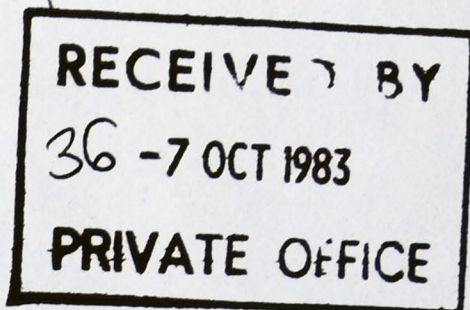




Foreign and Commonwealth Office

London SW1A 2AH

Do you have any views on this material's usefulness?
6 October 1983
11/10.

J M Lyon Esq
Private Secretary to the
Secretary of State for Northern Ireland
Northern Ireland Office
Government Offices
Great George Street

Dear Lyon,

for advice + comments
by 18-10

TOPICAL POINTS ON EUROPEAN COMMUNITY MATTERS

Mr Rifkind has recently taken over an exercise which the Lord President of the Council used to co-ordinate, intended to help keep ministerial colleagues, some backbenchers and interested Members of the European Parliament briefed periodically on points of current interest in Britain's Community affairs, in a form which might be useful to them in presenting the issues publicly and in Parliament. This has been done through the periodic circulation of some non-Confidential 'Topical Points'.
/ I attach the latest set.

May I draw your attention to Annex A which may be particularly helpful as a self-contained summary of Britain's approach to the post-Stuttgart negotiation.

Mr Rifkind would be interested in any reactions to this briefing. Is it useful? Would it be more useful if it had a different form or emphasis?

Yours ever,

Brian Donaldson
(Assistant Private Secretary to
Mr Rifkind)

① MR Hill
② CC
PS /SE/S (CB)
PS /MR Butler (CB)
PS /DUS (CB)
PS /SIR E. Bell
MR Bloomfield
DR Quigley
MR Angel
* MR Burns
MR Alexander
MR Bassett

③ 18/10

TOPICAL POINTS ON THE EUROPEAN COMMUNITY: OCTOBER 1983

I GENERAL

The Post-Stuttgart Negotiation

1. The negotiation launched at the June European Council in Stuttgart is a turning point for the Community. Britain's approach to the negotiation, and a summary of the proposals we have put forward, are set out in the paper attached at Annex A.

UK Attitudes to EC Membership

2. The General Election of 9 June has taken the issue of Community membership out of British politics. The overwhelming majority of votes were for parties committed to membership. Mr Neil Kinnock, front runner in the leadership contest for the Labour Party, has urged a "positive approach" to the elections for the European Parliament in June 1984, and has argued that British withdrawal from the EC should be seen only as a "last resort". The most recent opinion polls have shown a marked increase in British public support for the EC with only 35% now saying they would vote to leave Europe if a referendum were held. This compares with 54% in November 1982.

British Trade with the EC

3. Latest trade figures are attached at Annex B, with some historical comparisons. The proportion of British trade in the Community countries continues to increase. Almost 45% of British exports went to other Community countries in July.

UK Budget Refunds

4. Agreement was reached at the June European Council in Stuttgart on a 1983 British budget refund of 750 million ecu - about £437 million. This brings Britain's refunds since 1980 to more than £2 500 million - or roughly two thirds of our unadjusted net contribution.

Solemn Declaration on European Union

5. A 'Solemn Declaration on European Union' was signed by the Prime Minister at the Stuttgart European Council in June. In a Parliamentary statement on 23 June Mrs Thatcher said "we strongly support the objectives of greater political cooperation which are set out in this Declaration, and we welcome the reaffirmation of the wider objectives of the European Community".

Coal

6. The European Commission are proposing that the Community spend £226 million a year to help modernise the coal industry, to make mines more economic and competitive and to help to run down stocks. The proposals accord with the British view that coal is an EC asset and that a viable industry will assure security of supplies.

Steel

a) Restructuring of the European industry

7. On 30 June the European Commission announced its decision on capacity targets (maximum possible production) for the Community Steel industry, to be achieved by the end of 1985. Of the major steel producers Italy has been asked to undertake the largest cutback over its original plan, the UK the smallest. This reflects the substantial restructuring of the British steel industry in the last few years.

8. In presenting his annual statement Mr Ian MacGregor, the outgoing chairman of the British Steel Corporation, said that the greatest disappointment of his three years at the BSC had been lack of progress within the European Community to achieve a "sensible alignment" of steel capacity and consumption. He said that the outlook for the steel industry would remain uncertain until EC Governments and the European Commission made joint progress in this direction.

b) EC/US Steel

9. In July, the Foreign Affairs Council reacted strongly against

President Reagan's decision to impose certain import restrictions over a 4-year period to protect the US special steel industry. The case has gone to the GATT, where consultations are continuing. The Commission has argued strongly on behalf of European producers, with the result that the US have now accepted the principle of compensation, though they are still examining the details.

Cooperation with Europe on Fast Reactors

10. The Secretary of State for Energy, Mr Peter Walker, announced on 5 September that Britain aimed to join forces with a number of Community partners on fast reactor development: "Britain is among the world leaders in the development of this technology, but by seeking to join this European 'club' we expect to gain both technically and economically ... We shall get the maximum benefit for our own substantial programme if we pool our efforts with our European partners".

European Strategic Research Programme in Information Technology (ESPRIT)

11. In 1982 the EC adopted guidelines for the ESPRIT programme to concentrate European long-term research for product leadership in Information Technology through greater industrial cooperation. It is proposed that some £425 million should be allocated to the programme over the first five years.

In August 1983, 36 contracts were announced for the pilot phase of the scheme, with the Community covering half the first year costs. 21 of these pilot projects include UK participation.

EC Aid World's Top Film Library

12. Britain is to have the largest databank on films and television in the world, with help from the EC. Money has been allocated to the British Film Institute to help set up the databank which will cover some 350 000 films, and provide a world-wide service to researchers, students and academics.

II GRANTS AND LOANS

European Investment Bank (EIB)

11. Between 1973 and 1982 the EIB channelled some £2 600 million to projects in the UK. Loans announced so far in 1983 include:

- a) £4.0 million to Devon County Council. Projects covered by the loan include seven road improvement schemes; extensions to a hotel and to a catering training college in Plymouth; new radar equipment for Exeter airport; roads and drainage services for four industrial estates; and a waste disposal site at Plymouth.
- b) £11 million for water and sewerage schemes in Wales and construction of the Llanelli relief road.
- c) £2.75 million to the Lancashire County Council. Projects covered by the loan include waste treatment facilities at Pendle and at Blackpool; a road link between the M55 and industrial estates in the Blackpool area; and improvements to sea defences at Cleveleys and Fleetwood.
- d) £1.7 million towards the construction of a coal handling and storage facility on the north quay of Workington port, in north-west England. The loan is to Cumbria County Council.

European Regional Development Fund (ERDF)

12. Regional Fund grants to Britain are now well over £1 billion since the inception of the Fund. Under the first allocation for 1983 Britain received £44 million. This money is destined for 139 investment schemes preserving or creating some 3 000 jobs. Of the total, Scotland is to receive £14 million, Wales £12 million and Northern Ireland over £7 million.

European Social Fund

13. In the past decade Britain has received nearly £1 billion under the Social Fund, which has been growing rapidly. The first allocation in 1983 was for nearly £35 million, with the bulk of the money going to regions with the highest unemployment. Projects for training the young include one from South Yorkshire County Council for young people starting their own businesses. A

large single allocation of £3.38 million is dedicated to the vocational training of 1 656 unemployed people in the textile and clothing industries.

Agricultural Aid (FEOGA)

14. Over £5 million of aid to 35 separate UK projects was announced in the first round of 1983 awards for projects designed to improve marketing and processing opportunities for agricultural and fisheries products.

The projects include:

- £368 705 for expansion of poultry meat processing at Coleraine, County Londonderry.
- £215 687 for expansion and modernisation of a fish processing factory in Grimsby.

Separate grants of over £3.5 million have been announced for the modernisation of the inshore fishing industry. These grants cover boat construction, boat modernisation and fish farming.

European Coal and Steel Community (ECSC)

15. Over the decade of EC membership Britain has received ECSC loans of over £1400 million and grants of over £200 million. The most recent grants, totalling almost £8 million, were announced in September for workers who have lost their jobs in the British Steel Industry. The grants include £4.8 million for 1286 workers affected by the permanent closure of the Round Oak Steel Works at Brierly Hill.

BRITAIN'S APPROACH TO THE POST-STUTTGART NEGOTIATIONS

Introduction

1. The General Election of June 1983 has placed Britain in a strong position to play a positive and leading role in the EC.

"The debate about British membership is over, once and for all. Now we shall turn our energies to developing the Community, so that it can better serve the interests of all its members and further those interests in the outside world".

The Prime Minister, Margaret Thatcher,
House of Commons, 22 June 1983

"..we shall set out with confidence to do what the British people overwhelmingly want us to do - make a success of British membership and to play leading role in reshaping the Community for the next phase of its existence".

The Foreign and Commonwealth Secretary,
Sir Geoffrey Howe, House of Commons
28 June 1983

2. The negotiation launched at Stuttgart in June 1983 provides what the Prime Minister has described as a "golden opportunity" to set the European Community on a sound basis for its future development.

"A process of fundamental reform has now been launched:

First, the Community has agreed a programme for firm decisions on its future financing, including, and this is vital for us, a fairer distribution of the burden.

Second, we are now to examine in detail measures to curb the relentless growth in expenditure, especially on the Common Agricultural Policy.

Third, we are not prepared simply to agree that the Community's resources should be increased. Just to deluge a probelm with money is not a solution but a substitute for a solution. So those who want more money will have to prove their case and

show that the present resources are being spent effectively".

The Prime Minister, Margaret Thatcher,

House of Commons, 22 June 1983

3. Britain has tabled papers for the negotiation in the three areas in which decisions are of the greatest urgency and importance: on a safety net for the budget; a strict financial guideline for the CAP; and the lines of future development of the Community.

The Budget: Need for a Safety Net

4. For too long the Community's budget problem has been allowed to poison our joint endeavours. The simple fact is that the present arrangements result in an unfair distribution of burdens and benefits, and Britain is as sick as its partners of having to negotiate stop-gap measures to put things right again. What justice can there be in a system in which Britain, below the Community average in prosperity, bears a net burden roughly equivalent to our whole overseas aid programme to developing countries, while some more prosperous partners gain a comparable windfall?

5. The safety net scheme Britain has proposed places an upper limit on the net budgetary burden which each partner should be expected to bear, expressed as a small percentage of its GDP. Adoption of a mechanism along these lines would be a major Community achievement:

- "- First, it would respect the principles of the own resources system.
- Second, it would solve the imbalances problem on a lasting basis with the least disturbance to existing arrangements.
- Third, it would apply to the enlarged Community.
- Fourth, it would avoid need for annual budget refunds and therefore annual disputes with the Parliament.
- Fifth, it would open the way for progress in the Community by enabling Member States bearing the heaviest budgetary

burdens to consider proposals for new Community policies on their merits without the fear of adding to those burdens.

- Sixth, it would be much fairer and more compatible with the aim of convergence to relate budgetary burdens to relative prosperity rather than, as since 1980, making arbitrary refunds".

The Foreign and Commonwealth Secretary,
Sir Geoffrey Howe, Brussels,
20 September 1983

"With a system on these lines the people of the Community could feel confident that the Community had a sound and equitable financial basis for its future expansion and development. We are anxious to see the Community fulfilling the aspirations of those who founded it".

The Foreign and Commonwealth Secretary,
Sir Geoffrey Howe, Brussels,
19 July 1983

The Common Agricultural Policy: Need for a strict budgetary framework

6. The other issue on which bold decisions are needed at Athens is the CAP.

"We accept that in a period of economic recession and high rising unemployment there are strong social as well as environmental reasons for maintaining a healthy agriculture across the Community and an adequate level of incomes, even in the more remote and disadvantaged regions. It is also reasonable, however, that in such a period farmers should share some of the constraints imposed on the general population by the need to hold down public expenditure and that jobs in agriculture should not be secured at the cost of unemployment in other areas.

Much has changed since the authors of the Treaty set down the objectives of the CAP over a quarter of a century ago. In the light of these developments, and particularly the astonishing

increases which the Community has achieved in productivity and self-sufficiency, we now need to review the operation of the CAP against its stated objectives".

Foreign and Commonwealth Secretary,
Sir Geoffrey Howe, Brussels,
30 August 1983

7. The root problem is one of inexorably rising production and stagnant consumption, resulting in surpluses for which there is no effective commercial demand either inside or outside Europe. This production can only be disposed of at inordinate cost. Not only is this a gross misuse of Community resources, but it is a growing irritant in the Community's relations with its trading partners including those in the Third World.

"We have been warning the Community for years that increases in agriculture prices each year are excessive and that the surpluses in agricultural produce which cannot be disposed of would be enormous. That is exactly what has happened. The day of reckoning has come. We have to find a proper new basis for the CAP. We need rules which do not permit excessive agricultural expenditure. I know that these are difficult decisions, but if we take them European agriculture will be set on a much better long term footing".

The Minister of Agriculture,
Michael Jopling, Athens,
6 September 1983

8. The Commission have proposed measures which centre around price restraint and production quotas (or "guarantee thresholds"), designed to reduce the open-ended nature of the system and to relate Community support more closely to sensible levels of production, allowing greater operation of market forces. They have suggested as a guideline that CAP expenditure should rise more slowly than the Community's total resources. This is an excellent approach, and widely supported - not least by the European Parliament. But without a formal procedure to back it no

serious observer believes that the guideline will be respected from year to year.

9. Britain has therefore proposed that the financial guideline suggested by the Commission should be established as part of the Community's budgetary procedures. This approach has also been put forward by the Netherlands. It is the only proposal in the field which would ensure that the common Community objective of reducing agricultural expenditure as a proportion of total Community spending was achieved and sustained. Three points in particular need stressing:

- a) The guideline would be complementary to adaptation of particular commodity regimes which is needed in any case on its merits: it would provide a framework within which Agricultural Ministers would take their decisions on the commodity regimes from year to year.
- b) Britain is not arguing for a totally rigid system, as some have suggested: the arrangements we propose would be flexible enough to allow for fluctuations in agricultural markets, and would give the Agriculture Council enough latitude to secure the objectives of the CAP.
- c) We recognise a widespread concern that the measures needed to secure market balance could bear heavily on the incomes of certain farmers. This is by no means certain. We accept, however, that if it occurred, then means would have to be found to deal with that problem.

10. As for the changes needed in commodity regimes, one general principle needs reiterating. It is for the Community to sort out its own difficulties. We must not seek to solve the problems of the CAP at the expense of other countries either by restricting their access to our market or by massive increases in subsidized Community exports. A Community which depends for its economic existence and future prosperity on industrial trade cannot afford such a short-sighted approach even if it did not fly in the face of Treaty commitments progressively to abolish restrictions on

international trade, and even if it was not directly contrary to the decisions taken at Williamsburg earlier this year.

The future development of the Community

11. If, in the coming months, the Community can make real progress in setting its budgetary house in order and in tackling the problems of the CAP, then we will be able to set our hands with much greater confidence to the opportunities of the future, and in particular to the important tasks of enlarging the Community to include Spain and Portugal, and of relauching the process of Community development.

12. We look forward to that day. Britain has a clear conception of where the Community should be going, and we have tabled a paper for the current negotiation with some of our ideas:

- Over the next decade the Community's priority must be the development of a vigorous industrial sector which can match our major world competitors. This involves, especially:
 - * An intensive effort to strengthen and develop the internal market. This work, ranging from simplification of frontier controls to mutually recognised professional qualifications, must be a top priority. It is central to the whole concept of the Community.
 - * Concerted action in research and development.
 - * A focus on cost effectiveness in Community policy with the emphasis on wealth creation, not the distribution of benefits.
- We should develop proposals for greater industrial cooperation between undertakings from different Member States within the EC, seeking, too, to create a regulatory environment in which industries will naturally pool their resources.
- We should identify priorities in the energy sector, with the emphasis on policies, particularly for coal, which reduce Community dependence on imported sources of energy.
- Many environmental problems require action going beyond

individual Member States and this is an important area for future Community activity.

- We shall seek to maintain and strengthen the world trading system, and apply the Community's collective weight, in particular, to problems of protectionism and indebtedness.

Conclusion

"We have a golden opportunity to devise a reasonable and equitable basis for the Community's finances so that the problems which have bedevilled it in the past do not recur. There is now a real prospect of an effective, outward-looking organisation of European States, well designed to bring about a more prosperous future for its people, and to carry its benefits to a wider world. We have worked for this opportunity for four years and we shall make the most of it now that it has arrived".

The Prime Minister, Margaret Thatcher,
House of Commons, 22 June 1983

"HMG is as strongly committed as any member to the Community and to its further development, for deeply felt political as well as economic reasons. Our elections this summer confirmed that commitment. As the Government which has suffered most from the budgetary rows of the last four years, we have special reason to want a successful outcome to the Stuttgart negotiations. As the country which benefits least from the existing policies, we have special reason to favour a relaunch of the Community. No amount of rhetoric can disguise the reality that the key to the development of new policies remains a fair and disciplined budget."

The Foreign and Commonwealth Secretary, Sir Geoffrey Howe,
Brussels, 20 September 1983

TABLE:1 UK TRADE WITH EUROPEAN COMMUNITY COUNTRIES

JULY, 1983

MILLION POUNDS
NOT SEASONALLY
ADJUSTED

(1)	(2)	(3)	(4)	(5)	(6)	(7)
THIS	LAST	THREE	LAST	YEAR	YEAR	INDEX
MONTH	THREE	MONTHS	TWELVE	1982	1972	(4)/(6)
	MONTHS	YEAR	MONTHS			%
		AGO				

EXPORTS	WORLD		4652	14671	13715	57683	55538	9602	601
=====									
- TOTAL	EC		2075	6472	5857	24773	23118	2934	844
	EC SHARE %		44.6	44.1	42.7	42.9	41.6	35.0	141
			- - -	- - -	- - -	- - -	- - -	- - -	- - -
- MFRS	WORLD		3144	9955	9469	38050	37316	8069	472
	EC		1199	3802	3650	14327	13874	2353	609
	EC SHARE %		38.2	38.2	38.5	37.7	37.2	29.2	129
			- - -	- - -	- - -	- - -	- - -	- - -	- - -
- OIL	WORLD		930	2902	2458	11872	10642	219	5415
	EC		629	1866	1417	6999	5932	113	6200
	EC SHARE %		67.6	64.3	57.6	58.9	55.7	51.5	114
			- - -	- - -	- - -	- - -	- - -	- - -	- - -
IMPORTS	WORLD		5308	16831	14740	61372	56940	11073	554
=====									
- TOTAL	EC		2570	7741	6577	27820	25252	3525	789
	EC SHARE %		48.4	46.0	44.6	45.3	44.3	31.8	142
			- - -	- - -	- - -	- - -	- - -	- - -	- - -
- MFRS	WORLD		3660	11455	9698	41260	37083	5965	692
	EC		1997	5971	4935	21193	18844	2331	909
	EC SHARE %		54.6	52.1	50.9	51.4	50.8	39.1	131
			- - -	- - -	- - -	- - -	- - -	- - -	- - -
EXPORT/IMPORT RATIO									
=====									
- TOTAL	WORLD	%	88	87	93	94	98	87	108
	EC	%	81	84	89	89	92	83	107
			- - -	- - -	- - -	- - -	- - -	- - -	- - -
- MFRS	WORLD	%	86	87	98	92	101	135	68
	EC	%	60	64	74	68	74	101	67
			- - -	- - -	- - -	- - -	- - -	- - -	- - -

SOURCE: UK OVERSEAS TRADE STATISTICS
EXPORTS FOB; IMPORTS CIF
MFRS = MANUFACTURES, SITC 5 TO 8

COMPILED 06/09/83

TABLE:2 UK TRADE WITH MAJOR GEOGRAPHICAL AREAS
=====

JULY, 1983

MILLION POUNDS
NOT SEASONALLY
ADJUSTED

		(1) THIS MONTH	(2) LAST THREE MONTHS	(3) THREE MONTHS YEAR AGO	(4) LAST TWELVE MONTHS	(5) YEAR 1982	(6) YEAR 1972	(7) INDEX (4)/(6) %
EXPORTS	NON-EC DECD	1327	4425	4145	17791	17049	3804	468
=====	- SHARE %	28.5	30.2	30.2	30.8	30.7	39.6	78
- TOTAL	USA	594	1997	1828	8021	7457	1209	663
	- SHARE %	12.8	13.6	13.3	13.9	13.4	12.6	110
	JAPAN	86	227	181	732	681	173	424
	- SHARE %	1.8	1.5	1.3	1.3	1.2	1.8	71
- MFRS	NON-EC DECD	883	2923	2686	11145	10597	3216	347
	- SHARE %	28.1	29.4	28.4	29.3	28.4	39.9	73
	USA	335	1139	951	4244	3809	1012	419
	- SHARE %	10.6	11.4	10.0	11.2	10.2	12.5	89
	JAPAN	67	167	145	555	528	143	388
	- SHARE %	2.1	1.7	1.5	1.5	1.4	1.8	82
IMPORTS	NON-EC DECD	1812	6020	5156	21995	20113	4450	494
=====	- SHARE %	34.1	35.8	35.0	35.8	35.3	40.2	89
- TOTAL	USA	549	1865	1709	7192	6638	1188	605
	- SHARE %	10.3	11.1	11.6	11.7	11.7	10.7	109
	JAPAN	230	773	653	2939	2658	315	933
	- SHARE %	4.3	4.6	4.4	4.8	4.7	2.8	168
- MFRS	NON-EC DECD	1260	4214	3657	15543	14001	2753	565
	- SHARE %	34.4	36.8	37.7	37.7	37.8	46.1	82
	USA	451	1517	1357	5668	5088	829	684
	- SHARE %	12.3	13.2	14.0	13.7	13.7	13.9	99
	JAPAN	221	744	625	2851	2573	284	1004
	- SHARE %	6.0	6.5	6.4	6.9	6.9	4.8	145
EXPORT/IMPORT RATIO								
- TOTAL	NON-EC DECD %	73	73	80	81	85	85	95
	USA %	108	107	107	112	112	102	110
	JAPAN %	37	29	28	25	26	55	45
- MFRS	NON-EC DECD %	70	69	73	72	76	117	61
	USA %	74	75	70	75	75	122	61
	JAPAN %	30	22	23	19	21	50	39

SOURCE: UK OVERSEAS TRADE STATISTICS
EXPORTS FOB; IMPORTS CIF
MFRS = MANUFACTURES, SITC 5 TO 8

COMPILED 06/09/83

18 JAN 1984

