

815
CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

4 February 1985

CAF
④
Prime Minister
EDP
4/2

Dear Charles,

European Community: Annual Review For 1984

I enclose a copy of Sir Michael Butler's Annual Review.

The Foreign Secretary commends the Review to the Prime Minister. As Sir Michael says, 1984 was a good year for the United Kingdom in the European Community - one in which we achieved the Fontainebleau agreement on the correction of our budgetary contribution, the Council conclusions on budget discipline, and a price-fixing and the introduction of guarantee thresholds which laid the ground work for a continuing effort to achieve reform of the CAP.

So far as the budgetary issues are concerned, Sir Geoffrey Howe believes that these will continue to give us plenty of headaches in 1985 and is not as sure as Sir Michael that the budget abatement mechanism will not be challenged by other Member States when the arrangement is reviewed, as required by the Fontainebleau agreement, when the Community reaches the 1.4% VAT ceiling. But our negotiating position at that time will be strong because the mechanism will continue in being as long as the 1.4% VAT ceiling exists and this cannot be raised without our consent.

The Foreign Secretary agrees that the really important development for the future of the Community has been the fact that, as a result of Fontainebleau and enlargements, the French will join and soon overtake us as contributors to the Community budget. A feature of the past year has been our ability to work closely with the French on many issues, though of course there remain matters on which there will continue to be sharp friction with them. We have found it more difficult to work as closely as we should have wished with the Germans, due to the confusion over decision-making in Bonn and contradictions in German policy. Nevertheless a continuing effort must be made to concert our policy with the Germans on the many points where our interests coincide.

.../Sir Geoffrey

CONFIDENTIAL



Sir Geoffrey Howe is not as confident that the work of the Dooge Committee will go the way of some earlier reports on the future of the Community. Chancellor Kohl is determined to try to achieve some agreement later this year. Mitterrand is likely for his own reasons to be prepared to go along with this. So will other members of the original Six - not least because of their concerns about the problems enlargement will bring. The Community of course could run into such difficulties over enlargement, IMPs, and the short term budgetary problems that longer term issues may simply be shelved. Sir Geoffrey thinks, however, that we should continue to operate on the assumption that there will be pressures for an intergovernmental conference to try to work out some new agreement additional to the existing treaties later in the year. In contacts with other governments we have been intensifying our efforts to ensure that unrealistic ideas are discarded and the Community comes increasingly to concentrate on what practically can be achieved. That is very much the view also of Delors and an approach we believe to be gaining ground. We have commented separately on the idea of closer cooperation between the UK, the FRG and France, which the Foreign Secretary considers will be the effective key to the enlarged Community. The Prime Minister's meeting with Chancellor Kohl at Chequers in May will be important in both these contexts.

In forwarding the Annual Review to Number 10, Sir Geoffrey Howe has asked me to add that in the formulation and execution of British policy towards the European Community, we continue to be extraordinary well served by Michael Butler and his staff in UKRep Brussels.

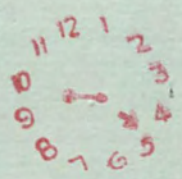
Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

E-4 FEB 1985



file

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

11 February, 1985

EUROPEAN COMMUNITY: ANNUAL REVIEW FOR 1984

Thank you for your letter of 4 February enclosing Sir Michael Butler's Annual Review.

The Prime Minister has noted this.

(C.D. Powell)

C. Budd, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL



EUROPEAN COMMUNITY: ANNUAL REVIEW FOR 1984

SUMMARY

1. A good year for the Community and the UK. The "British budget problem" solved. Our 1983 refund settled and 1984 refund agreed. Budget discipline endorsed and a start made on curbing CAP surpluses. (Paragraphs 1-6)
2. Other bright spots: clearer consensus on economic policies, containment of protectionism, adoption of a Common Commercial Policy Regulation, progress on the internal market, completion of Lomé III, early agreement on fisheries for 1985, revision of the Regional Fund, several inland transport measures and a 5-year research programme for information technology. (Paragraph 7)
3. But there is much unfinished business, notably enlargement and drafting the own resources decision. German linkage may give trouble. (Paragraph 8)
4. Second direct elections to the European Parliament. Frustration at the limitations on its role culminated in rejection of 1985 budget. Improved conciliation a better solution for the Community than granting increased powers. (Paragraphs 9-10)
5. The Thorn Commission, except for Davignon, ended unimpressively as it had begun. Delors making a good start. (Paragraph 11)
6. Another debate on 'European Union' has stimulated discussion, but is unlikely to herald change. Important to make the Community work better instead of debating pros and cons of federalism. We must avoid being caricatured as bad Europeans. (Paragraphs 12-13)
7. Key development of 1984 was the coming together of Germany, France and UK as three net contributors. Opportunity now exists to create unobtrusive directorate to steer enlarged Community. (Paragraph 14)
8. Huge and difficult agenda for 1985. No alternative to diet of crisis and hard slog. But both could be reduced if Governments allowed detailed points to be settled below Council. (Paragraphs 15-17)



OFFICE OF THE UNITED KINGDOM
 PERMANENT REPRESENTATIVE
 TO THE EUROPEAN COMMUNITIES
 ROND-POINT ROBERT SCHUMAN 6
 1040 BRUSSELS

TELEPHONE 230 62 05

15 January 1985

The Right Honourable
 Sir Geoffrey Howe QC MP
 Secretary of State for Foreign and
 Commonwealth Affairs
 Foreign and Commonwealth Office
 LONDON SW1

Sir,

ANNUAL REVIEW: 1984

1. So much of importance to the UK was discussed in the 75 Council meetings in 1984 (including 3 European Councils) that it is difficult to do even summary justice to particular subjects in 2,500 words. In selecting those to be covered I have plumped for what seems significant for the development of the Community as a whole. The rest is in the accompanying Memorandum.
2. The Community starts 1985 in a more cheerful mood than 1984, though with no shortage of problems. As in past "crises", the Governments again demonstrated in 1984 that even really difficult decisions do get taken at the 11th hour if the alternative is to fall over the edge into the abyss of a disintegrating Community. Though the processes of reaching agreement are usually too slow and often infuriating, Member Governments know that they have to make the Community work.
3. 1984 was a good Community year for the UK. The main substance of the Stuttgart agenda was agreed at Fontainebleau, though there are still some loose ends. The UK budget problem was thus solved, exactly five years after the Prime Minister launched the campaign in Strasbourg in the last French Presidency. Will-power, persistence and careful planning of the campaign carried out by Ministers and officials in a co-ordinated way delivered a settlement which many sceptics long considered unachievable. What the Prime Minister got in June, in effect a two-thirds refund of our net contribution (less a small and relatively declining deduction due to our high tariff/levy share) was almost exactly what, on instructions, I proposed in Coreper in February 1980, and which no other Member State was then even prepared to discuss. We gained ground slowly, moving them in our direction in May 1980, November/December 1981, June 1983, and throughout the post-Stuttgart negotiations. The Fontainebleau result will, once the new own resources decision is finally adopted, take the "British budget question" off the

/Community's



CONFIDENTIAL

- 2 -

Community's agenda. (None of the others will have the heart to open it up again when the 1.4% ceiling is reached, though the Germans may then insist that there is a "German budget question".) This has already improved our bargaining position across the board.

4. Furthermore, after trouble with France and Italy in the Spring and with the European Parliament after Fontainebleau, we finally got the bulk of our 1983 refund in 1984 and the Prime Minister secured agreement to a 1000 million écus reduction of our VAT in 1985 in respect of 1984. Thanks to German foot-dragging the latter is still not embodied in a formal text. But even if there are some tiresome moments before we get our deduction, and it is difficult to get it on time, it will be made.

5. Looking back on the 30 May Mandate negotiations in our last Presidency, it seems an almost more remarkable achievement that the European Council agreed in March and confirmed in December formal Conclusions on budget discipline under which the rate of growth of CAP expenditure should in future be less than the rate of growth of the own resources base; that the "maximum rate" for non-obligatory expenditure should in future be respected; and that the ECOFIN Council should be much more involved in spending decisions and should fix a "reference figure" for the budget as a whole before the budget process starts. Though we had some help from Germany and the Netherlands and, intermittently, France on this question, it was again due to the persistence and skill of UK Ministers and officials that arrangements so near our own negotiating aims were in the end adopted.

6. Finally, mainly as a result of the post-Stuttgart negotiation, a serious beginning was made in March with containing the CAP surpluses through the milk super-levy, a relatively rigorous price policy and a commitment to guarantee thresholds for products in surplus or on which expenditure is growing rapidly. In December in Dublin, arrangements were at last agreed to control the rapidly growing wine surplus. Though the milk super-levy is still causing difficulties, it has already caused a cut in production. Though it will be hard to keep to the March 1984 decision on cereal prices which should result in a 5% reduction this March, everyone can see what should be done. The levers are now to hand for applying the European Council's conclusions on budget discipline to the CAP. This will be hard work for many years to come and none more so than in 1985, particularly if the dollar falls from its present unnatural heights. Productivity continues to rise very fast; growth in consumption is low or negative; overseas markets will not absorb more; and there are surpluses in most sectors. Once the Community is in surplus, a small percentage increase in production produces a much higher percentage increase in the surplus and sometimes a still higher percentage increase in the cost of its disposal. It is worth noting that

/Mediterranean

CONFIDENTIAL



CONFIDENTIAL

- 3 -

Mediterranean agriculture continued in 1984 to be by far the fastest growing expenditure sector and enlargement will eventually add to these costs. Even with rigorous price-fixing decisions the strict financial guide-line will therefore be under pressure. Unfortunately the Germans, who are badly co-ordinated on Community matters, and whose Agriculture Ministry took a turn for the still worse in 1984, seem unlikely fully to draw the right consequences. The French, rather better co-ordinated though in serious political difficulties with Rocard, seem likely to be more tight-fisted financially except where the votes of small farmers are seriously at risk.

7. 1984 had a number of bright spots outside the post-Stuttgart negotiations, of which the most important were:-

- (a) Though the unemployment figures remain gloomy, European growth and inflation trends continue in the right direction and the consensus about macro-economic policy moved even further in our direction, to such an extent that the Prime Minister was able to give the Commission's Annual Report to the Dublin European Council an almost whole-hearted blessing.
- (b) Partly as a result of Community efforts, the spread of protectionism was contained even in the US in an election year with a one hundred billion dollar trade deficit. Davignon's last act was to bring off an agreement with the US on steel pipes and tubes just when they seemed to be heading determinedly for unilateral protectionist action. The Community also adopted the Common Commercial Policy Regulation for speeding-up reaction to unfair trading practices.
- (c) Progress was made on the internal market with the adoption of 15 Directives on common industrial standards and a single customs document; as well as two long-disputed recommendations on the harmonisation of telecommunications standards and the opening up of public procurement markets.
- (d) The Lomé III negotiations were completed satisfactorily and, incidentally, during 1984 our share of Lomé contracts (net of contracts to ACP firms) rose for the first time above our financing share.
- (e) For the first time fisheries TACs and quotas for the year ahead were settled before that year began; and the new Commission Fisheries Inspectorate came into being and began to earn its keep by policing the conversation and other regulations.



CONFIDENTIAL

- 4 -

- (f) After three years of negotiation the Regional Fund was revised and will come into operation in its new form in 1985.
- (g) A clutch of inland transport measures were adopted, including a directive on lorry weights and measures providing for a UK derogation and a regulation increasing road haulage quotas over the next five years.
- (h) In the research field agreement was reached, thanks largely to Davignon, on the five-year ESPRIT programme, and at the end of the year on a package of eight Research and Development programmes for the next four or five years.

8. But there is naturally a vast amount of unfinished 1984 business (see para 14 below). The drafting of the own resources decision and the enlargement negotiations are both well behind schedule. If the Germans persist in their present extreme form of linkage between the two issues, contrary to what was said in the Fontainebleau agreement, we may run into real trouble later this year.

9. During 1984 the European Parliament was directly elected for the second time. It is not like a national Parliament because the dominant part of the Community's "government", ie the Council, is neither subject to its control nor on the whole sympathetic to its pretensions; and because it does not even have a veto power over the Council's decisions on legislation. Its monthly plenary sessions involve a whirlwind of "decision-taking" in which very little is in reality decided. Because the parliamentarians do not recognise or accept the limitations of their role and because they have never made a serious effort to use their existing powers to bring pressure to bear on the Council on specific issues, they have a generalised feeling of frustration. This could not of course be cured by giving them some small and hedged-about concessions, such as those for "co-decision" on legislation proposed in the Spinelli draft treaty. They would soon be back to ask for more, and meanwhile the Community would decide on legislation even more slowly and probably less acceptably. This frustration leads them to act unwisely as they have just done by rejecting the 1985 budget and giving adverse opinions on the Fontainebleau decisions on budget discipline and the UK budget problem. None of these actions, though inconvenient in different ways, will gain them increased power or influence.

10. The Parliament will continue to be difficult in 1985, but I see no easy solution. We must try to continue to involve them more closely in the real world, for example through the improved conciliation procedure we have been advocating. It may be that the debate on the outcome of the Dooge Committee's work will bring their role into clearer focus, though unfortunately I am not

/optimistic



CONFIDENTIAL

- 5 -

optimistic that many of them are soon likely to accept that they have a quite different role to that of national Parliaments.

11. On 5 January the Thorn Commission ground to an uninspiring end. In 1981 I said that it had got off to a bad start. Due to ineffective leadership, the graph of its performance never rose much off the bottom. Davignon remained of course the shining exception. Not only did he manage his own portfolio brilliantly; his contribution to the handling of EC/US and EC/Japan problems outweighed that of Haferkamp at External Relations. He demonstrated time and again how important a role a Commissioner can play if he works 100 hours a week, invents ingenious ways of reconciling Member Government's interests as well as bringing them to understand their common needs and has the ability to spot where the point of balance lies which brings them all reluctantly to settle, usually late at night. He was the living embodiment of the truth that the role of the Commission has not declined; only its performance varies. The new Commission under Delors is getting off to a good start and I believe that he may prove to have the capacity to provide it with leadership which transforms the public assessment of it.

12. 1984 also launched yet another debate on "European Union". These, like this one and the Tindemans Report on the subject in 1975, are usually initiated by the French to serve some tactical purpose; cause a lot of hard work and some aggravation; result in a few decisions, many of which are not observed; and then are consigned to oblivion. I expect that the Dooge Committee will prove no exception. Meanwhile it seems likely to stimulate some quite lively debate.

13. As I see it, our interest is to focus that debate not on the question "Whither the Community? Federation or something else?", but on how to make the Community work better. The Community is already far beyond the stage of inter-governmental co-operation between wholly sovereign national governments. With a common agricultural policy and a common commercial policy; with a growing body of directly applicable Community legislation on which the European Court is the highest Court of appeal in each of our national legal systems; with the Commissions's competition and other powers under the Treaty; and with all the enormous sharing of sovereignty which has already taken place with the consent of the Governments and Parliaments of the Member States, it is ridiculous to argue, as some do, that the Community needs to take a great leap forward in the institutional field if it is not to revert to being a mere customs union. It is already a unique constitutional construction which no pre-Community word can describe. With pre-thought and determination it can certainly be made to work better. With none of the Governments, not even the European Parliament, advocating any major step towards the creation of a central European Government in the next quarter century, it is equally absurd to revive the old argument about whether the

/ultimate



CONFIDENTIAL

- 6 -

ultimate end is a European federation. To do so is bound to evoke diverse and divisive gut reactions. Unfortunately there are dangers in the debate for the UK. Since one of the legacies of the British budget problem is that it is only too easy for muddled commentators (and for those who wish to present themselves as good Europeans) to caricature the British as bad Europeans, we shall need to be nimble and articulate in the forthcoming debate. The truth is on our side. The Community does not need changes in its Constitution, but improved decision-taking in some of the capitals, especially in Bonn.

14. In my view, the really important development for the future of the Community in 1984 has in fact been the shift in the internal balance brought about by Fontainebleau, and which will be compounded by enlargement. Germany, France and the UK are now the three net contributors, with the UK soon to be the third and France the second. Any net benefits received by Portugal or Spain will be borne largely by the Germans (33%) and the French (27%). Our share will be between 6% and 7%. Though of course all three of us will continue to have differences with each other, there will be many subjects on which we can find common ground now that our relations are no longer poisoned by the UK budget problem. Since Fontainebleau we have contrived to work pretty closely with the French on many questions, more closely indeed with the French than the Germans, though our interests seem objectively to be closer to those of Germany. As seen from Brussels the present German Government seems, owing to lack of proper thought, preparation and co-ordination on Community issues, to be exceedingly difficult to work with. There is a risk that the Dooge Committee's report will cause serious problems between us and that the French will side with the Germans. Nevertheless, I believe that the opportunity is now there, if we continue to know our own minds and devote the effort to it, to create an informal directorate of the Community which will allow it to deal effectively with the problems of an enlarged Community. But if the informal directorate is to work well, we must not force the others to react against it by referring to it in public or by holding meetings of the Three.

15. There will never be a quiet or uncontroversial year in the Community's life. The "crises" and the controversy are a sign of the Community's vitality, not its decay. (I have noticed no lack of controversy in the American federal system.) 1985 will be no exception. We shall argue ferociously about how to pay for the 1985 budget shortfall; how to write the own resources decision; how to implement the strict financial guideline on the CAP; what to do about Papandreou and his blackmail over "IMPs"; how to complete the enlargement negotiations where difficulties about agriculture, fish, Spanish and Portuguese workers, and money are going to put the 1 January 1986 debate for accession at risk; what to do about vehicle emissions and sulphur emissions from power stations; whether, and if so how, to strengthen the EMS; what is required in order to "complete the internal market"; whether to prolong the steel crisis régime into 1986; whether to



CONFIDENTIAL

- 7 -

have an inter-governmental conference on European Union and, if so, about what; how to cope with the US on agricultural trade; how much food aid to give to the world's poor and not-so-poor; how to proceed about Central America; what to do to mitigate the effects of enlargement for Mediterranean countries, including the special problems of Cyprus and Turkey; what ... I could use up a thousand of my 2,500 words and still not complete the list of important items on the 1985 Community agenda.

16. It is a hard slog and those who suffer in the Community's decision-making often say to themselves "There must be a better way". The answer, I fear, is that not a lot can be done. But the fatigue and frustration of Ministers in the Council could be diminished by constant and successful pressure on the Presidency of the day and on Ministers in other governments to give the instructions needed to enable the detailed points to be settled in Coreper and Working Groups. If that and nothing else came out of the Dooge Committee, it would have justified the time devoted to it!

17. I am copying this despatch to Her Majesty's Ambassadors in Community posts, at Washington and Tokyo; to the United Kingdom Permanent Representatives to NATO, the OECD, the Council of Europe, the United Nations at New York and Geneva, and to the Governor of the Bank of England.

I have the honour to be, Sir,
Your obedient Servant

Michael Butler

MEMORANDUM

THE EUROPEAN COMMUNITY IN 1984

INDEX

A.	INTRODUCTION	(page 1)
B.	BUDGET AND FINANCIAL ISSUES	(pages 1-5)
C.	IMPs AND GREEK MEMORANDUM	(page 6)
D.	MEMBERSHIP	(pages 6-8)
E.	GENERAL TRADE RELATIONS	(pages 8-14)
F.	DEVELOPMENT COOPERATION	(pages 14-16)
G.	AGRICULTURE	(pages 17-18)
H.	FISHERIES	(pages 19-20)
I.	REGIONAL AFFAIRS	(page 21)
J.	SOCIAL AFFAIRS	(page 21)
K.	TRANSPORT	(pages 21-22)
L.	ENVIRONMENT AND CONSUMER PROTECTION	(page 22)
M.	INDUSTRY	(pages 22-23)
N.	COMPETITION	(page 23)
O.	ENERGY	(pages 23-24)
P.	RESEARCH	(pages 24-25)
Q.	INTERNAL MARKET	(pages 25-26)
R.	INSTITUTIONAL	(pages 26-28)
S.	THE NEW COMMISSION	(page 28)
T.	LEGAL	(pages 28-29)