commissioner Tugendhat urged COREPER to submit a first batch of questions on the directive to Ministers; the Presidency intend that this should be done at the March Financial Council. Tugendhat has indicated that he wishes to raise financial services, including insurance, with the Prime Minister and to discuss how best advantage be taken of the favourable succession of Dutch/UK Presidencies.

/23.

23. Several other Member States, particularly the French, Germans and Italians, have done their best to make the directive as restrictive as possible. The Commission are as anxious as we that it should be liberal and we have worked in harmony with the Commission officials. But in an effort to get at least something agreed, they have already unwillingly conceded one or two points of principle - notably a requirement for separate authorisation to do services business, which we have still not conceded - which we regret. If the measure is still to be a worthwhile liberalisation, there are few things we can still afford to concede. We will stand by the Commission in resisting attempts to whittle down Treaty freedoms.

BANKING AND FINANCIAL SERVICES (OTHER THAN INSURANCE)

24. The UK does not have a strong interest in promoting EC activity as regards banking and financial services other than insurance. Markets are in general open to British business, and London already enjoys the advantages of being a long-established financial centre. The danger is that EC harmonisation may impose a new inflexibility with no obvious compensating advantage.

25. The Commission have given publicity in the last few days to their plans for Directives on the accounts of banks and other financial institutions and on consolidated supervision of banks within the Community; and ultimately for a common system of deposit insurance. There are, however, no formal Commission proposals before the Council on any of these points at present.

STEEL INDUSTRY

26. Large excess of production over demand and falling prices led to Council assent on 30 October 1980 to Article 58 production quotas. These expire on 30 June 1981. Measures are intended to provide time for restructuring, ie reduction in capacity and modernisation of remainder. In short term success of BSC plan /inevitably

inevitably dependent on continuation of a disciplined community market. Otherwise increased price competition and German exports to other Member States will destroy the industry. Community accepts that aids must be linked to restructuring. The UK steel industry prefers a continuation of Article 58 production quotas to voluntary restraints which broke down last year and doubts whether new voluntary arrangements can be agreed in time. Measures must be agreed by April when orders for July will be placed.

ENLARGEMENT

27. Recent gaffe by Thorn implying, perhaps unintentionally, that accession could slip until 1985 was ill-received in Madrid and Lisbon. Best if Commission keep out of this sensitive area.

28. UKREP Brussels believe that M. Thorn has been extensively lobbied by French or Italians about the changes in acquis for Mediterranean agriculture, which the Community is planning in advance of Spanish accession. The French and Italians want to protect the incomes of their Mediterranean producers. We and other Northern producers want to reduce the burden on the Community budget of financing the surpluses which Spanish accession will create. Commission are shortly to make proposals; so important that M. Thorn should remain neutral.

29. British business worried that poor Spanish implementation of 1970 trade agreement bodes ill for willingness to implement terms of accession.

30. M. Thorn is known to be concerned about the effect which enlargement will have on third countries. We share M. Thorn's concern, but want to discourage him from exaggerating.

ENERGY

Crisis Measures

/31.

31. The Italians (in the IEA), the French (in the context of the preparation for the Ottawa Summit) and the European Commission have all floated ideas for the development of some form of international oil reserve, created either by pooling a proportion of currently-held stocks or by building up additional stocks. A country affected by a supply disruption would have the right to draw on the reserve and would have a subsequent obligation to replace the quantity drawn. Such a scheme could be beneficial from the UK point of view, and we favour further discussion and elaboration of these ideas.

Coal

32. In October 1979 Mr Howell put forward proposals to the Commission for Community support for investment in coal production involving a fund of 250mecu per annum, initially for 3 years. This remains on the table. We attach importance to securing support for coal production, either as part of any wider Community coal package, or as a specific contribution to budget restructuring and increasing non-agricultural spending.

Oil Levy

33. Commission proposals for a common energy policy, put forward in March 1980, included the suggestion of some form of oil import levy as a means of funding increased Community expenditure on energy. At OD on 13 October 1980, Ministers agreed that HMG should not advocate an oil levy, but internal studies of its feasibility should continue.

/Energy Pricing



Energy Pricing

34. May 1980 Energy Council recognised the importance of energy pricing. UK attaches importance to ensuring the greatest possible degree of energy price transparency in Europe, and the reduction/elimination of pricing subsidies. Commission are under instructions to discuss all energy price problems with US Government in context of textiles and petrochemicals. The Prime Minister will be raising energy prices with President Reagan.

35. The next Energy Council has been brought forward to 3 March. No agenda has yet been fixed, though oil supply and stocks (see paragraph 1) will feature, and we will wish to support our coal initiative.

CIVIL AVIATION

36. The UK has been pressing for liberalisation in the tightly regulated system for air transport in Europe, which is contrary to the whole intention of the Treaty of Rome to establish free trade in services. Within the Community there has been a great deal of common ground between ourselves and the Commission on current issues. But apart from the Dutch, Community states are reluctant to agree to a more liberal regime, because they are concerned to protect their national airlines.

37. The Commission presented to the Council in December 1980 a Draft Regulation on inter-regional air services. We support the broad objectives of this proposal, but will be seeking some widening of its scope.

38. On air fares, the Commission has been carrying out detailed consultations with national experts and interested bodies with a remit to report back to the Council. We hope that they will be able to give at least an interim report by the middle of this year and if possible attach to it a draft measure on air fares. There is public pressure in the UK for action on fares.



39. The Commissioners have asked the Commission Legal Services and the Competition Directorate to give an opinion by the end of May on the implications of applying the Competition Articles to air transport. We have sought to persuade the Commission that they should complete their study on the Competition Articles as quickly as possible, but that rather than attempt an immediate application of them to a highly regulated and complex area, this should be used as a lever to persuade other States to agree to sensible measures in the Council which would provide a smooth changeover to a more liberal regime. Since the Commission Transport Directorate share our objectives in air transport, our main aim is to persuade them to work to produce results as soon as possible.

40. The Dutch will be holding an informal meeting of Transport Ministers in Amsterdam on 16 February, at which air fares may well be discussed.

TELEMATICS

41. Telematics is the shorthand for the increasing convergence of computer and telecommunications technology (Information Technology). Following an initiative by M. Davignon, the Dublin European Council in 1979 endorsed the strategy and called for detailed proposals to implement it. Commission have since brought forward proposals on micro-electronics and telecommunications. Early adoption of the recommendations on telecommunications would be particularly helpful and would be consistent with UK objectives on telecommunications monopoly.

EUROPEAN COMMON FORMAT PASSPORT

42. In 1974, EC Heads of Government agreed in principle that Member States should adopt a common format for their national passports, but progress on implementation was slow. The question has recently been revived by the Italian and Luxembourg Presidencies. The UK has insisted that Member States should have the option of introducing a passport with a machine-readable page in the format recommended by ICAO. There is now considerable pressure from the Commission and other Member States for agreement on a compromise formula and the subject will be on the agenda of the March Foreign Affairs Council.

/Our

Our position is under review.

COMPANY LAW

43. The Company Law harmonisation programme's directives impose on us excessive burdens, for inadequate return. Specific points substantiating our general complaint are:-

- (a) the draft Directive on the content of prospectuses for unlisted securities would involve additional Government control which investors do not need;
- (b) the Commission's proposals on insider dealing attempt to create Community law on a matter best left to individual Governments because of widely varying legal systems and investment practices;
- (c) we are opposed to the provisions of the draft Fifth Directive about employee participation which is best left to voluntary evolution;
- (d) the draft Directive on Scissions (the division of public companies) which is designed to complement the Third Directive on mergers, has provoked strong opposition from the professions, trade and industry. This opposition has been endorsed by Lord Plowden's House of Lords sub-committee.

44. Mr Tugendhat is in charge of DGXV which deals with the harmonisation of law governing stock exchanges and unit trusts. The remaining work on company law is handled by DGIII, now under Herr Narjes's supervision. Mr Tugendhat therefore deals with points (a) and (b) above; Herr Narjes with points (c) and (d).

45. The Secretary of State for Trade wrote to Mr Tugendhat on 11 February to introduce himself and to confirm his predecessor's criticisms of EC harmonisation. Mr Biffen also criticised the programme in a speech to the Society of Conservative Accountants on 11 February.

PRIME MINISTER'S MEETING WITH MR TUGENDHAT ; 19 FEBRUARY 1981

INTRODUCTION

1. This call was originally arranged for 26 January but was postponed as a result of Mr Tugendhat's ill health. Apart from his call on the Prime Minister we understand that his visit is mainly concerned with Conservative Party affairs. He will be visiting Northern Ireland on 20 January.

2. Mr Tugendhat has informed us that the main points he wishes to discuss are: agricultural prices, restructuring, financial services (banking and insurance), HMG's approach to the Community in 1981 and staffing. Points for the Prime Minister to make on these subjects are at A - E below.

Our main objectives are:

- a) to point the Commission in the right direction on budget restructuring and in particular to encourage ideas for a more conscious policy on net budgetary flows while making it clear that we are not wedded to one particular solution;
- b) to emphasise the importance we attach to CAP price restraint.

Points L - R below are defensive points or points to raise if time permits.

POINTS TO RAISE

A. 1981 CAP PRICES (Subject to Commission proposals having been produced).

3. As you know we hoped you would propose a 4 - 5% increase. Your proposals disappointingly high. Commission could have been more selective, eg by holding down cereals increase. No way round need for severe price restraint, particularly for products in surplus. Some sectors of our own industry face serious income problems, but we will argue for price restraint in Council. Hope Commission will maintain its proposals in face of Council pressure for higher increases.

4. Support the idea of greater producer responsibility for surpluses. But should apply to those who increase production. Not in favour of linear co-responsibility levies. Co-responsibility no substitute for sensible policies on price.

5. Have not yet decided position on green pound. In any case green pound revaluation by UK no substitute for rigorous policy on common prices.

6. Welcome discussion in the ECOFIN Council on the financial framework. Must be right for Finance Ministers to provide financial guidelines to Agricultural Ministers, bearing in mind the need to reduce proportion of the Budget spent on agriculture and to keep within 1% ceiling.

B. RESTRUCTURING AND CAP REFORM

7. What is Commission's timetable for preparation of report by June?. We support Dutch proposal for first discussion at June European Council. Hope report will be ready in good time for this.

8. Note that / ^{Commission} wish to raise at March European Council. Progress Report on Commission's work so far would be useful, but inclined to feel too soon then for substantive discussion, which will tend to tie Commission's hands.

9. 1% ceiling must be taken as given, as a matter of practical politics. Problems cannot be solved by spending more money.

10. Reform of CAP essential in its own right. Continuation of surpluses not acceptable to public opinion. It will also help with restructuring, as will development of non-agricultural expenditure policies. Note ^{M Thorn's} statement to Parliament that CAP at heart of Commission's review of policies. It is increasingly clear, however, that reforming CAP and new expenditure policies will not be enough to ensure continuing

/avoidance

avoidance of unacceptable situations, particularly bearing in mind additional financial problems of enlargement.

11. (If raised). Know Commission have been thinking about introducing an element of national financing into the CAP. Hope Commission will explore this further as an option for their paper, but could not provide a complete solution on its own.

12. In our view permanent solution must be founded on three principles:

- i) overall distributive effect of the Community Budget as between the Member States should be the subject of a conscious Community decision and not, as at present, the cumulative result of decisions taken about individual policies;
- ii) the distributive effect decided in the above way should be based on defensible criteria, which should include some measure of relative prosperity per head;
- iii) the scale of net contributions and receipts brought about by such a formula must be limited and controlled, particularly in view of enlargement.

An overall adjustment mechanism could well turn out to be the best solution, and we hope the Commission will include it in their report. But we do not want this or any other scheme labelled as "the British proposal", and are seeking to avoid becoming publicly committed to any option.

C. FINANCIAL SERVICES

13. No strong pressure in UK for progress on banking and financial services other than insurance. Interested to hear any ideas Mr Tugendhat may have.

14. Free market for services is major UK priority. Hope it is for the Commission too.

15. Have agreed with Dutch that insurance services directive

/must



must go through this year. But some Member States clearly out to restrict effect and delay entry into force.

16. Welcome Commissioner Tugendhat's close interest. [REDACTED]

D. HMG'S APPROACH TO COMMUNITY IN 1981

17. 1981 an important year for UK in the Community:

Presidency, restructuring. In the run up to our Presidency we shall be concerned to work closely with the Dutch Presidency.

18. The Presidency provides an opportunity to reaffirm our commitment to Europe and to focus attention at home on our ability to make a positive contribution to the strengthening of the Community.

19. For the conduct of the UK Presidency, our main objective is to run an efficient Presidency which is seen as a success in the Community; demonstrate to our partners HMG's commitment to Europe; and exploit any opportunities to improve the image of the Community within the UK. We shall also pay close attention to the need to promote good relations with the European Parliament.

20. There will be a considerable number of subjects in 1981 where we have important interests at stake.

21. Apart from budget [REDACTED] restructuring, our current main priorities are the reform of the Common Agricultural Policy; the fisheries policy; and on the foreign trade side, relations with Japan and the US, and New Zealand butter. During our Presidency enlargement and the 1982 budget will also assume importance. Other important subjects during our Presidency will be energy and the [REDACTED] review of the Regional and Social Funds; and we will continue to press for progress on insurance and air transport.

E.



E. STAFFING AND A1 POSTS

22. Hope you will keep close watch on UK staffing questions although this is no longer your direct responsibility.

Important that UK candidates should succeed British Directors-General for Energy and Transport. Both important portfolios we wish to retain so as to maintain national balance.

Have put forward good UK candidates for both jobs. Concerned about heavy weighting against UK at lower levels in the Commission.

F. COMPANY LAW

23. We accept principle of harmonisation of company law. But should be limited to cases where differences between national laws are positive impediments.

24. Risk programme can outrun the capacity of Member States to promote the necessary legislation. Others are beginning to realise this. Our record (Companies Bill in two succeeding Sessions) is among the best.

G. 1980/81 BUDGETS

25. We are paying our full contributions to both budgets.

26. We would like to see a solution to this problem but fear it will take time.

27. We have no wish to see it develop into a major crisis and hope it will continue to be handled in a low-key way.

H. FISHERIES

28. Regret Fisheries Council on 9 - 12 February did not settle CFP. We tried our best. Hope Commission proposals on access will take fully into account the effort already made by UK on this politically highly sensitive item. UK intends to continue to work constructively for settlement.

I. NEW ZEALAND BUTTER

29. At the Agriculture Council on 23/24 February we shall

/be

be prepared to facilitate a package deal on New Zealand butter, manufacturing beef and sugar as floated at the December Agriculture Council. However on New Zealand butter, we must have firm three-year commitment on acceptable quantities, as already proposed by Commission, with agreement on review clause enabling continuing arrangements thereafter. Failing that, essential to have further roll forward at the 1980 rate to avoid a legal void.

J. EC/JAPAN

30. UK strongly supports united Community approach. We have made this plain to the Japanese.

31. Initial Japanese response inadequate.

32. Commission proposals for immediate EC reaction were in our view on the right sort of lines, as we made clear at 17 February Foreign Affairs Council. Need to raise the level of political pressure on Japan. Right for Community to put the subject on the agenda for Ottawa Summit.

33. We look to Commission to keep up momentum.

34. (If necessary) UK has already made clear that in present economic circumstances we could not accept Community wide restraint arrangements (eg on cars, television sets) if they were less effective than our existing industry-to-industry arrangements.

K. IMPORTS OF US TEXTILES AND CHEMICALS/US ENERGY PRICE CONTROLS

35. Decision by UK not to seek extension of quotas on synthetic fibres at the end of last year was a difficult one for us to take.



36. Welcome President Reagan's decision to decontrol oil.
But serious problems result.

37. US gas prices are still controlled. And sheer volume of imports from US of certain textiles and chemicals products is causing real difficulty.

38. Commission must pursue with vigour. Obviously better to find agreed solutions if we can. But important not to exclude any options.

POINTS TO RAISE IF TIME PERMITS

L. SEAT OF EUROPEAN PARLIAMENT

39. Decision is for Member States to take by common accord but Parliament should be consulted at an appropriate moment before decision is taken.

40. UK aim is to eliminate waste of time, money and energy caused by present arrangements.

M GENSCHER SPEECH - TREATY ON EUROPEAN UNION? (if raised)

41. Not entirely clear what he was proposing. German Government do not seem to have followed up. Would of course consider any ideas but our priority is to make a success of Community as it is. What does Tugendhat think?

N CIVIL AVIATION

42. We want liberalisation of tightly-regulated air transport system in the Community. We, the Dutch, and the Commission need to persuade Member States that early action is needed to ease controls on route entry and air fares. Want progress during 1981.

O TELEMATICS

43. Community must make early progress on concrete proposals to implement "telematics" strategy. Important to create conditions where this key European sector can compete internationally.

P STEEL INDUSTRY

44. Crisis in Community steel industry continues. Mandatory production quotas expired on 30 June. Effective measures must continue in force from that date. Disciplined market must be maintained if restructuring is to be achieved. Decisions are needed quickly.

45. Early progress on restructuring essential. Any state aid must be linked to net capacity reduction.

46. Glad Commission have brought forward proposals on restructuring and state aids. Hope there can be agreement at the 3 March Council.

Q ENLARGEMENT

47. Timing of enlargement sensitive for both Spain and Portugal. Portugese have never accepted delay until 1984 and Spanish against delay beyond then. So need for care in public statements; no need to tie ourselves to precise timetable. Enlargement and restructuring to proceed in parallel.

48. Changes in acquis for Mediterranean agriculture important.

/Otherwise

Otherwise Spanish accession would create expensive surpluses. Important to avoid new burdens on existing members: substantial aid already granted in 1978 to help Mediterranean agriculture in the Community prepare for enlargement. Trouble ahead if Commission proposals not seen to be equitable.

49. Support enlargement, but increasing pressure on UK Ministers from British business about ominously defective Spanish performance under 1970 agreements. Hope Commission will help impress this on Madrid once present crises is over.

50. (If raised). Share your concern about effects of enlargement on third countries. But had to keep in perspective and avoid prejudging issues. Too early to reach conclusions.

R ENERGY (If raised)

51. Balance to be struck between action at Community and national level. Community has valuable role in setting guidelines and developing policies complementary to national programmes. During Presidency UK will bring out positive aspects of Community energy policy and encourage greater transparency on pricing.

52. Concerned about effect of unfair US energy policy on European chemical and textile industry. US deregulation of oil price welcome. Must keep up pressure for gas deregulation.

53. Crisis Measures (Defensive - if raised)

UK committed to existing EC and IEA arrangements for dealing with serious oil supply shortage. Studying with interest recent ideas for additional measures on oil stocks. Effective arrangements must involve the US and Japan.

S. EUROPEAN COMMON FORMAT PASSPORT (If raised)

54. We are still considering the latest proposals.

55. The British public are strongly attached to the traditional passport. It is essential that any changes to a new format can be shown to have clear practical advantages, such as quicker handling

/at ports

CONFIDENTIAL



at ports and protection against forgery. We therefore wish to associate any changes with recent international moves towards machine-readable passports. Not entirely clear what he was proposing.

CONFIDENTIAL



file

SK
cc: J. H. T.
MAFF
CO

10 DOWNING STREET

From the Private Secretary

3 February 1981

BF 18/2/81

Visit of Mr. Tugendhat

Mr. Tugendhat's postponed call on the Prime Minister has now been rearranged for 1700 hours on Thursday 19 February. We shall probably arrange for a briefing meeting for the Prime Minister's discussions with both Mr. Tugendhat and M. Thorn to take place at 1600 hours that afternoon.

I should be grateful if briefs for the Prime Minister's discussions with Mr. Tugendhat and M. Thorn could reach me by close of play on Wednesday 18 February.

I am sending copies of this letter to John Wiggins (HM Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office



From the Minister's
Private Office

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

~~CF~~ *CF. This should be put with the
Hqs about Mr Tugendhat's visit,
planned for to-day, or brought
forward when a new date is
set.*

Michael Alexander Esq
Private Secretary
10 Downing Street
London SW1

23 January 1981

Dear Michael,

*Paul
- 26/1*

DISCUSSION WITH MR TUGENDHAT ON AGRICULTURAL PRICES

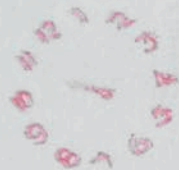
When we spoke on Thursday, you told me that the proposed meeting between the Prime Minister and Mr Tugendhat planned for 26 January had been cancelled because of Mr Tugendhat's illness. When a new date is arranged for this meeting, my Minister thinks it would be helpful if he could have a short discussion in advance with the Prime Minister on our approach to the 1981 CAP price fixing; perhaps it would also be possible for Mr Walker to be present when the Prime Minister talks to Mr Tugendhat on this subject.

I am copying this letter to John Wiggins (HM Treasury), Francis Richards (FCO) and David Wright (Cabinet Office).

*Yours sincerely
Kate*

KATE TIMMS
Principal Private
Secretary

26 JAN 1981





10 DOWNING STREET

From the Private Secretary

21 January 1981

Call by Mr. Tugendhat

Further to my letter to you of 16 January (and Brussels telegram 133 of the same date) I enclose a copy of a letter which I have received this afternoon from Mr. Tugendhat's Chef de Cabinet. No doubt you will take it into account in preparing the briefs requested in my letter under reference.

I am sending copies of this letter and its enclosure to John Wiggins (HM Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office.

VLB

COMMISSION
OF THE
EUROPEAN COMMUNITIES

Office of Christopher Tugendhat

Chef de Cabinet

Brussels, 20 January 1981

Dear Michael,

Agenda for Mr Tugendhat's call on the Prime Minister on 26 January

You asked for an agenda for this meeting.

Mr Tugendhat would like to discuss four points with the Prime Minister:

- Agricultural prices
- Work on the Mandate in the Commission and handling of the Commission's proposals in the UK Presidency
- Financial services and, last and more broadly,
- HMG's approach to the Community in 1981.

It may well be that on the longer term aspects, no very firm view of policy can yet be taken. Mr Tugendhat feels, however, that in discussing the short term we should bear in mind the repercussions of decisions taken now on the second half of the year.

As regards agricultural prices, Mr Tugendhat will give the Prime Minister his impression of how things stand in the Commission, on substance as well as timetable, following Gundelach's death. Following representations carried out on instruction by Michael Butler, Mr Tugendhat is of course generally aware of HMG's approach to farm prices. He would, however, like to hear from the Prime Minister what her priorities are (will for instance HMG's emphasis be on the level of prices increase, or rather on matching savings); and in particular how HMG intends to react to the attack the French are beginning to mount on positive MCAs.

On the mandate, Mr Tugendhat feels that though the new Commission

. / .

will not have got far in its thinking, and that therefore the Commission's proposals will to some extent be a matter of speculation, it will be useful to know from the Prime Minister what sort of timetable and time scale she is envisaging for the restructuring exercise and what her preferred approach is - major changes in CAP expenditure or in the financing of this expenditure or an override mechanism taking account of net positions of Member States and involving transfers between richer and poorer Member States.

Mr Tugendhat would like a brief mention of financial services. He retains responsibility for banking and insurance and feels that in the next four years it is important to bring about the common market in services which the Treaty explicitly calls for and which at the moment is confined to goods. There is considerable disillusionment in City circles about lack of progress so far and, as the blockage lies in the Council rather than the Commission, Mr Tugendhat would like to discuss tactics and how best advantage might be taken of the favourable succession of the Dutch and UK presidencies.

Finally, he would like a short exchange on HMG's overall European policy: how relations with France, Germany and Italy are viewed and what, apart from the mandate, are regarded as priorities.

Yours ever,

Pauline

Pauline Neville-Jones

M.O'D.B.Alexander, Esq.,
Private Secretary to the Prime Minister,
10 Downing Street,
London S.W.1.



10 DOWNING STREET

From the Private Secretary

16 January 1981

BF 23.1.81

CALL BY MR. TUGENDHAT

You will wish to be aware that an appointment has been made for Mr. Tugendhat to call on the Prime Minister at 1500 on 26 January.

11 Mr. Tugendhat's Office have promised to let me know the points that Mr. Tugendhat plans to raise. I should be grateful if you could arrange for a suitable brief to reach me by close of play on Friday 23 January.

I am sending copies of this letter to John Wiggins (HM Treasury) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office.

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FM UKREP BRUSSELS 161204Z JAN 81

TO IMMEDIATE F C O

TELEGRAM NUMBER 133 OF 16 JANUARY.

INFO CAIRO (FOR PS/SOFS).

MR CHRISTOPHER TUGENDHAT

IMMEDIATE

ADVANCE COPY

PS

PS/PS

PS/PS

MR HANNAY

MR ECD-1 (3)

MR FRANKLIN
Cabinet office

MAFF (for PS/SOFS)

TREASURY (for PS/Chancellor)

NO 10 (for Mr Alexander)

(Ltd)

1. MR TUGENDHAT'S CABINET HAVE TOLD US THAT MR TUGENDHAT WOULD LIKE TO SEE THE PRIME MINISTER, YOU, MR WALKER AND SIR GEOFFREY HOWE IN THE COMING WEEKS. HE WILL BE IN LONDON ON MONDAY 26 JANUARY AND WE HAVE ARRANGED WITH NO 10 THAT HE SHOULD CALL ON THE PRIME MINISTER AT 3 PM. HE WOULD BE VERY GRATEFUL, IF IT WERE AT ALL POSSIBLE, TO SEE YOU. HE HAS AN APPOINTMENT AT THE CONSERVATIVE CENTRAL OFFICE AT 3.45 WHICH WILL LAST ABOUT AN HOUR. WOULD IT BE POSSIBLE FOR YOU TO SEE HIM AT SOME TIME FROM 5 PM? LESS GOOD, BUT STILL POSSIBLE, FOR HIM WOULD BE THE MORNING. HE WILL WANT TO CONCENTRATE ON THE BUDGET RE-STRUCTURING MANDATE AND AGRICULTURAL PRICE FIXING, AND WOULD PARTICULARLY LIKE TO DISCUSS HMG'S VIEW OF ITS OWN ROLE IN THESE.

2. THE TUGENDHAT CABINET WILL TRY AND SET UP THE OTHER APPOINTMENTS THEMSELVES (PLUS OTHER MEETINGS WITH CONSERVATIVE PARTY FRIENDS) IN THE LIGHT OF WHAT YOU CAN MANAGE, BUT THEY WONDER WHETHER IT WOULD BE POSSIBLE FOR MR WALKER TO GIVE MR TUGENDHAT SOME TIME IN THE MARGINS OF THE FISH COUNCIL ON 27 JANUARY, PERHAPES OVER LUNCH.

FCO ADVANCE TO:-

FCO - PS/SOFS, HANNAY, SPRECKLEY

CAB - FRANKLIN

MAFF - PS/SOFS

TSY - PS/CHANCELLOR

NO 10 - ALEXANDER