

Ref. A084/2820

PRIME MINISTER

Cabinet: Community Affairs

You may wish to mention to Cabinet your discussions with the Italian Prime Minister on 18-19 October and with President Mitterrand during his current State Visit.

2. The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 22-23 October. This was largely devoted to settling the outstanding points on the Community's position for the enlargement negotiations with Spain and Portugal. The Council made substantial progress, reaching satisfactory agreements on industrial tariffs, olive oil and social affairs. On Spanish tariffs the Community proposes a six year transition, with special measures for high tariffs exceeding 20 per cent. This includes provisions of particular importance to the British car industry. In addition to the normal reduction of the Spanish tariff on cars, there will be a progressive increase in the volume of the present reduced duty quota with a substantial reduction in tariffs. This should make possible the opening up of the Spanish car market to our exporters. The agreement on olive oil provides for discussions after the accession of Spain and Portugal to adjust the regime; if there is a surplus - or a real risk of one - guarantee thresholds will be introduced, with the transition of Spanish and Portuguese olive oil intervention prices beginning only thereafter. On social affairs it was agreed, in line with the United Kingdom's own bilateral arrangements with Spain, to continue the existing arrangements for the payment of family benefits. The Council also agreed on a joint declaration with Portugal reaffirming the Community's determination to complete the negotiations in time for enlargement to take place as intended on 1 January 1986; this meets the Portuguese Prime Minister's long-standing wish for some formal recognition of the good progress made in the enlargement negotiations with his country.





3. The Community's position on the various elements of the enlargement negotiations with Spain and Portugal is now almost complete. The only major outstanding points are fish (on which we expect our view, supported by the other major fishing member states, to prevail), wine (on which the Agriculture Ministers are making heavy weather) and some further French demands on fruit and vegetables linked with counter-demands by Spain on some other agricultural products. There will no doubt be some further difficulties in the actual negotiations, at least with Spain, but the completion of the negotiations within the next few months does now seem possible.

4. The Foreign Affairs Council agreed to accelerate the Tokyo Round tariff cuts on 1 January 1985 rather than January 1986 for products of interest to developing countries. It did not agree, however, to accelerate the tariff cuts for other products unless the United States were prepared to make a similar move: at present it does not appear that the United States are willing to do so.

5. On budget discipline the United Kingdom had intensive bilateral discussions with the French, at which the French finally accepted a revised text on the lines circulated by the Chancellor of the Exchequer in the Finance Council. Discussions with other member states were also satisfactory. As prudent negotiators we reserved our position for the present both on the form and on the substance, but the way is probably now open for early agreement on the text. It is expected that the Presidency will circulate the outcome as a Presidency compromise on the understanding that it is generally acceptable. The text would be an agreement of the Council on measures necessary to implement the principles of budgetary discipline and would be formally included in the conclusions of the Council. We calculate that the effect of the agricultural guideline would be to limit the increase in agricultural guarantee expenditure in 1986 to about 5-6 per cent; this compares with the actual





increase in 1983 of 27.5 per cent and the estimated increase in 1984 of 16.2 per cent. The Finance Council may be in a position to endorse an agreement on budgetary discipline on 5 November. If these measures on budgetary discipline can be achieved, it will be a vindication of the package approach on budgetary issues which we have adopted.

6. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 22-23 October. This rolled forward the existing agricultural structures measures to the end of the year. The United Kingdom pressed again its proposals to take account of environmental considerations in formulating structural policy, and this time we attracted French support. Mr Jopling again stressed that there must be effective application of the milk quotas in all member states and that there must be no weakening in the collection of the levy. He also joined with the Danes and others in criticising the new low Dutch gas price contracts for horticulture, which in our view break the Dutch/Commission agreement of 1982. The Commission has recently decided to provide a substantial quantity of cheap "Christmas butter" on the internal market (we do not consider this to be very cost-effective but it will be popular with consumers). They linked this decision, however, with a price reduction on old butter for export. The United Kingdom attacked the export decision. We consider that the price is contrary to the Community's obligations under the GATT International Dairy Arrangement. The Commission argued that the matter was wholly within their competence but, as we expected, the Community was subsequently isolated in the GATT.

7. The Chancellor of the Exchequer may refer briefly to the Budget Council on 24 October, at which the Economic Secretary is representing the United Kingdom. This will consider - and is likely to reject - the European Parliament's amendments to the 1984 draft supplementary budget.

24 October 1984

*R*  
Approved by  
ROBERT ARMSTRONG  
and signed in his absence.



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cc Press  
ADP  
Duty Clerk

STATEMENT ON THE FOREIGN AFFAIRS COUNCIL 22-23 OCTOBER TO BE MADE IN THE HOUSE OF COMMONS BY SIR GEOFFREY HOWE QC MP, SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS ON WEDNESDAY 24 OCTOBER

With permission, Mr Speaker, I should like to make a statement about the Foreign Affairs Council which I attended in Luxembourg on 22/23 October, as well as on the main developments in the Community during the Recess.

I am arranging for a note on the other issues discussed at this, and other, Councils during the Recess to be published in the Official Report.

Considerable progress was made in the negotiations on the accession of Spain and Portugal. Community positions were agreed and communicated to the Spanish and Portuguese Foreign Ministers on a number of matters including olive oil, where a position designed to prevent the development of a surplus was adopted; and to the Spanish Foreign Minister on industrial tariffs, where the Community's position provides for the more rapid reduction of high Spanish tariffs and an extended reduced duty quota for cars. Progress was also made towards a common position on fisheries. The Council adopted a declaration noting that agreement had been reached on most of the main issues in the negotiations with Portugal and looking forward to the accession of both countries to the Community on 1 January 1986.



In addition to the Ministerial meetings held with Spain and Portugal there was also a meeting of the EC/Jordan Co-operation Council.

In the Council, I made clear our concern at the Commission's latest scheme for sales of intervention butter. I stressed that there should be proper consideration of the trade policy and budgetary implications before any steps were taken to implement the scheme.

More generally, considerable progress has been made in the Council towards implementing the Fontainebleau agreement and resolving the outstanding budget issues. The Foreign Affairs Council on 2/3 October adopted the 1985 provisional draft budget within the one per cent VAT ceiling and sent it forward to the European Parliament. Agreement was also reached to provide 1000 mecu of supplementary finance through an inter-governmental agreement to cover the Community's inescapable financial obligations for 1984. The Council noted that our willingness to participate in that agreement would depend on release by the European Parliament of the United Kingdom's refunds for 1983 and agreement on the measures necessary to guarantee the effective implementation of the principles of budget discipline agreed at the European Council. The Council reaffirmed the commitment of the European Council that the 1000 mecus abatement of our contribution in respect of 1984 will be made on the revenue side of the budget in 1985.



Substantial agreement on a satisfactory text on budget discipline was reached at the ECOFIN Council on 1 October. The Irish Presidency is now conducting further consultations with a view to reaching final agreement at an early meeting of the Council.

On 10 October the European Parliament voted to release the United Kingdom's refunds, amounting to about £440 million net. 90 per cent of gross refund, ie £528 million, is due to be paid to the UK in the course of the next few days.