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Prime Minister

To be aware that we are

taking in Brussels a paper
on "other Community policies."
It makes no new proposals.

Qz.03293

MR COLES 5/5

cc: Mr Kerr, H M Treasury
 Mr Fall, FCO
 Mr Spencer, DTI
 Sir Robert Armstrong

A.S.C. 12/7

ms.

EUROPEAN COMMUNITY: POST STUTTGART NEGOTIATIONS, OTHER POLICIES

We are hammering away in the post Stuttgart negotiations within the Community on our two main objectives - the safety net, which would protect the United Kingdom on a lasting basis against the present injustices of the budgetary arrangements, and the control of agricultural expenditure.

2. The Foreign and Commonwealth Secretary has taken the view that there would be tactical advantage for us in also recapitulating in a short paper our views on the range of other policies. It is therefore intended to table in Brussels the attached paper, which has been agreed with the Chancellor of the Exchequer and the other Ministers principally concerned. Unlike the paper on the budgetary safety net and the strict financial guideline for agricultural spending, this paper does not make new proposals or initiatives. It is intended mainly to demonstrate that in the discussion of other policies which will be launched at the next Special Council on 20-21 September, the United Kingdom does have decided views and a distinctive conception of the future development of the Community. Our budgetary concern is extremely important but it is not the only message which we want to put across within the Community.

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3. You will note that although much of this paper repeats the ground covered in the booklet "The Positive Approach" and in earlier statements, we have taken the opportunity to emphasize the major objective - which does not involve public expenditure - of attacking the remaining barriers to competition within the Community, eg technical barriers to trade, the absence of a common market for many services. We believe that we can gain increasing support for this emphasis on a competitive and wealth creating common market.

D F Williamson

D F WILLIAMSON

8 September 1983

THE FUTURE DEVELOPMENT OF THE COMMUNITY : OTHER POLICIES

NOTE BY THE UNITED KINGDOM DELEGATION

Introduction

1. This paper is intended to be a contribution to the 'broad action to ensure the relaunch of the European Community' on which the European Council decided at Stuttgart in June 1983. It is designed to complement papers already tabled by the UK for consideration by the Special Council on 'Community financing: a safety net' and 'A strict financial guideline for CAP expenditure'. The decision of the United Kingdom Government to table this third paper reflects the great importance which it attaches to the future dynamic development of the Community.

2. Many of the ideas put forward in this paper are already under discussion within the Community and what is required is a renewed and sustained effort to reach a decision. In other areas there is a need for a fresh approach. The paper does not address the important question of the future of the structural funds which is being considered already on the basis of the Commission's own paper.

The General Approach

3. The European Community retains a large agricultural sector, the importance of which is reflected, and should continue to be

reflected, in Community policies. But over the next decade, the Community's priority must be the development of a vigorous, efficient and cost effective industrial sector able to compete with the United States, Japan and the newly industrialised countries in the Community market and in the world, and capable of creating the wealth on which the future economic, social and political well being of our nations depends.

4. In considering what policies the Community should pursue as a priority, the UK believes that the principal criterion should be whether more can be achieved, or can be achieved more economically, by action on a Community basis rather than nationally. For research and development, decisions need to be taken on the Community framework programme 1984/87 where concerted action will help avoid duplication and waste. Joint action may also help to deal with problems with a trans-national dimension such as environmental pollution and transport. It also means an intensive effort to strengthen and develop the common market of 270 million people and to ensure that it provides the essential underpinning and environment for European industry. Finally, an important part of our effort to improve "the international competitiveness of enterprises" (Stuttgart Declaration) and the climate for investment and risk taking should be the reduction of the legislative and administrative burdens on industry.

5. The emphasis must be on cost effectiveness and economy.

There is no case for squandering scarce resources on projects of doubtful economic value to our societies. The availability of resources within the Community Budget for new policies will depend on whether or not we are able to keep the rate of growth in agricultural spending below the rate of growth of own resources. At a time when the governments of all Member States are striving to contain public expenditure, the Community has to pay heed, as the Stuttgart Declaration said, to financial feasibility. The fiscal resources for public expenditure, both on Community policies and on the policies of the Member States, are drawn from a single source - the taxable capacity of the Member States who make up the Community. The allocation of these resources between Community and national expenditure requires us carefully to relate the one to the other. As the Commission states in their introduction to the Preliminary Draft Budget for 1984, Community expenditure should not be regarded simply as an addition to national expenditure. The aim should be to create the framework within which wealth creation is made possible and is encouraged. Sometimes this will require the expenditure of Community funds, but often it will be a question of co-ordinating national efforts and facilitating development and growth in ways which cost little.

European Industry

6. The Stuttgart Declaration rightly gives priority to the

development of more effective Community action in research, innovation and the new technologies with a view to facilitating co-operation between enterprises. The aim must be to fit European industry to face effectively our commercial competitors and to ensure that we are not left behind in the development of the new products on which our economies will depend in the 21st Century. A concerted Community approach to research and development should avoid waste or duplication.

7. The coming together of European companies to establish industrial units capable of competing on a world level is a necessary adjunct of Community cooperation. The Community needs to examine critically the administrative and legislative impediments to such ventures and to risk taking and investment. In looking at competition policy, state aids and public purchasing policy the Community should have the positive dimension of industrial development in mind and not solely the possible distortion of competition.

8. Building on ideas already put forward by the Commission and France, the possibility of industrial co-operation between undertakings from a number of Member States within the Community framework should be further examined. New technology, particularly in the information sector, where the ESPRIT programme is of value, is an area in which co-operation at the European level can achieve greater effectiveness. But industry, even on a European scale, cannot flourish in total isolation. We

need to remain receptive to possibilities of strengthening of industrial and technological resources with the US and Japan on terms not of dependence but of fruitful exchange and innovative inward investment. Carefully designed training programmes for the new technology industries should be encouraged: such programmes could be accommodated within the Social Fund. Not only would they help industry, but they would ensure that the Community's human resources, and especially young people entering the labour market, were better equipped with the skills essential for Europe's future prosperity.

Energy

9. If our industry is to develop, it must be assured a secure and continued supply of energy. It would be unwise to assume that the present stability in the oil market will continue indefinitely. An important part of the Community's strategy should therefore be the application of energy policies which reduce its dependence on imported sources of energy. The Commission has already put forward proposals for a multiannual energy programme. We should identify our priorities, giving precedence to the economic development of energy resources in the Community.

10. These are not negligible, including as they do not only oil but also coal, gas, nuclear, hydro-electric and other potentially renewable resources. The UK welcomes participation by companies

from the other member states of the Community in the exploitation and production of North Sea gas and oil and hopes this will continue and increase in the future. Given the Community's very considerable reserves of coal, solid fuels could have a major role to play in strengthening the economic base of the Community as a whole. A solid fuels policy should therefore be an important part of the Community's energy strategy. It should support the development of a viable industry by measures to encourage economic production and use of coal.

The Environment

11. The Stuttgart Declaration refers to the importance of the protection of the environment. Many environmental problems require action going beyond individual Member States and this is an important area for future Community activity. The United Kingdom has already suggested that Community decisions should be taken urgently to bring about the elimination of lead in petrol. We would also like to see Community action to control cross-frontier trans-shipment of hazardous waste, and a programme of research aimed at finding solutions to the problems caused by acid rain.

The Common Market

12. The principle of the free circulation of goods and people and the free offer of services within the European Community is

one of the foundation stones of the Treaty of Rome. Twenty five years after signature however, it is still not a reality. The Community has got little further than the abolition of tariffs. This falls well short of our business community's expectations: what they experience day by day is a range of non tariff barriers and administrative measures which impede a true common market for both goods and services: which seriously add to the cost of trading across frontiers: and which indeed are in danger of growing, despite recent efforts to make progress in this area. This situation should not be tolerated and a top priority for the Community's development over the decade should be to bring about a genuine Community-wide internal market. The free circulation of goods within the Community of 270 million people (or 320 million after enlargement) would constitute a drive-wheel for Community industry and a powerful measure for wealth creation.

13. The Community should work for:

- a) liberalisation in the transport field, particularly in air services and the regulation of lorry traffic;
- b) a Common Market for services as the Treaty requires, particularly in the insurance field;
- c) simplification of frontier controls, including a postponed accounting system for VAT;
- d) the elimination of non-tariff barriers to trade eg through the adoption of European standards;
- e) further harmonisation of professional qualifications to

help achieve free movement of labour.

14. The economic and financial benefits to all member states from the completion of the Common Market certainly would be large. To take one small element as an example, the Commission have calculated that simplification of regulations for the control of lorry traffic at intra-Community frontiers would save 370 million ecus.

External Economic Policy

15. For the Community to reap the full benefits of a strong internal market, we shall also need to work to maintain and strengthen the world trading system and to increase trade with other developed and developing countries in accordance with Article 110 of the EC Treaty. We have a major interest in seeing economic recovery accompanied and sustained by stable and open trading practices in which developing countries increasingly participate. The Community accounts for nearly one quarter (23%) of the gross world product, for nearly 20% of world exports (US 13%; Japan 8%) and its exports to third countries accounted for 12% of its GDP in 1980 and about 47% of total Community exports. With its member states it provides nearly half of all DAC aid. The temptation to solve the Community's internal problems by increased protectionism should be avoided in all sectors of the economy.

16. To this end, it follows that the Community must be able to

speaking with a coherent voice - backed where necessary with a perceived willingness to act in defence of its interests - and to apply its full collective weight to the task of implementing the Williamsburg Declaration, in particular on the need to address the problems of protection and indebtedness.

More specifically the Community must work:

(a) To get the work programme agreed at the GATT Ministerial Meeting put into effect, notably in:

- trade between developed and developing countries. The GATT study should be used to promote the opening of the NICs markets to other developing as well as developed countries. A longer term objective is a new negotiating round aimed at achieving more secure access to these markets;
- the liberalisation of trade in services;
- trade in agriculture. The Community should play a full and constructive part in the Committee on Trade in Agriculture.

(b) To secure action by Japan to open up its market more rapidly to imports and investment, and to allow the yen to reflect the underlying competitive strength of the economy thereby preventing the emergence of large current account surpluses which threaten the open trading system.

(c) To act promptly and effectively to deal with the unfair trade practices of other countries and exercise legitimate

power of defence for industries in transition (such as steel, textiles and shipbuilding).

(d) To follow up the annex to the Williamsburg Declaration on greater exchange rate stability and economic convergence.

(e) To develop a Community approach to the protectionist shipping policies of state trading and some developing countries, which threaten both to damage the European shipping industry and to impose additional costs on the Community's overseas trade.

(f) To ensure that the aid it provides to developing countries is used in the most developmentally effective way, including a shift in emphasis towards the poorest and away from direct food aid towards the promotion of greater self-reliance in agriculture through the use of appropriate food strategies.

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10 DOWNING STREET

From the Private Secretary

MR WILLIAMSON
CABINET OFFICE

European Community: Post Stuttgart Negotiations,
Other Policies

Thank you for your minute of 8 September. The Prime Minister has noted that it is intended to table in Brussels a paper containing our views on "Other Policies".

A.J. COLES

13 September 1983

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