Prime Minister.

CONFIDENTIAL

Qz.03552

MR COLES A.J.C. 20/1

POST-STUTTGART NEGOTIATIONS

I attach, as you requested, a short summary of the United Kingdom objectives in a form which the Prime Minister may find useful for her papers for the lunch with President Mitterrand on 23 January.

I am sending copies to Roger Bone (FCO) and to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

20 January 1984

CONFIDENTIAL

POST-STUTTGART NEGOTIATIONS: UNITED KINGDOM OBJECTIVES

Budget

1. The United Kingdom objective is reform of the Community's financial system to deal with the budget inequity (the so-called "budget imbalance"). The revised system should:

(i) be lasting, ie it must deal with the problem as long as it remains. This can be achieved by including the changes in the revised Own Resources Decision, which would in any event have to be revised if there were an increase in the 1% VAT ceiling;

(ii) set limits on member states' net contributions. The limits should be based on ability to pay and should be established as a percentage of a member state's gross domestic product;

(iii) correct the inequity by reducing a member state's VAT contribution in the following year ("on the revenue side"). (French agree);

(iv) should come into effect so that it can apply in respect of 1984 and later years. This means that we need the revised system to apply first to the Community's 1985 budget (when we would get our VAT contribution reduced in respect of 1984).

2. The United Kingdom's proposal to meet this objective is the safety net (estimated effect, if it had applied in 1982, in annex). The French do not like the fact that the United Kingdom's proposal sets a limit and gives relief relating to the whole of the net contribution (ie corrects the effect not only of our inadequate receipts from the Community budget but also of our disproportionate contribution to the Community of customs duties and levies as own resources). We must have a result which in fact gives relief equal to a substantial part of our net contribution but we seek to avoid a sterile argument about the concept of net contributions.

/3.

Control of agricultural and other spending

3. The United Kingdom objective is more effective control of Community spending and, in particular, a strict financial guideline to hold the rate of growth of agricultural support expenditure markedly below the rate of growth of own resources.

4. There is a good measure of agreement on a strict financial guideline for agricultural spending but most member states want only a political commitment. We want to include it in the budgetary procedures of the Community (not necessarily by a Treaty amendment).

5. Late last year the French came forward with proposals (the Delors proposals) for a strict financial guideline for all spending with a sub-guideline for agricultural spending. We believe that this may yet provide the basis for an agreement, although we continue to insist that more than a political commitment is necessary.

Agriculture

4. The United Kingdom objective is to get some changes in the operation of the common agricultural policy which would put it on a much sounder basis for the long term. In particular, we believe that it is in the Community's interest to have a rigorous price policy; effective guarantee thresholds when production exceeds or threatens to exceed remunerative outlets; effective measures to restore a better balance in the milk market (if necessary, a non-discriminatory quota/super-levy system); a narrowing of the gap between Community support prices for cereals and those of our principal competitors; and restraint in expenditure on Mediterranean as well as Northern products. These questions are now being discussed again in the Agriculture Council.

5. The French see the main agricultural issues as milk; monetary compensatory amounts; imports of cereal substitutes (maize gluten feed); and the oils and fats tax (which Germany, Netherlands, Denmark and UK reject).

/6.

Other policies

6. The United Kingdom objective is to press ahead with the "completion of the common market" in goods and services, eg removal of administrative barriers to trade, liberalising of lorry quotas, early progress in liberalising structure of air fares, early adoption of a genuinely liberal non-life assurance directive.

7. Anglo/French relations on "other policies" are quite good. The French have a strong interest in encouraging more industrial cooperation between enterprises in the Community and in support for high technology sectors. We have been careful to avoid any commitments to higher expenditure and greater protectionism but are well disposed to improvement of the conditions in which individual enterprises will themselves decide that industrial collaboration within the Community would be in their interest.

Own resources

8. We are prepared to consider an increase in the 1% VAT ceiling, which in our view is a fundamental change in the Own Resources Decision requested by other member states, provided that there is a fairer sharing of the budgetary burden and effective control of agricultural and other spending.

Cabinet Office

20 January 1984

ANNEX

The following are the main figures if our safety net system had been applied to 1982 -

million ecu

	UK	Germany	France
Unadjusted net contribution	2036	2086	19
(for information) UK adjusted net contribution if we obtained two-thirds relief, as under ad hoc arrangements	679	-	-
Safety net limit on net contribution	437	2118	1385
Adjusted net contribution after application of safety net and payment of all reliefs on a VAT-based key	437	2118	692*

*this figure could be lower (eg 500 million ecu) if a special key for financing the relief were used.

Prime Minister.

Qz.03553

MR COLES A.J.C. 20/1

I sent to you yesterday a note of our objectives in the post-Stuttgart negotiations and their conformity with the Treaty of Rome. The French are also inclined to imply that our views on certain issues such as the cereal substitutes are contrary to Community preference and out of line with Treaty objectives. In case this should be mentioned, I attach an additional page about Community preference and the Treaty of Rome.

I am sending copies to Roger Bone (FCO) and Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

20 January 1984

and the
- lowering of
customs barriers

4. Agriculture: Community preference

Stuttgart declaration:	one of the points listed among the agricultural questions which will be examined is "substitutes and Community preferences".
Treaty of Rome, preamble and article 110	The United Kingdom is not disputing that the Community's commercial and agricultural policies normally give a preference to Community goods (effect of tariffs or levies). This is not, however, an overriding requirement. We also have obligations relating to international trade. The preamble to the Treaty of Rome includes the objective -

"desiring to contribute, by means of a common commercial policy, to the progressive abolition of restrictions on international trade"

Article 110 states that -

"By establishing a customs union between themselves Member States aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers."

(". . . contribuer, conformément à l'intérêt commun, au développement harmonieux du commerce mondial, à la suppression progressive des restrictions aux échanges internationaux . . .".

(2)

Prime Minister.

As requested.

A.J.C. 19/1

Qz.03545

MR COLES

THE UNITED KINGDOM'S MAIN OBJECTIVES IN THE POST-STUTTGART NEGOTIATIONS AND THEIR CONFORMITY WITH THE TREATY OF ROME

You asked to have in tabular form the United Kingdom's main objectives in the post-Stuttgart negotiations and relevant extracts from the Treaty of Rome. I attach this information for the three major objectives (correcting the budget inequity; effective control of agricultural and other expenditure, including the strict financial guideline; changes in the agricultural regimes) as we agreed.

I am sending copies to Roger Bone (FCO) and Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

19 January 1984

POST-STUTTGART NEGOTIATIONS: UK OBJECTIVES

1. Community budget: a fairer sharing of the burden

Stuttgart declaration: "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. All appropriate ways and means will be examined to this end, . . . with a view to ensuring equitable situations for all member states."

Treaty of Rome, preamble: The Heads of State "anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions

("Soucieux de renforcer l'unité de leurs économies et d'en assurer le développement harmonieux en réduisant l'écart entre les différentes régions")

(the so-called convergence objective)

Comment: (i) it is clearly contrary to the Treaty objective of convergence that the UK with gdp per head at about the Community average should make a substantial transfer of resources each year through the Community budget to richer member states such as Denmark or the Benelux;

(ii) the Community budget financing rules and the 1% VAT ceiling are in the Own Resources Decision of 1970, any change of which requires unanimity and ratification by all ten Parliaments. It is other member states who have been the first to demand a fundamental change (ie an increase in the 1% VAT ceiling) in the arrangements which the UK accepted on accession.

2. Community spending: effective control of agricultural and other expenditure

Stuttgart declaration

"The examination of policies will take place . . . to ensure that policies are cost-effective and that economies are made wherever possible"

"The examination will result, inter alia, in concrete steps compatible with market conditions being taken to ensure effective control of agricultural expenditure . . . Expenditure must also be controlled, in cooperation with the European Parliament, outside the agricultural sector."

Treaty of Rome article 39

(Agricultural expenditure)

The objectives of the common agricultural policy in article 39 include

"to increase agricultural productivity . . . by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production . . ("en assurant le développement rationnel de la production agricole")

to stabilise markets ("stabiliser les marchés")

to ensure that supplies reach consumers at reasonable prices"

Comment: temporary surpluses are a feature of agriculture but to spend increasing sums on a surplus such as the Community now has for milk is contrary to the Treaty's objectives of ensuring the rational development of agricultural production and stabilising markets. A financial guideline on the allocation of resources is therefore needed in the Community's budgetary procedures.

Treaty of Rome article 203

(other expenditure)

There is already a strict financial guideline for non-obligatory expenditure in article 203, para 9

"A maximum rate of increase in relation to the expenditure of the same type to be incurred during the current year shall be fixed annually for the total expenditure other than that necessarily resulting from the Treaty or from acts adopted in accordance therewith."

Comment: the problem is to ensure that the European Parliament does not every year increase the budget provision to the absolute maximum. We have some common ground with the French in seeking control of other expenditure which would be more effective in practice.

3. Agriculture: correcting the operation of the CAP for particular products

Stuttgart declaration	"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. 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."
Treaty of Rome article 39	There is nothing in the Treaty giving priority to farmers' incomes above the other agricultural objectives in article 39, which states that the objectives of the common agricultural policy shall be (a) to increase agricultural productivity . . . by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production (en assurant le développement rationnel de la production agricole ainsi qu'un emploi optimum des facteurs de production . . .") (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture ("d'assurer ainsi un niveau de vie équitable à la population agricole . . .") (c) to stabilise markets (d) to assure the availability of supplies (e) to ensure that supplies reach consumers at reasonable prices In working out the common agricultural policy and the special methods for its application, account shall be taken of . . . the fact that in the Member States agriculture constitutes a sector closely linked with the economy as a whole (. . . "l'agriculture constitue un secteur intimement lié à l'ensemble de L'économie".)

Comment: the Treaty does not require that we must have open-ended guarantees for agricultural products or the current level of prices or that we must treat agriculture in isolation from the rest of the economy. French always say that the three principles of the CAP are free trade within the Community, financial solidarity and Community preference. We are not challenging this but, like the Commission and others, seeking a sensible evolution in the operation of the CAP which is absolutely in line with the Treaty objectives, taken as a whole. An excessive rise in cost normally indicates a failure to stabilise markets and an irrational development of agricultural production.

CONFIDENTIAL

Qz.03538

SIR ROBERT ARMSTRONG

POST-STUTTGART NEGOTIATIONS

For the discussions with Monsieur Attali you may find it helpful to have this summary.

Correcting the budget imbalances

2. The key United Kingdom objective is to have a durable system (the French seem to think that we have considered either a system or ad hoc arrangements but this is not the case: the Prime Minister was very careful at Athens to explain that, in referring to figures of about 450-500 million ecu net contributions by France and the United Kingdom she was referring to a possible equitable result of the new system). The elements on which we were close to an agreement before Athens are:-

(a) durability. The new system, like any increase in the 1% VAT ceiling, will have to be included in a revised Own Resources Decision agreed by the governments of all member states and ratified by all ten parliaments, hence durability. The amendments which France tabled to the Danish proposal in the Special Council implied a new system by amendment of the Own Resources Decision, because they involved correction on the revenue side. No member state expected the French President to suggest, as he did at Athens, a short term arrangement (he began at Athens with a proposal that there should be a one year solution: this left the Prime Minister very surprised following the contribution which France had made to the discussion of new and lasting systems in successive Special Councils). We think now that, in order to take account of the French position at Athens, it will be necessary to have a review clause but this should not involve any change in the revised Own Resources Decision unless there were a further unanimous decision of governments and parliaments.

(b) correction on the revenue side. The new system should involve correction of inequitable situations by adjustment of a member state's VAT contribution in the year following the inequity. This has the advantage that it does not overload the budget with "false" schemes and leaves the budget clear for genuine Community policies and expenditures. Correction on the expenditure side, which we oppose, would also introduce all the difficulties with the European Parliament which we have experienced on the ad hoc arrangements.

(c) gdp-related limits. The new system would set limits on a member state's contribution according to a linear system related to gross domestic product (eg if the UK proposal had been applied in 1982, about 0.1% of gdp for the United Kingdom and about 0.32% for Germany). The United Kingdom does not want a system under which the limit is expressed as a percentage of the gross contribution, since unlike our own proposal this would involve an increase in our limit when our gross contribution rises (as it will in an enlarged Community).

(d) relief to be net of contribution to a member state's own relief. There is, however, a major argument in prospect on whether relief should be net of contribution to other member states' relief. This does not affect the United Kingdom substantially but it will make a big difference to the German situation. The Germans want to be exonerated from contributing to UK relief, at least above their own limit, but other member states want to do as little as possible for Germany.

3. The main features of the United Kingdom's own safety net proposal are, first, that it sets a limit on a member state's contribution related to ability to pay and, secondly, that the limit is expressed as a percentage of a member state's gross

 /domestic

domestic product. We suggest that a member state whose gross domestic product is 90% or less of the Community average would have a limit of a zero net contribution and a member state with 140% of the Community average would have a limit of 0.35% of its gross domestic product. The limits for member states with gross domestic products between 90% and 140% of the Community average would be established on a corresponding linear basis between 0 and 0.35% of their gross domestic products. In an enlarged Community the United Kingdom's limit would be about 0.1% of its gross domestic product.

4. In the Community discussions the figures have normally been related to 1982. Our safety net paper is a proposal for a new system but does not contain, strictly speaking, proposed figures. The figures which we and others quote are calculated from the illustrative example which we gave of the working of the system.

5. The following are the main figures if our system had been applied to 1982 -

million ecu

	UK	Germany	France
Unadjusted net contribution	2036	2086	19
(for information) UK adjusted net contribution if we obtained two-thirds relief, as under ad hoc arrangements	679	-	-
Safety net limit on net contribution	437	2118	1385
Adjusted net contribution after application of safety net and payment of all reliefs on a VAT-based key	437	2118	692

6. It is possible to produce a different result for member states other than the United Kingdom by making the financing of relief related to a special key. The French are in favour of this because they want to pass more of the burden of financing UK relief to other member states, in particular "les petits riches". We have not ruled this out - it is, of course, implicit in the suggestion that the French and UK adjusted net contributions at the outset might be about 450-500 million ecu - but we are not playing a major role in discussing how other member states would finance our (and any German) relief.

7. On the table, besides the UK safety net proposal, there are various proposals or elements based on the following approaches -

(i) modulated VAT. This is the Commission's original proposal that expenditure on agriculture in excess of 33% of the budget (not correctly defined) would be financed on a different key. It would provide a partial relief for the United Kingdom and, as it could be cumulated with other approaches, we have supported it. It is most unlikely to have any chance of success in its present form. France is one of the member states opposing it.

(ii) the expenditure share/gdp share gap. The proposal that in some way compensation should relate to a member state's insufficient share of Community budget spending appears in three forms (the figures in brackets are the estimated actual gaps for the United Kingdom in 1982 and thus show the maximum potential relief)

- the expenditure share/gdp share gap (1263 million ecu) (Danish proposal, supported by France, and German proposal)

- the expenditure share/VAT share gap (1785 million ecu) (revised German proposal at Athens)

- the expenditure share/population share gap (1369 million ecu) (Commission proposal)

There are significant variations from year to year in these gaps. On balance we favour the expenditure share/VAT share gap, although it will not always be as favourable as in 1982. It should be noted that the actual proposals mostly contain additional conditions or calculations of expenditure which would limit relief and which we do not find acceptable.

8. The discussion of the expenditure share/gdp or VAT or population share gap has highlighted the disagreement between the United Kingdom which argues for relief related to the whole net contribution (ie including not only the effect of our low receipts from the Community budget but also the effect of our high contribution of customs duties and levies as own resources) and other member states which react sharply against the concept of "net contribution" and are not willing to take into account the excess contribution of customs duties and levies as own resources. Without going back in any way on our position, we should try to defuse this argument which contains elements of theology as well as calculation of national financial advantage.

9. It is necessary also, in judging the various proposals or any new suggestions which the French may make, to keep in mind that three conditions could seriously limit our actual relief. These conditions are, first, the point at which the threshold is set; secondly, the definition of expenditure, on which we consider that the allocated budget should be used but the Commission and some member states have tried to reduce the gap by excluding or recalculating some items in the allocated budget; and, thirdly, the "ticket moderateur", ie the view of most other member states that, if a limit is set, the member state should not have relief representing all the difference between the limit and its unadjusted contribution but only relief representing part of it.

/10.

10. I suggest that the United Kingdom's immediate objectives should be:-

(i) to get the French on board again for a settlement in March which will include the agreed system in a revised Own Resources Decision, will correct inequity by reducing a member state's VAT contribution in the following year ("on the revenue side") and will set limits based on ability to pay and established as a percentage of gross domestic product;

(ii) to avoid arguments of principle about net contributions, indicating that we shall judge whether a settlement is acceptable in relation to our estimated net contribution, while accepting that it is for other member states to make their own judgement whether the new system to correct budget inequity should be adopted.

Control of agricultural and other expenditure

11. Some progress was made during the autumn and our objective is to restart the negotiations on the basis most favourable to us. The United Kingdom's own proposal is that there should be a strict financial guideline for agricultural expenditure (the rate of growth of agricultural expenditure should be markedly less than the rate of growth of own resources) incorporated in the budgetary procedures of the Community. The Commission has proposed a strict financial guideline in the form of a political commitment but without legal force, which is not good enough for us. The apparent deadlock was broken when the French came forward in the Special Council with the "Delors proposal" which would set a guideline figure for all Community spending in advance of the budget decisions, with a separate guideline figure for agricultural spending. Unfortunately this initiative was not followed up at the Athens European Council. It remains true, however, that common ground can be found.

/12.

12. Our immediate objectives are:-

(i) that the Commission should circulate a revised text of their proposal with the Netherlands' amendments. This establishes a definition of the guideline itself, although it fails to make it legally binding;

(ii) that the French ideas on the control of all spending should be kept on the table. We do not want the French themselves or other member states to be frightened off them by potential difficulties with the European Parliament. The Presidency text from the Athens European Council includes some useful elements and should not be lost sight of, although it will need to include the requirement that the arrangements are to be incorporated in the budgetary procedures of the Community.

Agriculture

13. The agricultural discussion will now be taken forward in the High Level Group of officials and in the Agriculture Council, the overview remaining with the European Council. We are supporting this procedure, which was put forward by Monsieur Rocard in the Agriculture Council this week. We want to reduce the risks to the March European Council, and the 1984 price package (specific proposals from the Commission will be tabled very shortly) has in any event to be moved forward.

14. The points which gave rise to the greatest controversy at Athens were:-

(i) milk. Action is essential and the proposed quota/super-levy system is backed by most member states. There were disagreements over the volume of Community milk which would receive the full guarantee before the super-levy came into effect; the operation of the super-levy; and over the Italian, Greek and Irish requests for exemptions. The French will want a bigger

/quantity

quantity of milk to be covered by the full guarantee than we consider reasonable but, like us, they will wish to avoid discrimination in favour of other member states' producers;

(ii) cereals and cereal substitutes. The French will continue to insist, for reasons of agricultural politics, on some action to stabilise imports of cereal substitutes. The Commission will almost certainly propose in the 1984 price package a mandate for negotiations with third country suppliers, principally the United States for maize gluten feed. Discussion on the mandate may enable us to arrive at a middle course, ie negotiation but without prior commitment to unbind the tariff;

(iii) monetary compensatory amounts. This also is an essential element for France. A further Franco/German attempt to reach a bilateral agreement at Athens failed but some elements of agreement remain. We have an interest in ensuring that any emerging agreement does not prejudice the position of variable mcas or negate the effects of price restraint but we are not protagonists;

(iv) oils and fats tax. Discussion of this proposal rumbles on. We have continued to try to kill the proposal by assuming its imminent death. It is worth noting that Chancellor Kohl took the initiative in stating German opposition to the proposal both at the Anglo/German and Franco/German summits. The Netherlands and Denmark also oppose.

New policies

15. The Presidency text at Athens contained few points of dispute. The United Kingdom has made its attachment to new policies an important plank in its presentation of the whole post-Stuttgart negotiation. We stand by the paper which we circulated and which was well received in the Community. In

/addition

addition to any broad orientation, the European Council should in our view take some concrete decisions or give a push to such decisions eg on liberalising lorry quotas, on the common market in services (insurance), on the solid fuels proposal.

16. The French will no doubt return to the charge on new arrangements for industrial co-operation and the encouragement of advanced technology. The present text does not go as far as they want. President Mitterrand attaches importance to this part of the post-Stuttgart package both on its own merits and because it will make the budgetary and agricultural chapters more saleable to French opinion. We believe that the French will probably table another paper. Our approach has been benevolent while maintaining our more liberal stance on trade and protection. In view of public expenditure restraints, we have made clear that for us the question at issue is how we can improve the conditions within which individual enterprises will decide that co-operation within the Community makes commercial sense rather than a policy of "spotting winners" for public subvention.

Enlargement

17. We are fully committed to enlargement and want the negotiations concluded with a view to accession of Spain and Portugal on 1 January 1986. This is a further strong reason why a settlement of the post-Stuttgart package in March is very desirable.

Timing

18. We want the revised Own Resources Decision to come into effect, after ratification, in 1985, so that it can make possible relief for 1984 in the 1985 budget. This point needs to be presented carefully to the French, who may see it as a means of putting pressure on us.

D F Williamson

D F WILLIAMSON

/...

12 January 1984

CONFIDENTIAL

Annexed in folder

1. The three United Kingdom papers on the budget inequity (safety net), the strict financial guideline for agricultural expenditure and new policies, as summarised in the Treasury's Economic Progress Report Supplement of October 1983.

2. The French paper (the Delors proposal) on control of agricultural and other spending.

3. The Athens European Council documents in EQS(84) 1.

A Message from
DAVID WILLIAMSON

AR 13/1

Mr. Coles (10 Downing Street)

Possible disallowance of milk expenditure.

You may find it helpful, as background, to have this copy of my minute of 8 January to Sir Robert Armstrong

David Williamson
10/1/84

CONFIDENTIAL

Qz.03536

SIR ROBERT ARMSTRONG

COMMISSION THREAT TO DISALLOW UNITED KINGDOM EXPENDITURE ON MILK

We discussed in the Steering Committee on European Questions on Friday the Ministry of Agriculture, Fisheries and Food paper EQS(84) 2. Agreement was reached on the line to take, the Ministry of Agriculture, Fisheries and Food being unhappy but consenting. It was also agreed that the Prime Minister would be informed in a minute from the Minister of Agriculture, Fisheries and Food, which will follow the agreed line.

2. I, as Chairman, and the Departments other than the Ministry of Agriculture, Fisheries and Food take the view that we should not go on defending the Milk Marketing Board's practices rather like a reflex action. The situation is as follows:-

(i) Butter. The Milk Marketing Board charges a different price for milk sold for butter for the commercial market and milk sold for butter for intervention. Tactically it may be necessary for the United Kingdom to insist that there has been no breach of regulations in order to avoid the disallowance of expenditure up to now. Apart from this, however, I see no reason why we should defend this practice of the Milk Marketing Board in our own internal consideration, particularly since the Milk Marketing Board and the buyers notified the Commission some time ago that they intended to move to a single milk price for butter from autumn 1983. It is only the delay in reaching the commercial agreement which has complicated this issue.

(ii) Skimmed milk. The Milk Marketing Board charges a higher price for skimmed milk for pig feeding than it does for skimmed milk for manufacture into skimmed milk powder. Almost certainly the reason for this is

/that

that the big buyers - and the Board itself as a processor - like to keep as much skimmed milk as possible passing through their powder factories and thus achieving economies of scale. In short, it appears to be a particularly objectionable monopoly practice. When I was in the Commission I used a lot of credit in persuading the legal service that, if the Milk Marketing Board could produce objective information on seasonal costs which would support their present practice, the Commission would not take infraction proceedings. It seems, however, that the Milk Marketing Board has not been able to do this.

(iii) Export. The Milk Marketing Board charges a lower price for milk for the manufacture of certain products for export. Since there is already a Community export refund which bridges the gap between Community prices and prices obtained in export markets, I find it incomprehensible that we should defend this practice.

3. The view taken in EQS, which I strongly support myself, is that the right United Kingdom attitude is to go back to the Commission, to say that we are prepared to ensure (if necessary by legislation) that these practices of the Milk Marketing Board will be changed on the understanding that the threatened infraction proceedings will be withdrawn and that there will be no disallowance of expenditure on milk in the United Kingdom for this reason. We should not, of course, admit any liability. In the meantime we think it probable that we can block off any disallowance of the about £260 million in issue for 1978 and 1979, which is the only immediate problem. The deal which I have referred to would then apply to any threat in respect of 1980-84 when over £1,000 million are in issue.

4. I very much hope that Mr Jopling will follow this advice.

D F Williamson

D F WILLIAMSON

CONFIDENTIAL

Ref. No: EA(84)1
24.1.84

THE EUROPEAN COMMUNITY

Notes for the debate on the White Paper "Developments in the European Community, January-June 1983" on Thursday, 26th January 1984.

CONTENTS

Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000

Enquiries on this brief to:
John Greig (Ext.2507)

) MAIN DEVELOPMENTS, JANUARY - JUNE 1983 (SUMMARY OF WHITE PAPER)

The Stuttgart Summit : On 17-19 June the European Council launched a major negotiation to reform the Community's financial system. Key issues were how to ensure better budgetary discipline and effective control of agricultural and other Community expenditure; how to ensure a more equitable sharing of the burden of financing the Community budget; and the Community's requirement in terms of "own resources", taking into account the accession of Spain and Portugal and future Community action in other fields. A declaration on European union was also signed supporting the Community's democratic and political objectives and its longer term aims.

The British budget refund : The European Council agreed on the British budget refund for 1983. This was to be some £437 million.

Social affairs : On 2 June the Labour and Social Affairs Council agreed the basic texts for a revised European Social Fund to apply from 1984 onwards. The main feature of the new Fund would be the high priority accorded to schemes for young people (with a minimum 75 per cent budgetary reserve). The regional provisions stipulated that a maximum of 40 per cent of the main part of the Fund might be allocated to special priority regions with the remainder concentrated on other areas of high unemployment. The special economic and social problems of Northern Ireland were recognised and a Regulation adopted providing assistance for urban renewal prospects in Belfast.

Fisheries : After a long and difficult negotiation, agreement was reached on 25 January, on a revised common policy for the management of the Community's fishing resources which it is intended should apply for at least twenty years. A permanent Conservation Regulation was also adopted laying down certain technical conservation measures. Reciprocal fishing agreements with a number of countries for 1983 were concluded and implemented.

Agricultural price-fixing : For the first time for many years, there was no increase in the agreed overall level of common prices as compared with the original Commission proposals. The weighted average increase for prices on a Community basis was 4.1 per cent and for the United Kingdom 3.8 per cent.

Environmental issues : Community action was taken to prevent trade in certain seal pup skins and products which were already the subject of a voluntary ban in the United Kingdom and some other Member States. Agreement was also reached on the control of discharges of cadmium and proposals towards the elimination of lead in petrol were discussed. The Commission introduced detailed proposals for a new solid fuels strategy and a five year Community energy programme.

Political cooperation : There was considerable activity over the period, particularly in the Conference on Security and Co-operation in Europe (CSCE) where the Ten cooperated closely on tactics and strategy. The Community continued to harmonise policy on major international problems, notably the Middle East.

Trade : Intensive work began on a Commission proposal to strengthen the Community's ability to take defensive action against unjustifiable trading practices of others. The period also saw the first four meetings of a Council of Ministers devoted exclusively to internal market issues. In the services sector, however, progress was disappointing, particularly on the proposed non-life insurance directive. On the external side an agreement was concluded with Japan restraining exports to the Community in certain sensitive areas and a working party established to examine complaints about access to the Japanese market. Useful talks were held with the United States on problems in agricultural trade. Voluntary restraint arrangements were concluded with 14 countries to cover trade in steel. The Community began to prepare its position for the negotiations with the African, Caribbean and Pacific states on a successor agreement to the current Lome Convention.

B) BEFORE AND AFTER THE ATHENS SUMMIT

Hardly had the ink dried on the signatures to the Stuttgart Declaration when it became plain that some of the hard-won promises might not be honoured. The final document offered Britain a £437 million rebate on its 1983 contributions to the EEC budget with no commitment to an increase in the amount of money Member States must pay to the Community.

France, however, had had it written into the minutes that it would block any payment to Britain if there was no prior agreement on the way the Community should be financed in the future. Further, Mr. Piet Dankert, the president of the European Parliament, warned that the "unsatisfactory and disappointing conclusions" of the summit were just not good enough and later added: "This European Parliament will never accept that its budgetary powers be curtailed" (The Times, 24th June 1983).

On the eve of a meeting of foreign and finance ministers in Athens, less than a month before the summit itself, the Commission caused consternation. Without warning it suggested that the basis on which each Member State's budgetary balance had always been calculated should be changed in such a way as drastically to reduce Britain's real budget imbalance. This proposal was roundly condemned as "cooking the books" by Mr. Christopher Tugendhat, the Budget Commissioner. Prospects for an agreement at the Heads of Government meeting receded and in the event the three-day meeting (4th to 6th December 1983) was adjudged a failure.

No agreement on long-term financial reform, farm spending or Britain's net budget contribution was achieved. No serious timetable for Spain and Portugal's entry to the Community was drawn up and international questions such as the war in Lebanon, Cyprus and East-West tensions were not discussed in plenary sessions.

Agriculture ministers meeting in Brussels on 13th December were told by Mr. Poul Dalsager, the Agriculture Commissioner, that there was no money available for any general increase in farm prices in 1984. The cash crisis had been made worse by the failure of the Athens summit to agree on cost-cutting measures and meant that the Community faced a shortfall of about £1,000m in the coming year.

On 15th December, the European Parliament voted to block payment of rebates due to Britain and West Germany while passing a £15.5m budget for the Community for 1984. This action met with widespread criticism, and the legality of the European Parliament's decision to set spending some £80m above the figure agreed by ministers may be challenged in the European Court of Justice.

Interviewed by Sir Alastair Burnet for ITN on 4th January, the Prime Minister confirmed that as the British refund for 1982 had not been paid in full by 31st December, a detailed note had been sent to M. Gaston Thorn, President of the Commission, pointing out that the Community was therefore in default.

The next Heads of Government meeting takes place in Brussels from 19th to 20th March.

C) THE LABOUR PARTY'S POSITION SINCE THE GENERAL ELECTION

Post Election Reappraisal : Following Labour's humiliating defeat, it was widely recognised that Labour's policy of withdrawal from the Community had been one of the chief reasons for the electorate's decisive rejection of the Labour Party. Mr. Roy Hattersley said:

> "We fought the Election primarily as the Party that would put Britain to work, and the overwhelming judgement of the people, and the overwhelming judgement, I think, of the economists, was that leaving the EEC would reduce our employment prospects rather than improve them. The people knew that and they knew that our objection to the EEC was the objection of a half thought out slogan" (Tribune, 29th July 1983).

During his campaign for the Labour Party leadership, Mr. Neil Kinnock stated:

> "With the prospect of four or five more years of membership, and with Spain and Portugal about to join, the Common Market picture changes ... We cannot accept anything less than Gaullist reformism as our policy towards the EEC. The Labour Party does not offer policy paralysis but we are determined to get the best for the British people" (Guardian, 18th June 1983).

Mr. Kinnock later published a manifesto for his leadership campaign which stated on the subject of the Community:

> "By 1988 Britain will have been in the Common Market for 15 years. That will not make withdrawal impossible - it will obviously remain a constitutional right for all member countries. After that length of time, however, withdrawal should be regarded as a last resort that is considered only if and when the best interests of the British people cannot be feasibly safeguarded by any other means" (A Summary of Views, July 1983).

Other Labour spokesmen, however, remain implacably opposed to the European Community. Mr. John Silkin, for example, wrote in Labour Weekly :

> "It is frivolous ... to denounce Labour's policy on the Common Market a week after an election in which it formed a major part of our economic and industrial policies. To reject that policy now is to reject our interventionist industrial policy and the whole alternative economic strategy" (15th July 1983).

Labour Policy : Although the Labour Party Conference held in Brighton at the beginning of October 1983 did not actually debate Europe, the Conference was presented with a document drawn up by the National Executive Committee and entitled 'Campaigning for a Fairer Britain'. This contained a section on Europe which emphasised the need for the party to campaign vigorously for the European Elections. On the question of Britain's membership of the European Community, the document states:

> "Britain will remain a member of the EEC for the term of the next European Parliament, and Labour will fight to get the best deal for Britain within it. At the end of that time, Britain will have been a member of the EEC for 15 years - and this will be reflected in our pattern of trade, the way our economy works and our political relations overseas. But we also recognise the fundamental nature of changes we wish to see made in the EEC and that its rules may stand in the way of a Labour Government when it acts to cut unemployment. It is in this context that we believe that Britain, like all Member States, must retain the option of withdrawal from the EEC".

However, this dramatic shift in policy is not enough to satisfy Mr. Roy Hattersley, who has written:

> "To say that we retain the constitutional right to withdraw from the Community is either to say nothing, or to say something so damaging that its implications ought to be fully understood and described in precise language ... if it is meant as a threat that we will really leave the Common Market if we do not recreat it in our own image, it is a disastrous foundation on which to build our European election platform" (Guardian, 8th August 1983).

Selection of Labour MEPs : Labour's representation in the European assembly was reduced from 17 to 16 by the defection in December of Mr. Michael Gallagher, MEP for Nottingham.

Mr. Gallagher, who later announced he was joining the SDP, described the remaining 16 Labour MEPs as "really two groups of individuals who don't see eye to eye on anything" (The Times, 6th January 1984). He predicted that others from among the 10 pro-Community Labour MEPs would leave the party, but he would not name them.

Mr. Gallagher's defection has left the way open to the veteran Left-winger, Mr. Ken Coates, to win the Nottingham nomination. Mr. Coates is a founder member of the Institute of Workers' Control and director of the Bertrand Russell Peace Foundation.

Mr. Roger Berry, an anti-marketeer who has been selected to fight Bristol, believes that membership of the Community will not be an election issue - the question will be what kind of place Europe would be: "We should use the elections to campaign for a socialist strategy in Europe" (Labour Weekly, 18th November 1983).

Another opponent of the Community already selected is the former MP for Keighley, Mr. Robert Cryer. Mr. Cryer, a close associate of Mr. Wedgwood Benn, will be contesting the Sheffield seat.

A new selection conference has been ordered for the Inner London South seat because of improper canvassing on behalf of the sitting MEP, Mr. Richard Balfe.

JG/EJ

24th January 1984