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ANGLO/FRENCH SUMMIT PREPARATIONS: EC QUESTIONS

1. EVANS AND HANNAY VISITED PARIS ON 20 OCTOBER TO DISCUSS THE AGENDA FOR THE ANGLO/FRENCH SUMMIT. FOLLOWING IS AN ACCOUNT OF CONVERSATION ON EC QUESTIONS. FOR BILATERAL QUESTIONS, SEE MIFT (NOT REPEATED).

2. IN A GENERAL INTRODUCTION, PAYE MENTIONED FRENCH CONCERN THAT THE COMMUNITY HAD GOT STUCK. HE NOTED THAT MR PYM HAD SHOWN SOME SYMPATHY FOR CHEYSSON'S VIEWS ON THIS AT LA CELLE ST CLOUD LAST MONTH. THE SITUATION COULD BECOME MORE DIFFICULT IF NO CLEAR MAJORITY EMERGED IN THE FRG ELECTIONS AND THE GREENS HELD THE BALANCE IN THE BUNDESTAG. THERE WERE TWO GROUPS OF QUESTIONS FOR WHICH SOLUTIONS MUST BE FOUND,

(A) FINANCIAL AND BUDGETARY QUESTIONS, INCLUDING UK BUDGET REFUNDS, OWN RESOURCES AND THE BUDGETARY POWERS OF THE PARLIAMENT (WHICH MUST BE CLARIFIED BEFORE THE QUESTION OF OWN RESOURCES WAS RE-EXAMINED) AND

(B) ENLARGEMENT AND RELATED PROBLEMS - IN PARTICULAR, HOW COULD A COMMUNITY OF 12 FUNCTION EFFECTIVELY. THEY WERE TEMPTED TO ENVISAGE SOME FORM OF VARIABLE GEOMETRY DESPITE THE EVIDENT DIFFICULTIES OF BOTH PRINCIPLE AND PRACTICE.

ECONOMIC QUESTIONS

3. PAYE SUGGESTED THAT EC MEMBER STATES SHOULD AIM TO REACH A MINIMAL CONSENSUS ON ECONOMIC POLICIES, TO ENABLE THE EC TO ACT AS A CATALYST IN THE WEST - OTHERWISE THE CURRENT CRISIS COULD DEEPEN. THIS COULD NOT HAVE BEEN CONTEMPLATED LAST YEAR, AND WAS NOT ACHIEVED AT VERSAILLES. BUT NOW EVEN THE US WAS SHOWING A MORE PRAGMATIC APPROACH. HE HAD SUGGESTED TO ORTOLI THAT THE TIME WAS RIPE FOR A COMMISSION INITIATIVE WITHIN THE EC.

4. EVANS COMMENTED THAT THE BRITISH GOVERNMENT'S CONCEPT OF THE EC WAS A DYNAMIC ONE (SEMI-COLON) WE FAVOURED EARLY ENLARGEMENT AND THE DEVELOPMENT OF NEW EC POLICIES. THE BRITISH GOVERNMENT SHARED FRENCH PREOCCUPATIONS ON THE INTERNATIONAL ECONOMIC SITUATION. EVANS MADE IT CLEAR THAT NO CHANGE IN THE BRITISH ECONOMIC STRATEGY COULD BE EXPECTED. IT REMAINED THE BRITISH GOVERNMENT'S FIRST PRIORITY TO BRING DOWN INFLATION, WHICH SHOULD HELP TO ACCELERATE RECOVERY.

BUDGET QUESTIONS

5. HANNAY SAID THAT THE COMMUNITY'S BUDGET PROBLEMS - NOT ONLY UK ASPECTS - LOOMED LARGE. MR HURD HAD MADE IT CLEAR THAT BRITAIN WAS PREPARED TO RECONSIDER THE WIDER ASPECTS OF COMMUNITY FINANCING. THE EUROPEAN PARLIAMENT'S POWERS IN RELATION TO THE BUDGET WOULD DOUBTLESS HAVE TO BE CONSIDERED IN THE CONTEXT OF THE BROADER FINANCIAL REVIEW. IN THE MEANTIME, THE AGREEMENT BETWEEN THE EC INSTITUTIONS REACHED IN JUNE HAD BEEN USEFUL AND IT WAS IMPORTANT TO STICK TO IT.

6. ON THE 1982 UK BUDGET REFUND, HANNAY SAID THAT THE FRENCH SHOULD RECOGNISE THAT THIS WAS A SENSITIVE AND DIFFICULT PROBLEM FOR THE BRITISH GOVERNMENT, AND SHOULD NOT UNDERESTIMATE THE STRENGTH OF THE FEELING IN THE UK. THE SITUATION WAS NOT IRRETRIEVABLE, HOWEVER, PROVIDED THAT THERE WAS AGREEMENT TO RESPECT THE 25 MAY DECISION AT NEXT WEEK'S COUNCIL. LEGRAS COULD GIVE NO INDICATION OF THE LINE THE FRENCH WOULD TAKE THEN.

7. HANNAY SAID THAT FOR 1983 AND LATER THE UNDERTAKING ON 25 MAY HAD BEEN CLEAR IF IMPRECISE. A SATISFACTORY LONG-TERM SETTLEMENT WAS A MATTER OF GREAT IMPORTANCE TO BRITAIN AND THE GOVERNMENT WAS DISTURBED AT SLIPPAGE IN THE TIMETABLE. PUBLIC RECRIMINATIONS WERE IN NO-ONE'S INTEREST. LEGRAS ASSERTED THAT THE 1980 'OVER-PAYMENT' PROBLEM MUST BE SETTLED BEFORE ANY FURTHER REFUNDS COULD BE CONSIDERED. HANNAY DEALT FIRMLY WITH THIS. THE UK HAD NO LEGAL OBLIGATION TO MAKE ANY REPAYMENT, THOUGH WE HAD AGREED ON A POLITICAL BASIS THAT IT COULD BE TAKEN INTO ACCOUNT IN SETTLING REFUNDS FOR 1983 AND LATER. THE TWO MATTERS MUST BE DISCUSSED IN PARALLEL. UNLESS SERIOUS NEGOTIATIONS WERE ENGAGED VERY SOON, THE COMMUNITY WOULD DRIFT TOWARDS A MAJOR CONFRONTATION. PAYE SAID THAT IN THE CURRENT FRENCH FINANCIAL AND ECONOMIC SITUATION THE FRENCH GOVERNMENT COULD NOT BE AS FORTHCOMING IN THEIR APPROACH AS THEY HAD BEEN IN 1980. MOREOVER THE PRESENT FRENCH GOVERNMENT WAS CONSTRAINED BY ITS CRITICISM OF THE MAY 1980 MANDATE.

ENLARGEMENT

8. HANNAY SAID THAT BRITAIN WAS COMMITTED TO ENLARGEMENT WITHOUT UNDUE DELAY (AS RECORDED IN THE PRIME MINISTER'S LETTER TO THORN). IT WAS TIME FOR THE EC TO ENGAGE IN SERIOUS NEGOTIATIONS ON THE PRACTICAL ASPECTS. BRITAIN BELIEVED IN A TRADITIONAL APPROACH: TRANSITIONAL ARRANGEMENTS SHOULD BE NEGOTIATED UNLESS THERE WAS A REAL REQUIREMENT TO MAKE MORE LASTING CHANGES TO EC REGIMES.

9. BRITAIN WAS PARTICULARLY CONCERNED ABOUT THE IMBALANCE IN INDUSTRIAL TRADE UNDER THE 1970 EC/SPAIN AGREEMENT CAUSED BY THE ASSYMMETRY IN TARIFFS AND SPANISH MANIPULATION OF THEIR TAX SYSTEM. IT WAS TIME TO BRING THE SPANIARDS UP AGAINST THEIR RESPONSIBILITIES IN RELATION TO THE 1970 AGREEMENT, AND BRITAIN WOULD HAVE PROPOSALS TO MAKE. THE TRANSITIONAL ARRANGEMENT SHOULD

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TAKE ACCOUNT OF THESE PROBLEMS: IF THE TRANSITIONAL PERIOD FOR INDUSTRIAL PRODUCTS EXCEEDED THREE YEARS, IT MUST INCLUDE MEASURES FOR THOSE PRODUCT AREAS WHERE SPAIN HAD EXPORT POTENTIAL. LEGRAS SUGGESTED THAT THE TRANSITIONAL REGIME COULD PROVIDE FOR SUBSTANTIAL REDUCTION IN SPANISH TARIFFS SOON AFTER ACCESSION.

10. ON AGRICULTURE, BRITAIN'S MAIN CONCERN WAS THAT ANY CHANGES IN REGIMES TO MEET ENLARGEMENT SHOULD NOT REPEAT THE MISTAKES OF EXISTING REGIMES FOR TEMPORATE PRODUCTS, EG BY ENCOURAGING SURPLUSES. LEGRAS COMMENTED THAT FOR MEDITERRANIAN PRODUCTS, FRANCE DID NOT WANT TO ENCOURAGE SURPLUS PRODUCTION(SEMI-COLON) BUT DID REQUIRE MEASURES TO OPERATE IN CASE OF CRISIS AND INCREASED PRODUCER DISCIPLINE, WHICH SHOULD NOT SIGNIFICANTLY INCREASE BUDGETARY COSTS.

11. ALTHOUGH LEGRAS CLAIMED THAT UK PROPOSALS ON OLIVE OIL WOULD BE UNACCEPTABLE TO SPAIN AND ITALY, HE SHOWED INTEREST IN FURTHER DISCUSSION OF THEM . HANNAY MADE IT CLEAR THAT THE FRENCH PROPOSAL FOR A VEGETABLE OILS TAX WAS UNACCEPTABLE TO THE UK.

12. ON FISHERIES, HANNAY COMMENTED THAT ONCE A CFP HAD BEEN AGREED, IT SHOULD NOT BE DIFFICULT TO DEFINE A COMMUNITY POSITION FOR NEGOTIATIONS WITH SPAIN.

13. HANNAY AGREED THAT THE INSTITUTIONAL ASPECTS OF ENLARGEMENT WOULD POSE PROBLEMS, BUT HE DOUBTED THAT FURTHER CONCEPTIONAL STUDIES BEFORE ENLARGEMENT WOULD BE WORTHWHILE - IT WOULD PROBABLY BE BEST TO SEE HOW THINGS WORKED OUT IN PRACTICE.

GIBRALTAR

14. BRITAIN INTENDED IF POSSIBLE TO KEEP THIS ISSUE OF THE FRONTIER WITH SPAIN OUTSIDE THE ACCESSION NEGOTIATIONS(SEMI-COLON) BUT HOPED FOR FRENCH UNDERSTANDING IF IT PROVED NECESSARY TO RAISE THE QUESTION IN BRUSSELS.

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