



Foreign and Commonwealth Office

London SW1A 2AH

4 February 1985

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Dear Charles,

Enlargement

As you know, the Prime Minister told Sir Antony Acland recently that she would like a further note on the implications of enlargement of the Community particularly as regards the political balance within it, and drawing conclusions for our future tactics. You thought that there were three aspects of this to which the Prime Minister attached particular importance:

- This is the Prime Minister's hors d'oeuvre to a more substantial study. CDT/SL
- (i) on a political level, the implications of the creation of a socialist crescent in the Community, running from France through Spain (and Portugal) to Italy and Greece;
 - (ii) the effect of enlargement on the geographical balance within the Community, and consequently of the interests of the Community seen as a whole. The Prime Minister had in mind, among other things, the geographical orientation of an enlarged Community towards the Mediterranean, and a greater interest in Latin America;
 - (iii) the implications of these changes for British tactics in the Community. For example would the Community become unmanageable in practice after enlargement, and if so would it strengthen the case, despite the disadvantages and difficulties, of trying to form an informal Franco/German/British directorate? How might procedures have to be adapted?

Ministers discussed our objectives in relations to the enlargement negotiations last September (your letter to me of 14 September). We have achieved our objectives in relation to Spanish tariff dismantlement (including the special arrangements for cars), qualified majority voting and steel. We have secured a Community position that protects our essential interests on fisheries. We have also been able to use the prospect of accession to secure Spanish agreement to lift the frontier restrictions with Gibraltar. The position is reasonably satisfactory so far as our short term objectives are concerned.

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The "Socialist Crescent"

The accession to the Community of two further countries at present with socialist governments could have some unwelcome implications. They may add their voices to those seeking stronger Community-wide social legislation and a more interventionist tone to Community pronouncements on economic policy. The Foreign Secretary agrees with the Prime Minister about the need to stand guard against this. But he sees some reasons for doubting whether the "socialist crescent" will necessarily be a very homogeneous or potent force within the Community. France may well not have a socialist government after 1986. Even its present one has moved steadily away from the more strongly socialist positions on economic policy which it adopted earlier. And from the outset its position on security issues was if anything more robust than that of its predecessor. The Spanish and Portuguese governments are moderate, Atlanticist, and pragmatic (Gonzalez, for example, has pursued quite firm policies on money and the restructuring of industry). Italy has a socialist Prime Minister, but he leads a centre-right coalition government. None of these governments feels any very close political kinship with the non-aligned and anti-capitalist posturings of Papandreou. The only attempt so far to get the socialist Prime Ministers of all these countries round the same table (at Vouliagmeni in Greece during the 1983 Greek Presidency) ended in disagreement. And, as the Prime Minister noted at Dublin, the Commission's economic policy documents have come largely to reflect our own thinking.

The other points raise some fundamental questions about the character of the enlarged Community. Sir Geoffrey Howe thinks that it would be useful for these, including the implications for the Community's external policy, to be considered in a fuller paper. This is now being prepared. When it is ready, Sir Geoffrey would like to discuss it with the Prime Minister. The following are some preliminary considerations.

The Geographical Balance

Enlargement will add 35% to the Community's land mass and 17% to its population, but less than 8% to its GDP. I attach a table of GDP per capita for the enlarged Community, which shows a fairly clear North-South split, with Ireland the only northern country to feature in the bottom five places. This will lead to strong pressures from the poorer Member States for additional expenditure generally to promote "convergence". Spain and Portugal will expect to derive substantial benefits from the structural funds. Although as a result of the transitional arrangements and the structure of the Portuguese economy neither is likely to become a major beneficiary in the short term, they will certainly expect to be so in due

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course. There is no valid reason why Italy should continue to enjoy substantial net benefits (1.3 billion ecus in 1983) or for the Benelux and Denmark also to continue as net beneficiaries. When the 1.4% ceiling is reached the Germans will be seeking to get their budgetary burden corrected, and this will impose additional constraints.

Spain and Portugal will add their weight to the campaign for increased support for Mediterranean products, and for small producers generally. Support for Mediterranean agriculture has risen rapidly and now accounts for 25% of FEOGA expenditure. This is provoking strong reactions from the Northern Member States, including France. For the result has been that France is no longer a net beneficiary from FEOGA.

As a result of enlargement and Fontainebleau, the French calculate that within two years they will overtake us as net contributors to the Community budget generally. Since this balance is unlikely to change, we should have the French on our side in future arguments with the South about expenditure. The earlier French policy of expanding the Community southwards to increase French influence has backfired. Our ability, however, to contain expenditure on Mediterranean agriculture will depend on the success of our efforts to deal also with Northern products. For Community expenditure on all Mediterranean products is still less than expenditure on milk alone (which continues to account for 20% of the total Community budget).

Unless prices are held down and guarantee thresholds effectively applied, it is questionable whether the CAP in its present form would be sustainable for long in the enlarged Community. Any further accumulation of surpluses plus a decline of the dollar would pose insurmountable financing problems. There will be increased pressures for differentiated support as between large and small producers. This is one of the points we shall be addressing in the longer paper.

As the Prime Minister's recent talks in Bonn showed, there are some fundamental contradictions in German policy - with protestations of concern about budgetary control - off-set by strong pressures for price increases to please German farmers in areas like milk and cereals, where the Community already has enormous surpluses of which it cannot dispose. Nevertheless the emergence of Britain, France and Germany in the same camp as net contributors has created an important general community of interest. We shall be examining in more detail the specific areas in which our interests are likely to coincide, and where they will continue to diverge.

/Implications



Implications for British Tactics

All the existing Member States are worried about the consequences of enlargement. All have accepted it, despite their misgivings about the problems it will cause for the Community, because of the need to anchor Spain and Portugal firmly in the West European democratic camp. Enlargement will impose economic costs. But, with the exception of Papandreou (who has chosen to make this an occasion for blackmail) all have felt that it is a political necessity.

Worry about the difficulties which may beset the enlarged Community lies behind the current debate on the future of the Community. There is a nostalgia on the part of the original Six for a Community which is supposed to have been more cohesive, and did have a much greater degree of economic convergence. The French and Germans are thinking in terms of some changes - though not in the French case very far reaching ones - which might help decision-taking in the enlarged Community; or, failing that, for ways of permitting the emergence of a group of core countries within it. It was clear from the Prime Minister's talks in Bonn and the Foreign Secretary's recent talk with M. Dumas that the French and Germans are anxious that we should participate with them in this process.

The French and German ideas on how to proceed are still in the formative stage and, in many respects, ill-developed and ill thought out. The common theme at the moment is the paying of lip service at least to the need to complete the common market (though real progress will depend on tying them and others to specific actions and time-scales); more formal arrangements for political cooperation; and increased cooperation in some other areas. On decision-making there have been some indications from the Germans that they might now be prepared to agree to the formalisation of the Luxembourg compromise - which they have hitherto resisted - if others agree to the more extensive use of majority voting on less important issues. We shall have to see whether or not it is possible to get thinking on these issues turned in directions we could accept. A feature of the current debate, however modest the results that may realistically be expected from it and ill-conceived some of the ideas advanced, has been the tacit abandonment of the federalist and supra-national ambitions which characterised earlier discussions of this kind.

In the Foreign Secretary's view, the present situation is one of opportunities as well as risks. There is a realisation among the Six that, in terms of our industrial development, national income and economic interests, we are much closer to France and Germany than to the more "peripheral" members of the Community. Unless we are able to form an effective alliance with the French and Germans there is a risk that

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the enlarged Community could become unmanageable. It is difficult to see how the Community of Twelve could hope to survive on the basis of simply carrying forward existing policies. We must expect that some smaller and more cohesive grouping will emerge within it, though practical collaboration in different areas will be conducted with different partners (variable geometry - as envisaged in "Europe - the Future"). To the extent that there is an inner core within the Community, we shall want to be sure that the UK is able to exert effective influence on what is decided within it.

In the enlarged Community it will be more than ever true that the only way to get things done is to work for prior agreement between France, Germany and ourselves. This has to be achieved discreetly and mainly through bilateral contacts - we have to avoid trilateral meetings - but there should indeed be scope for us to seek to establish an informal alliance. This in turn means continuing to ensure that we do not allow the Franco-German partnership a monopoly in their pretensions to leadership in the Community. They have developed an intensive pattern of consultation and are always ready to make use of language depicting themselves as more European than in fact they are. But Fontainebleau has created opportunities for the exploitation of our common interests; and that will be the key to our ability to ensure that the enlarged Community functions in a way compatible with our interests.

I am sending a copy of this letter to Richard Hatfield (Cabinet Office). The more detailed paper will be prepared as quickly as possible.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

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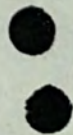


1983 OECD FIGURES

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Belgium	33.3	106
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France	20.7	122
Ireland	0.7	65
Italy	14.3	80
Luxembourg	0.1	112
Netherlands	5.4	119
United Kingdom	18.1	104
Spain	6.4	54
Portugal	0.8	28

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10 DOWNING STREET

From the Private Secretary

6 February 1985

Enlargement

Thank you for your letter of 4 February about the implications of enlargement of the Community. The Prime Minister has read this with interest and looks forward to the fuller paper promised.

I am sending a copy of this letter to Richard Hatfield (Cabinet Office).

(C.D. Powell)

C.R. Budd, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET

From the Private Secretary

4 February 1985

EC Enlargement: Israel

Considerable concern has been expressed by the Israeli Government that while the Community may agree measures to ease the impact of enlargement of the Community upon Morocco and Tunisia before the enlargement negotiations themselves are completed, Israel will be presented with a fait accompli at the end of these negotiations.

BF // It would be helpful to have an account of the position reached in the Community on the treatment of the Mediterranean countries after enlargement, with material which could be used to rebut allegations of discrimination against Israel.

(C.D. POWELL)

C.R. Budd, Esq.,
Foreign and Commonwealth Office.

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TELEGRAM NUMBER 034 OF 7 FEBRUARY
INFO BRUSSELS AND ROME

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EC/ISRAEL

SUMMARY

1. ISRAEL STRESSES URGENCY AND IMPORTANCE OF OPENING NEGOTIATIONS BETWEEN THE COMMISSION AND ISRAEL TO REVIEW THE EXISTING ISRAELI/EC AGREEMENT IN THE LIGHT OF ENLARGEMENT.

DETAIL

2. MORDECHAI DRORI, ASSISTANT DIRECTOR GENERAL IN CHARGE OF ECONOMIC AND INTERNATIONAL COOPERATION DEPARTMENT, MFA ASKED ME TO CALL ON 7 FEBRUARY. HE SAID THE COMMISSION STILL HAD NO AGREED GUIDELINES FROM MINISTERS LET ALONE A MANDATE TO NEGOTIATE. THEY REMAINED IN THE STAGE OF EXPLORATORY TALKS. ISRAEL WANTED A COMMITMENT FROM THE COMMUNITY TO START NEGOTIATIONS BEFORE THE ACCESSION OF SPAIN. HE CLAIMED THAT ISRAEL HAD EARLIER BEEN PROMISED CONTINUED ACCESS FOR ITS AGRICULTURAL PRODUCTS: EUROPE WAS ISRAEL'S MOST IMPORTANT AND IRREPLACEABLE OUTLET.

3. I SAID I WAS NOT COMPETENT TO DISCUSS THE SUBSTANCE AND WAS NOT BRIEFED ON THE PROCEDURES AND TIME FRAME IN WHICH THE EC WOULD TACKLE THE PROBLEM. IT WAS NOT SECRET THAT SOME MEMBERS WERE INFLUENCED BY DOMESTIC PRODUCERS: OTHERS LIKE BRITAIN HAD THE INTERESTS OF CONSUMERS MORE IN MIND. WE WERE SYMPATHETIC TO THE REQUIREMENTS OF A COUNTRY LIKE ISRAEL, BUT IT WAS UNREALISTIC TO SUPPOSE THAT NEGOTIATIONS WITH THE NON-MEMBER MEDITERRANEAN COUNTRIES INCLUDING ISRAEL COULD BE UNDERTAKEN BEFORE ENLARGEMENT, EVEN IF THE TEN WISHED TO DO SO.

4. DRORI SAID SOME HIGH LEVEL POLITICAL IMPETUS WAS NEEDED TO GET GUIDELINES AND THE NEGOTIATIONS STARTED, NO DOUBT AT THE LEVEL OF THE COUNCIL OF MINISTERS OR EVEN HEADS OF GOVERNMENT. MR PERES WOULD RAISE THIS SUBJECT DURING HIS FORTHCOMING VISIT TO ROME. I SAID HMG WERE WELL AWARE OF THE POLITICAL ASPECTS AND THE IMPORTANCE OF THE ISSUE TO ISRAEL FOR SOCIO-POLITICAL AS WELL AS ECONOMIC REASONS: BUT ENLARGEMENT WOULD OF NECESSITY BRING CHANGES. NO DOUBT ISRAEL WAS ALREADY CONSIDERING HOW TO ADAPT, RATHER THAN BASING ITS NEGOTIATING POSITION ON MAINTAINING THE STATUS QUO.

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5. DRORI SAID THAT, WITHOUT GOING-INTO TECHNICAL DETAIL, THE SPANISH GOVERNMENT MIGHT WELL GO FOR AN INTERVENTION PRICE WHICH WOULD RULE ISRAELI PRODUCTS OUT OF THE MARKET. I SIMPLY SAID THESE WERE ALL MATTERS WHICH COULD BE RAISED IN THE NEGOTIATIONS. ERRI GAVE ME A NON-PAPER (TEXT BY BAG TO DEPARTMENT AND UKREP) WHICH SETS OUT THEIR GENERAL VIEWS, AND MENTIONED HE WAS CALLING IN OTHER EC AMBASSADORS (HE HAD ALREADY SEEN MY ITALIAN COLLEAGUE).

6. IT WOULD BE HELPFUL TO HAVE AN UPDATE ON THE PRESENT STATE OF PLAY.

SQUIRE

LIMITED
NENAD
MED
ECD (E)
MR DEREK THOMAS
MR FERGUSSON
MR RENWICK
MR EGERTON

C. D. Pomele, B.S.
No 10, Downing St.

Spoken to
Mr Jay

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Foreign and Commonwealth Office

he spoke. Anthony Acland
would be glad to learn if
you think something on
these lines is what the
Prime Minister has in
mind.

Michael Jay

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DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:
PRIVATE SECRETARY

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret
Secret
Confidential
Restricted
Unclassified

C D Powell Esq
10 Downing Street

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

ENLARGEMENT

CAVEAT.....

A

As you know, the Prime Minister mentioned to Sir Anthony
1. ~~When Sir Anthony Acland saw her on 5 January, the~~
~~Acland recently~~
~~Prime Minister said~~ that it would be useful for her to
have a further note on the implications of enlargement of
the Community particularly as regards the political
balance within it, ² drawing conclusions for our future
tactics. You ^{1h m, hr} subsequently told the PUS that there were
three aspects of this to which the Prime Minister
attached particular importance:

(i) on a political level, the implications of the
creation of a socialist crescent in the Community,
running from France through Spain (and Portugal) to
Italy and Greece;

(ii) the effect of enlargement on the geographical
balance within the Community, and consequently of the
interests of the Community seen as a whole. The Prime
Minister had in mind, among other things, the
geographical orientation of an enlarged Community
towards the Mediterranean, and a greater interest in

Enclosures—flag(s).....

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Latin America;

(iii) the implications of these changes for British tactics in the Community. For example would the Community become unmanageable in practice after enlargement, and if so would it strengthen the case, despite the disadvantages and difficulties, of trying to form an informal Franco/German/British directorate? How might procedures have to be adapted?

B

2. Ministers discussed our objectives in relation to the enlargement negotiations last September (your letter to me of 14 September). We have achieved our objectives in relation to Spanish tariff dismantlement (including the special arrangements for cars), qualified majority voting and steel. We have secured a Community position that protects our essential interests on fisheries. We have also been able to use the prospect of accession to secure Spanish agreement to lift the frontier restrictions with Gibraltar. The questions which the Prime Minister has raised, however, go beyond the short term perspective, and relate to the eventual character of the enlarged Community.

The "Socialist Crescent"

3. The accession to the Community of two further countries at present with socialist governments could have some unwelcome implications. They may add their voices to those seeking stronger Community-wide social legislation and a more interventionist tone to Community pronouncements on economic policy. The Foreign Secretary

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is not convinced, however, that the 'socialist crescent' will be a very homogeneous or potent force within the Community. France is ^{may well not} ~~very likely no longer~~ to have a socialist government after 1986. Even its present one has moved steadily away from the more strongly socialist positions on economic policy which it adopted earlier. And from ~~this~~ ^{the} outset its position on security issues was if anything more robust than that of its predecessor. The Spanish and Portuguese governments are moderate, Atlanticist, and pragmatic (Gonzalez, for example, has pursued quite firm monetarist policies). Italy has a socialist Prime Minister, but he leads a centre right coalition government. None of these governments feels any very close political kinship with the non-aligned and anti-capitalist posturings of Papandreou. The only attempt so far to get the socialist Prime Ministers of all these countries round the same table (at Vouliagmeni in Greece during the 1983 Greek Presidency) ended in disagreement.

Enlargement and the Geographical Balance of the Community

4. Enlargement will shift the centre of gravity of the Community towards the poorer and more agrarian south. It will add 35% to the Community's land mass and 17% to its population, but ^{less than} ~~only~~ 8% to its GDP. Portugal and Spain will of course expect to get benefits from the Regional and Social funds. I attach a table of GDP per capita for the enlarged Community, which shows a fairly clear North-South split; with Ireland the only northern country

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to feature in the bottom five places. Spain and Portugal will add their weight to Italian-led efforts to secure for Mediterranean produce levels of support from FEOGA guarantee expenditure comparable to those for northern products. Support for Mediterranean agriculture has already risen to 25% of total FEOGA spending. This, however, is producing a reaction, in particular from the French. For one of the results has been that France is no longer a net-beneficiary from FEOGA; and the northern member states generally are concerned about the rapid rise in Community expenditure on Mediterranean produce. This is why it has been so important to reach agreement now on guarantee thresholds for the products in surplus, including wine; and to get firm commitments on olive oil. We have been able to work closely with the French, Dutch and Germans in this regard. Since this balance is unlikely to change, we are likely to have the French on our side in future arguments with the South about expenditure. The earlier French policy of expanding the Community southwards to increase French influence has in fact backfired.

5. In the Community's external policy, there will be strong pressures from the other Mediterranean countries, particularly Morocco and Tunisia, for the Community to help them make up, or to compensate them for the loss of markets for their products which Spanish accession will entail. Spain may support French and Italian efforts to work out a

/Mediterranean

Mediterranean policy, but has real conflicts of economic interest with the Mediterranean countries. Portugal's relationship with Angola and Mozambique is likely to lead to some intensification of interest in Southern Africa; but Portuguese objectives so far have been close to our own.

6. Spain and Portugal will try to re-inforce a tendency already evident in the existing Community for it to try to take a greater interest in Latin America. But there is little scope for EC trade concessions and there are obvious limits to the political influence the Community can exert in the area. We shall continue to ensure that it is not exerted in such a way as simply to cause friction with the Americans. The Spaniards were cautious last year in their dealings with Alfonsin. But they undoubtedly will maintain their low-profile pro-Argentine position on the Falklands, and this will increase the problems of maintaining Community solidarity at the United Nations. In general the participation of Spain and Portugal may make it marginally more difficult to reach common positions on some issues on political cooperation. But it is the Greeks who are likely to continue to cause the most difficulties in that regard, while political cooperation offers us ~~excellent~~ opportunities to influence Spanish and Portuguese thinking and bring them ^{well} (more into the mainstream of Western consultations ~~on the key international issues.~~

Implications for British Tactics

7. All the existing member states are worried about the consequences of enlargement. All have accepted it, despite

their misgivings about the problems it will cause for the Community, because of the need to bring ~~and tie~~ Spain and Portugal firmly into the West European democratic camp. All have felt that it is a political necessity to bring the negotiations to a successful conclusion, including the French, whose interests are most directly affected. They have insisted on the Community imposing tough conditions on Spain, but have not sought to block accession. The exception has been Papandreou, who has chosen to make this an occasion for blackmail.

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8. Worry about the difficulties which may beset the enlarged Community lies behind ~~much~~ of the current debate on the future of the Community and an evident nostalgia on the part of the original Six for a Community which is supposed to have been more cohesive and ^{did have} ~~with~~ a much greater degree of economic convergence. This has been coupled with the realisation on the part of the French that they are going to join us and the Germans, and soon to overtake us, as net contributors to the Community budget. The French and Germans are thinking in terms of some institutional changes - though not in the French case very far reaching ones - which might help decisions to be arrived at in the enlarged Community; or, failing that, for ways of improving the cohesion of a group of core countries within it. It was clear from the Prime Minister's talks in Bonn and the Foreign Secretary's recent talk with ^{Mommsen} Dumas that the French and Germans are anxious that we should participate with them in this process.

9. The French and German ideas on how to proceed are still in the formative stage and, in many respects, ill-developed and ill-thought out. The common theme at the moment is the paying of lip service at least to the need to complete the common market (though real progress will depend on tying them and others to specific actions and time-scales); more formal arrangements for political cooperation; and increased cooperation in areas like education, science, health, culture, internal security. On decision-making there have been some indications from the Germans that they might now be prepared to agree to something, hitherto, they have always resisted, namely the formalisation of the Luxembourg compromise,

provided others agree to the more extensive use of majority voting on less important issues. We shall have to see whether or not it is possible to get thinking on these issues turned in directions we could accept. A feature of the current debate, however modest the results that may realistically be expected from it and ill-conceived some of the ideas advanced, has been the tacit abandonment of the federalist and supra-national ambitions which characterized earlier discussions of this kind.

10. In the Foreign Secretary's view, the present situation is one of opportunities as well as some risks. There is a realisation among the Six that, in terms of our industrial development, national income and economic interests, we are much closer to France and Germany than to the more 'peripheral' members of the Community. To the extent that there is an inner core within the Community, we shall want to be sure that the UK is part of it and is able to exert an effective influence on what is decided within it. Too visible a directorate would simply cause problems with the Italians and others. But in the enlarged Community it will be more than ever true that the only sure way to get things done, and done our way, is to work for prior agreement between France, Germany and ourselves. This has to be achieved mainly through bilateral contacts; ~~with them;~~ but there is indeed scope for us to attempt to achieve an informal directorate. This in turn means continuing to ensure that we do not allow the Franco/German partnership a monopoly on leadership in the Community. They have developed an intensive pattern of consultation and are

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always ready to make use of language depicting themselves as more European than in fact they are. ~~But~~ Fontainebleau has created opportunities for the exploitation of our common interests; and that will be the key to our ability to ensure that the enlarged Community functions in a way consistent with our interests.

But with
the French
now
joining the
Germans
and
considered
as net
contributors,

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