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POST-STUTTGART NEGOTIATIONS

Sir Robert Armstrong may send forward the attached minute more formally but I thought that you might yourself find it useful on your return to have this summary of where we stand on the post-Stuttgart negotiation after the work undertaken in August.

D F Williamson

D F WILLIAMSON

2 September 1983

Qz.03267

SIR ROBERT ARMSTRONG

EUROPEAN COMMUNITY AFFAIRS: MARCHING ON FROM STUTTGART

I thought it might be helpful for you to have this brief summary of the post-Stuttgart negotiations as we open the autumn campaign, particularly as some work has been going forward in August, in particular the High Level Group at which I represented us on 23 August and the Special Council attended by the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture, Fisheries and Food on 30 August.

(i) Future financing and safety net. There are now three documents on the table: the Commission's proposal for increased own resources and for modulated VAT (COM(83) 270), the United Kingdom's paper on the safety net and a Danish paper proposing a "convergence fund". The Danish paper proposes that for a period of five years payments would be made to any Member State (in fact, only the United Kingdom) with relative prosperity below the Community average and a share of receipts below its share of Community GDP. There are various constraining conditions. We have inspired some useful comments in the press and elsewhere about Danish conversion on the road to Athens but in my view their paper is a dangerous element for us, since it will probably seduce some Member States. The principal disadvantages are that the scheme is time-limited; does not act on the contribution side; would probably be of little benefit in an enlarged Community; involves extra Community expenditure; and thus has more in common with the UK refunds negotiated in recent years than a long term safety net. We shall continue to argue, however, that another Member State has now recognised that the inequitable operation of the budget must be corrected on a more permanent basis.

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A major objective for us is to ensure that other Member States do not push aside or defer discussion of the safety net. At the meeting in Brussels on 23 August I secured agreement that future financing and the safety net would be discussed at the next meeting of the High Level Group on 12/13 September. It has now been agreed that after preparation on 12/13 September the safety net and other financial issues will be discussed at the next Special Council on 20/21 September.

(ii) Agriculture. There are now five documents on the table: the Commission's detailed Communication (COM(83) 500), the United Kingdom paper on a strict financial guideline for agricultural expenditure, the Dutch paper which has some important points in common with our own, an Irish paper about their dependence on agriculture and a Danish paper on milk. The Commission's paper has already been the basis for a long and quite useful discussion at working level and in the High Level Group. Agriculture also took up most of the time in the Special Council on 30 August when the Agriculture Ministers of all Member States were present and made most of the running (for example, France had four Ministers present but only the Agriculture Minister spoke in the agricultural debaté). The Presidency is working hard to concentrate attention on the main elements of the Commission's document rather than on general statements. At the last Council this was impossible owing to the surplus of Ministers (I counted 37) competing for speech-time. We can expect increasing pressure (inspired by Mr Ersboll) to focus debate wholly on the Commission's document and to try to bypass the strict financial guideline.

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The strategic points which we need to keep in mind on the complicated agricultural negotiation during the autumn are:-

(a) putting the package together. I have little confidence that the Community, confronted by a detailed agricultural document of 47 pages from the Commission, can put together a package of specific decisions for correcting the common agricultural policy at the Athens European Council. Some of these decisions are inevitably technical and not worth discussing at the level of Heads of Government. Any attempt to have too much decided by the European Council will lead to discord and recriminations. We need to set up a situation in which certain major elements are conditionally decided at Athens; a timetable (eg by 1 March 1984) is established for decisions by the Special Council or the Council of Ministers (Agriculture) on the specific amendments to Community agricultural market organisations; and the United Kingdom continues to maintain its reserve on the grand package until those details are agreed. This plan of campaign seems to me to be the only practicable approach to agriculture in this negotiation but it is also very important for the United Kingdom on the safety net, since the small print on the safety net must be right. You may have seen that the Foreign and Commonwealth Secretary, thinking on these lines, has been referring to "breaking the back" of the negotiation at Athens.

The main agricultural elements which might be in the Athens package are the strict financial guideline (at present we have almost no converts); agreement on a rigorous price policy, particularly for cereals; the extension of guarantee thresholds (Eurospeak for limiting the quantities of produce subject to full guarantee or aid); agreement on a

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tough application of the milk guarantee threshold by a quota/super levy system; and some improvement in the arrangements for phasing out monetary compensatory amounts. There will be strong pressure from others to include the vegetable oils and fats tax (defeatable while Germany, Netherlands and UK are against); some action to stabilise imports, particularly of cereal substitutes; and differentiation in favour of small farmers.

(b) <u>not to be wrong-footed on the Commission's proposals</u>. The briefing for the Special Council was co-ordinated by us and we were satisfied with it. Underlying it, however, there is a real divergence of interest on some points between the MAFF and the Treasury/FCO. If we are to achieve our objectives on restraining agricultural expenditure, we must make a clear distinction between our tactical position now and our final position in a crunch. For example, it is quite reasonable now to say that it is best to operate the guarantee threshold for milk by reducing the intervention price generally rather than by a super-levy on the increased production above the 1981 level. If, however, (as seems probable) 8 member states agree in the final showdown to put a huge disincentive on extra milk production through a super-levy, the United Kingdom would be in an impossible position in opposing a measure entirely consistent with our budgetary objective. Similarly, it is reasonable now to reserve our position on the automatic dismantling of monetary compensatory amounts in order not to become involved in the Franco/German battle but in the last resort we cannot be in favour of holding German, Dutch or British farmers' prices above Community levels because the present system generates additional surpluses for which we pay.

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(iii) Structural funds. There are two documents on the table: the Commission's detailed Communication (COM(83) 501) and a short Dutch paper on co-ordination. Discussion in the working group, High Level Group and Special Council has shown that there is no interest in discussing the agricultural guidance fund before the Commission makes further proposals in the autumn; that no Member State wishes to reopen the recent agreement on the Structural Fund, which is favourable to the United Kingdom; and that the majority of Member States wish to try to revive a possible agreement on the Regional Fund based on the 1981 proposals rather than on the basis of the Commission's new and over-ambitious document. We see no significant negotiating risks in this sector.

(iv) Other policies. Other policies will be discussed in the High Level Group on 12/13 September and at the next Special Council on 20/21 September. The French will draw into this discussion their views on industrial cooperation between enterprises but it is not yet certain whether they will produce a paper, because they are engaged in detailed discussion with their own industry in the main innovative sectors. The CBI (informally) is reacting favourably in the hope that the initiative might result in the removal of some existing barriers to cross-border cooperation between enterprises.

The Foreign and Commonwealth Secretary has sent to the Chancellor of the Exchequer the paper on other policies which we wish to table in Brussels shortly. The paper does put more pointed emphasis than our earlier documents on the objective of creating competitive conditions within the Common Market for

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industry and commerce to go ahead by their own efforts. It is not intended, however, to cover new ground but has an important tactical purpose in demonstrating that in the post-Stuttgart negotiation we are not only concerned with our money but also have a view on the Community's future.

D F Williamson

D F WILLIAMSON

2 September 1983