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PH 2208

(2)

Prime Minister

(See also attached telegrams on Thom's handling of the paper on restricting)

And,

Ref. A05047

MR ALEXANDER

European Community

He did not raise them but you may like to read this note.

I understand the Foreign and Commonwealth Secretary may shortly be speaking to the Prime Minister about Community matters. You may therefore like to have this summary of where things stand.

Budget Restructuring

2. The Commission, after a slow start, is now working on a paper which will deal with the CAP, other policies and the budget itself.

3. On the CAP, discussions inside the Commission have developed fairly satisfactorily. Current thinking involves:

- (i) bringing Community prices progressively closer to world market prices,
- (ii) limiting the quantity of production to which full Community support applies,
- (iii) the possibility of some form of income aids to cushion the effect of (i),
- (iv) the possibility of restrictions on imports of oilseeds.

If achieved, (i) and (ii) would represent genuine reform of the CAP; and since they reflect some French Socialist thinking may get a serious run. But there will undoubtedly be pressure to exempt small producers from any effective discipline. OD(E) will shortly be considering what our attitude should be to the use of income aids. If they did allow the Community to pursue a really tough price policy, and provided they were largely financed nationally (though subject to common rules), they could be worthwhile. But the Minister of Agriculture doubts whether they would achieve much in terms of lower prices, and fears that, since we have only a small proportion of low-income farmers likely to be eligible, British agriculture would suffer in comparison to its competitors in the other member states. We and the Germans will of course resist any further restrictions on imports (point iv) and it is not yet certain which way the Commission

will jump. There will inevitably be a big battle between France and Italy on the one hand and Germany and ourselves on the other about what to do over Mediterranean agriculture with the prospect of Spanish and Portuguese entry.

4. On the development of other Community policies, Monsieur Thorn and some of his fellow Commissioners will be anxious to stress that the Community is about more than the budget and will want to put forward ideas for the development of Community activities in industry, energy, research and regional and social policy. We have fed in our own modest ideas. The Commission will be tempted to argue that restructuring cannot be accommodated within the 1 per cent ceiling, but if they are realistic their report will refer to the possibility of raising the ceiling only as a prospect for some time in the future.

5. On the budget issue itself, we appear to have persuaded the Commission that some form of adjustment mechanism will be needed. But there will be pressure:

- (i) to argue that it should be temporary until such time as the policies achieve the right answer,
- (ii) to restrict it to the United Kingdom and not to accept that the Germans have a case,
- (iii) to apply the financial correction to the Guarantee Section of the CAP rather than to the budget as a whole.

Mr Tugendhat is currently chairing a group of Commissioners which will produce the draft of this part of the report. We are of course lobbying hard to ensure that the Commission supports the principle that transfers should basically be from the richer to the poorer member states and that the report contains ideas for adjustment mechanisms which are capable of giving us what we need.

European Councils

6. Although the French have said they will not be ready for substantive discussion, the Commission still plans to have its report ready for the meeting in Luxembourg on 29-30 June. The Dutch seem disposed to co-operate with us in giving the discussion some impetus at the European Council; and no one disputes that the European Council under our Presidency on 26-27 November is a time for decision. The effective time available for preparation is all too short.

The Foreign Affairs (and other) Councils will have to get to work in September at the latest, with preparatory work starting in Coreper in July. We shall need to take stock of progress early in October to see whether, and if so how, we need to step up the intensity of work.

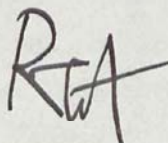
7. The other major economic topics at the forthcoming European Council will be those which also come up at Ottawa - recession, US interest rates, Japan, etc. President Mitterrand's economic policies may make it more difficult than at earlier meetings to agree on how to deal with the current economic problems. We shall of course be briefing the Prime Minister in the usual way, taking account of what comes out of the Ecofin Council on 15 June and the OECD Ministerial meeting on 17 June.

UK Presidency

8. The Foreign and Commonwealth Secretary will set out our stall at the European Parliament on 8 July, stressing the importance of the 30 May mandate but also looking for progress in other areas, including enlargement and Political co-operation. He has minuted other colleagues about the conduct of Community business where we hope at least to be efficient. The Chancellor of the Duchy of Lancaster has plans for using our Presidency to improve public understanding, but everyone is aware of the limitations.

Fisheries

9. The noises coming out of Paris are not altogether discouraging, but there will clearly be no progress before we take over the Presidency. We have told the French we are ready when they are to resume bilateral discussions on access and there is no point in a Fisheries Council until that has happened. We must do all we can to prevent the CFP getting linked up with the budget restructuring exercise.



ROBERT ARMSTRONG

11 June 1981