

Subject
cc Master.

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FILE

(RAMADL)

cc: P.C

10 DOWNING STREET

From the Private Secretary

14 September, 1984

ENLARGEMENT OF THE EUROPEAN COMMUNITY

The Prime Minister held a meeting yesterday with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Minister of Agriculture, Fisheries and Food, the Minister of State, (FCO), the Economic Secretary, Treasury and the Minister for Trade. Sir Robert Armstrong, Sir Michael Butler and Mr. David Williamson were also present.

The Prime Minister said that political and defence arguments had led to the strategic decision to support the accession of Spain and Portugal. There was also advantage in the fact that an enlarged Community would be a looser-knit Community. There were, however, economic problems and specific questions still at issue in the enlargement negotiations, on which the United Kingdom must defend its interests firmly. She had in mind in particular, the arrangements for dismantling Spanish industrial tariffs.

The Foreign and Commonwealth Secretary said that he had set out the main issues in his minute of 10 September covering a Note by Officials on each of the principal outstanding points in the negotiations with Spain and Portugal. We had now to recognise that a failure of the enlargement negotiations would have serious political effects both within the existing Community and in Spain and Portugal. Links had also been made by some member states, in particular Germany, between enlargement and the budgetary settlement. The target date of 30 September 1984 for the completion of the negotiations was not now realistic but the proposed date of 1 January 1986 for the date of Accession might still be attainable. In the Foreign Affairs Council on 17-18 September the Presidency would be presenting a document covering all the major outstanding problems in determining the Community's position for these negotiations (there would be a separate proposal on Spanish fishing). He recommended that the United Kingdom should base its approach

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on the main United Kingdom objectives set out in paragraph 8 of his minute of 10 September and on the more detailed recommendations the Note by Officials.

The Chancellor of the Exchequer said that he supported the objectives set out in the Foreign and Commonwealth Secretary's minute of 10 September but he attached particular importance to obtaining a commitment to some restraint in the olive oil sector before the Spanish began their price transition. The United Kingdom had been arguing strongly against the budgetary cost of the agricultural support regimes. It was right to take the line that the olive oil regime should be reformed either before or within two years of Accession and that there should be no price transition until this had been achieved. The Minister of Agriculture, Fisheries and Food said that there would clearly be a serious surplus of olive oil if measures were not taken now and he strongly supported the objectives on olive oil and wine. In addition, he saw no reason why we should abandon the designation "British sherry" which had been used for over 100 years. The Secretary of State for Trade and Industry said that he strongly supported the Prime Minister's view that our major priority should be effective accelerated dismantling of the high Spanish tariffs both on cars and on a number of other important industrial products. Although it could be argued that this was a transitional problem, very real damage would be done to British industry in the interim if our objective were not achieved. In addition, we had to ensure that there was early restructuring of the Spanish steel industry and no unfair competition; the problems of the British Steel Corporation were serious enough without such additional difficulties.

In discussion of the industrial issues it was pointed out that the French had declared their opposition to the Commission's proposals on the accelerated dismantling of the high Spanish tariffs. The French were seeking to protect investments of French companies, particularly Renault, in Spain and Portugal. The United Kingdom's interest, however, clearly lay in achieving a successful dismantling of the high Spanish tariffs and this must remain a priority objective. In addition to the real industrial interest, there was strong public and parliamentary pressure to achieve a fairer regime for cars between the United Kingdom and Spain and the enlargement negotiations provided the opportunity for this. On Spanish steel it was recognised that the Commission's proposals did provide a basis for achieving our objectives and they should be supported.

On Spanish fish it was necessary to ensure that the large Spanish fishing fleet did not have the freedom to make inroads into fish stocks of importance to United Kingdom fishermen. The latest Commission proposal for a two-tier

system of licensing might provide the basis for a satisfactory settlement, although Spain would certainly object to it. So far we had a common front with other member states with important fishing interests.

On agricultural issues it was pointed out that the United Kingdom was supporting the French initiative to obtain better production controls on wine before the enlargement negotiations were concluded. The United Kingdom was in the lead in seeking similar commitments on olive oil but the majority of member states had rallied to our position. The Italians and Greeks were resolutely opposed to any specific commitment. On the designation "British sherry" it was suggested that, although we should maintain our position as recommended by officials at the present time, it might be possible finally to settle the issue through a very long transition period. We should not move to this position, however, without further consideration between the Ministers principally concerned. On the protection of sugar supplies for Tate and Lyle and the arrangements for Portuguese imports, the conclusion in paragraph 17 of the Note by Officials was accepted. The Minister of Agriculture, Fisheries and Food said that it would also be necessary to decide the base year for milk production quotas in Spain and Portugal; in his view it should be the same base year as for the existing Community.

Amendments of the Community's institutional arrangements necessary on the enlargement to include Spain and Portugal had been largely agreed. It was apparent that, although a European Commission of 17 members was not likely to be efficient, it would not be possible to achieve a reduction to a smaller figure immediately on Accession. The United Kingdom should, however, continue to plug away at this point in the new ad hoc Committee on Institutions.

In discussion of the Community's global policy towards other Mediterranean countries such as Israel, Cyprus and the North African countries it was recognised that enlargement could present new problems for their trade. The United Kingdom would be directly affected if they replaced current trade into the Community by trade to Eastern bloc countries which might be on barter terms. This would reduce the markets for British exports to Mediterranean countries. It was clear, however, that the Commission was seeking ways to maintain the flow of exports of certain sensitive agricultural products from Mediterranean countries into the Community after enlargement.

The Chancellor of the Exchequer drew attention to the possibility that in the course of further negotiations some member states might try to find ways of avoiding the arrangement favourable for the United Kingdom which had been

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negotiated at Fontainebleau, namely that the 66 per cent abatement would apply to the costs of enlargement. If some arrangements were needed to avoid a situation in which Spain and Portugal were net contributors to the Community budget in the transitional period, it would be best to follow the mechanism used on Greek Accession. This would not call into question the Fontainebleau agreement.

On Gibraltar, the Foreign and Commonwealth Secretary said that it was envisaged that restrictions at the frontier would be withdrawn on completion of the negotiations but before Accession. He had minuted his colleagues in the Committee on Defence and Oversea Policy separately on the various Community aspects of the Gibraltar question.

The Prime Minister, summing up the discussion said that there was no reason to go back on any of the objectives identified by the Foreign and Commonwealth Secretary in paragraph 8 of his minute 10 September. There were real United Kingdom interests at stake. Subject to the points made in the discussion, the specific objectives in the Note by Officials were endorsed. It was apparent that the accelerated dismantling of the high Spanish tariffs was a prime objective for the United Kingdom. The maximum progress on this and the other objectives should be sought in the Foreign Affairs Council on 17-18 September.

I am copying this letter to David Peretz and Adrian Ellis (HM Treasury), Callum McCarthy and Steve Nicklen (Department of Trade and Industry), Anthony Cary (Foreign and Commonwealth Office) Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), and to Richard Hatfield (Cabinet Office).

(C.D. Powell)

C. Budd, Esq.,
Foreign and Commonwealth Office

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MR POWELL

LANADL

ENLARGEMENT OF THE EUROPEAN COMMUNITY

I attach a draft note of
yesterday's meeting.

Df Williamson

D F WILLIAMSON

14 September 1984

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Draft letter from Mr Powell, No 10 Downing Street to Mr Budd, FCO

ENLARGEMENT OF THE EUROPEAN COMMUNITY

The Prime Minister held a meeting yesterday with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Minister of Agriculture, Fisheries and Food, the Minister of State, Foreign and Commonwealth Office (Mr Rifkind), the Economic Secretary, Treasury and the Minister for Trade. Sir Robert Armstrong, Sir Michael Butler and Mr D F Williamson were also present.

2. The Prime Minister said that political and defence arguments ^{There was also advantage in the} and the fact that an enlarged Community would be a looser-knit Community had led to the strategic decision to support the accession of Spain and Portugal.

There were, however, economic problems and specific questions still at issue in the enlargement negotiations, on which the United Kingdom must defend its interests firmly. She ^{was thinking had in mind} had in mind, in particular, the arrangements for dismantling Spanish industrial tariffs.

3. The Foreign and Commonwealth Secretary said that he had set out the main issues in his minute of 10 September covering a Note by Officials on each of the principal outstanding points in the negotiations with Spain and Portugal. We had now to recognise that a failure of the enlargement negotiations would have serious political

It should be borne in mind that the single most important factor for the United Kingdom was the issue of the ~~subject~~ ^{as well as possible implementation of the Fontainebleau agreement.}

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effects both within the existing Community and in Spain and Portugal. Links had also been made by some member states, in particular Germany, between enlargement and the budgetary settlement. The target date of 30 September 1984 for the completion of the negotiations was not now realistic but the proposed date of 1 January 1985 for the date of Accession might still be attainable. In the Foreign Affairs Council on 17-18 September the Presidency would be presenting a document covering all the major outstanding problems in determining the Community's position for these negotiations (there would be a separate proposal on Spanish fishing). He recommended that the United Kingdom should base its approach on the main United Kingdom objectives set out in paragraph 8 of his minute of 10 September and on the more detailed recommendations in the Note by Officials.

4. The Chancellor of the Exchequer said that he supported the objectives set out in the Foreign and Commonwealth Secretary's minute of 10 September but he attached particular importance to obtaining a commitment to some restraint in the olive oil sector before the Spanish began their price transition. The United Kingdom had been arguing strongly against the budgetary cost of the agricultural support regimes. It was right to take the line that the olive oil regime should be reformed either before or within 2 years of Accession and that

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there should be no price transition until this had been achieved. The Minister of Agriculture, Fisheries and Food said that there would clearly be a serious surplus of olive oil if measures were not taken now and he strongly supported the objectives on olive oil and wine. In addition, he saw no reason why we should abandon the designation "British sherry" which had been used for over 100 years. The Secretary of State for Trade and Industry said that he strongly supported the Prime Minister's view that our major priority should be effective accelerated dismantling of the high Spanish tariffs both on cars and on a number of other important industrial products. Although it could be argued that this was a transitional problem, very real damage would be done to British industry in the interim if our objective were not achieved. In addition, we had to ensure that there was early restructuring of the Spanish steel industry and no unfair competition; the problems of the British Steel Corporation were serious enough without such additional difficulties.

5. In discussion of the industrial issues it was pointed out that the French had declared their opposition to the Commission's proposals on the accelerated dismantling of the high Spanish tariffs. The French were seeking to protect investments of French companies, particularly Renault, in Spain and Portugal. The United Kingdom's interest, however, clearly lay in achieving a successful

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dismantling of the high Spanish tariffs and this must remain a priority objective. In addition to the real industrial interest, there was strong public and parliamentary pressure to achieve a fairer regime for cars between the United Kingdom and Spain and the enlargement negotiations provided the opportunity for this. On Spanish steel it was recognised that the Commission's proposals did provide a basis for achieving our objectives and they should be supported.

6. On Spanish fish it was necessary to ensure that the large Spanish fishing fleet did not have the freedom to make inroads into fish stocks of importance to United Kingdom fishermen. The latest Commission proposal for a two-tier system of licensing might provide the basis for a satisfactory settlement, although Spain would certainly object to it. So far we had a common front with other member states with important fishing interests.

7. On agricultural issues it was pointed out that the United Kingdom was supporting the French initiative to obtain better production controls before the enlargement negotiations were concluded. The United Kingdom was in the lead in seeking similar commitments on olive oil but the majority of member states had rallied to our position. The Italians and Greeks were resolutely opposed to any specific commitment. On the designation "British sherry" it was suggested that, although we should maintain our

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position as recommended by officials at the present time, it might be possible finally to settle the issue through a very long transition period. We should not move to this position, however, without further consideration between the Ministers principally concerned. On the protection of sugar supplies for Tate and Lyle and the arrangements for Portuguese imports, the conclusion in paragraph 17 of the Note by Officials was accepted. The Minister of Agriculture, Fisheries and Food said that it would also be necessary to decide the base year for milk production quotas in Spain and Portugal; in his view it should be the same base year as for the existing Community.

8. Amendments of the Community's institutional arrangements necessary on the enlargement to include Spain and Portugal had been largely agreed. It was apparent that, although a European Commission of 17 members was not likely to be efficient, it would not be possible to achieve a reduction to a smaller figure immediately on Accession. The United Kingdom should, however, continue to plug away at this point in the new ad hoc Committee on Institutions.

9. In discussion of the Community's global policy towards other Mediterranean countries such as Israel, Cyprus and the North African countries it was recognised that enlargement could present new problems for their trade. The United Kingdom would be directly affected if they replaced their current trade

into the Community by trade to Eastern bloc countries which might be on barter terms. This would reduce the markets for British exports to Mediterranean countries. It was clear, however, that the Commission was seeking ways to maintain the flow of exports of certain sensitive agricultural products from Mediterranean countries into the Community after enlargement.

10. The Chancellor of the Exchequer drew attention to the possibility that in the course of further negotiations some member states might try to find ways of avoiding the arrangement favourable for the United Kingdom which had been negotiated at Fontainebleau, namely that the 66 per cent abatement would apply to the costs of enlargement. If some arrangements were needed to avoid a situation in which Spain and Portugal were net contributors to the Community budget in the transitional period, it would be best to follow the mechanism used on Greek Accession. This would not call into question the Fontainebleau agreement.

11. On Gibraltar, the Foreign and Commonwealth Secretary said that it was envisaged that restrictions at the frontier would be withdrawn on completion of the negotiations but before Accession. He had minuted his colleagues in the Committee on Defence and Oversea Policy separately on the various Community aspects of the Gibraltar question.

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12. The Prime Minister, summing up the discussion, said that there was no reason to go back on any of the objectives identified by the Foreign and Commonwealth Secretary in paragraph 8 of his minute of 10 September. There were real United Kingdom interests at stake. Subject to the points made in the discussion, the specific objectives in the Note by Officials were endorsed. It was apparent that the accelerated dismantling of the high Spanish tariffs was a prime objective for the United Kingdom. The maximum progress on this and the other objectives should be sought in the Foreign Affairs Council on 17-18 September.

Ch.
13. I am copying this letter to
the Prime Secretary to ~~the~~ ~~Chair~~
[those attending the meeting] except Butler
with him].
Ch.