



Foreign and Commonwealth Office

London SW1A 2AH

4 April, 1985

Dear Mark,

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Enlargement

Now that the main issues in the enlargement negotiations have been settled, you may wish to know in more detail how the outcome compares with the objectives identified at the Prime Minister's ad hoc meeting of Ministers last September (Charles Powell's letter of 14 September).

We have secured all the objectives identified as important in that discussion.

Spanish industrial tariffs will be cut by 52½% over the first three years. The reduced duty quota on cars will be continued on improved terms, within which Senor Moran, in a confidential exchange, has guaranteed that our exporters will receive a quota of at least 5,000 cars in 1986, 6,000 in 1986 and 7,000 in 1988. The outcome on steel is also satisfactory. During the three years after accession, Spain will have to make capacity cuts sufficient to make her industry viable, as other member states have done. State aids are allowed during this period, but Spanish sendings to EC markets would continue to be restricted. The Foreign Secretary was grateful for the important part played by Mr Channon in tying up the details of this package at the December Foreign Affairs Council.

On olive oil the battle was internal to the Community rather than with the applicants. The Italians finally agreed a text which provided for reform of the regime with a guarantee threshold in the event of a surplus. It will take Spain twenty years to reach full EC price intervention levels unless the regime is reformed. We shall keep up the pressure on the Commission to introduce proposals for a guarantee threshold in time for the 1986 price fixing. On wine the Spaniards have accepted the terms of the Dublin agreement which imposes guarantee thresholds. As regards British Sherry, Ministers agreed in September that the point might be settled by



a very long transitional period, although not without further consideration between the Ministers principally concerned. The Spaniards, for whom the issue is also sensitive, were prepared to offer a derogation of up to 10 years in the negotiations last week, but continued to resist an indefinite derogation in the Accession Treaty. The problem was eventually dealt with by the Spaniards taking note of the EC position (which protects British sherry) but reserving the right to raise the question once they join the Community. When the technical annexes to the Treaty are negotiated, the Spaniards may continue to resist specific protection for the term British sherry in the Treaty, (which we need, since "sherry" will become a protected appellation). Tactically, however, we shall be well placed, since the Spaniards will be arguing against an agreed Community position.

We obtained a satisfactory outcome on assuring supplies to Portugal of ACP raw cane sugar thereby preventing Portuguese and UK refineries - Tate and Lyle - competing for limited supplies. The Portuguese are assured a reduced levy quota of 75,000 tonnes a year - not as much as we would have liked, but with an additional mechanism to deal with any shortfall for 7 years after accession. There will be a review in the 6th year of transition to see whether the arrangements should continue after the end of the transition. We have got a satisfactory deal on northern agricultural products, which Mr Jopling raised in correspondence after the 13 September meeting. The surveillance arrangements to protect the Spanish market for the first 3 years after accession as regards EC imports of dairy products, beef and bread-making wheat allow for considerable annual percentage increases. UK horticulturalists will be protected by the ten years tariff transitional arrangements for Spanish fruit and vegetables.

The outcome on Fisheries was particularly satisfactory. The mechanism of formally integrating Spain into the CFP for its duration (to 2002), while in practice imposing very strict limitations on numbers and controls; proved to be the face-saver the Spaniards needed, though they will try for improvements at the time of the 1993 review. There is an outstanding problem over the allocation of the 4,500 tonnes of hake between the Bay of Biscay and more Northern waters, and this will need to be discussed further in the next Fisheries Council, but is not a major issue in relation to those already settled. Mr Mason and Mr Griffiths of the MAFF gave invaluable support to Ministers in the negotiation of the fisheries package.



On social affairs, there will be seven years transition on the free movement of workers. Gibraltar's interests have been protected.

The question of the transitional financing arrangements, which at one time looked likely to be a major issue, was resolved on a satisfactory basis. M. Delors, after confirming this with M. Dumas, accepted our representations on what had been agreed at Fontainebleau and over-ruled efforts by Natali and the German Finance Ministry to try to re-open the matter. As a result the cost to the UK of the transitional financing arrangements for Spain and Portugal (degressive VAT refunds over 7 years) will be small; indeed if the Commission's calculations are correct and Spain is indeed left in a financially neutral position, Spanish accession should involve no net cost to us in 1986.

The terms for Portugal are reasonably generous, and properly so given her low GDP per head. For Spain the terms are tough. The French were able to secure long transitional arrangements for Mediterranean products, though in the end their interests will suffer as growers in the Midi are exposed to Spanish competition. The French also have particular concerns about the Spanish fishing effect in the Bay of Biscay - and failed in their attempts to divert part of this to the North Sea. Enlargement over time will impose significant costs both direct and indirect on the UK. Unlike the French and Germans, however, we are protected by the Fontainebleau mechanism.

The Community has yet seriously to address the question of the impact of enlargement on the Mediterranean partners. Negotiations will start within the Community during the summer. We shall be working with the Northern Member States to preserve their agricultural trade access, on the basis of the declaration agreed by the Foreign Affairs Council on 29 March.

There still remains a considerable amount of technical work to be done before the negotiations are finally concluded and some weeks will also be needed to finalise Treaty texts. We would expect signature to take place during June before the end of the Italian Presidency.

The Foreign Secretary will be consulting the Legislation Committee on handling the necessary legislation in Parliament. The best date for introduction to Parliament of the Bill on Spanish and Portuguese accession will be at the outset of the new Parliament



in the autumn, with all the stages being taken after the debate on the address and before Christmas, to enable us to meet the 1 January 1986 deadline.

The Foreign Secretary feels that these are satisfactory results for UK interests. He would like to thank his colleagues in the MAFF, DTI and Treasury and their officials who contributed to this outcome, and to record the remarkable contribution of Sir Michael Butler and his staff in the Permanent Representation.

We shall be letting you have separately a paper on the enlarged Community.

I am copying my letter to Rachel Lomax (HM Treasury), Ivor Llewellyn (MAFF), Callum McCarthy and A N Rees (DTI) and Richard Hatfield (Cabinet Office).

Yours Sincerely,
Colin Budd

(C R Budd)
Private Secretary

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