Ref. A084/3336

PRIME MINISTER

Cabinet: Community Affairs

You may wish to tell Cabinet of the decisions of the Commissioners-designate on their portfolios and to express satisfaction that Lord Cockfield has obtained responsibility for the internal market (including financial institutions, banking and insurance), for taxation and also for a considerable slice of industry including the sponsoring divisions for major sectors such as chemicals, pharmaceuticals, textiles, shipbuilding and food manufacturing. Mr Clinton Davis will have responsibility for the environment, forestry, transport, consumer affairs and nuclear safety. It is also satisfactory that Mr Andriessen, not Mr Natali, has the agriculture portfolio.

2. The Secretary of State for the Environment will report on the Environment Council of 6 December, at which the United Kingdom was represented by the Parliamentary Under Secrtary of State (Mr Waldegrave) and, on vehicle emissions, by the Parliamentary Under Secretary of State, Department of Trade and Industry (Mr Butcher). This Council could have been difficult for the United Kingdom, but the results were better than expected. Agreement was reached on the directive on the introduction of lead-free petrol, a British initiative within the Community. Lead-free petrol will now be available by 1989 at the latest. Member states are free to introduce it earlier and also to reduce the lead content of leaded petrol in the interim. There was also agreement on another controversial point, the octane level of the premium lead-free petrol (95 RON). The text of the directive has not yet been formally adopted but there should be no further discussion of the dates or technical content. On vehicle emissions the Council agreed

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on guidelines for further work by the high-level official group, with a view to decisions before the March European Council. The discussion was on the basis that any revised directive will <u>not</u> be mandatory, ie there will be no requirement for catalysts in the United Kingdom. The guidelines state that the Community should aim for a "substantial reduction in pollutant emissions from motor vehicles" while respecting the integrity of the common market and taking account of production and energy costs. Most member states were in favour of some differentiation between large and small cars. The Germans were isolated at one point but finally accepted the guidelines for further work. On the large combustion plants directive (acid rain) Mr Waldegrave argued strongly that, although further emission reductions were necessary, rigid targets and deadlines were not acceptable. The question was then deferred. The Council reached agreement on a directive for monitoring nitrogen dioxide levels, eg at the roadside.

3. The <u>Chancellor of the Exchequer</u> will report on the Finance Council on 10 December. An interesting development was that the Council adopted negotiating mandates on tied aid credits and on aircraft by qualified majority, outvoting France on the first point and Italy on the second; this is one of the first occasions on which, at the suggestion of the Chancellor, France has been outvoted. The Council agreed to adopt the very good annual economic report which was before the European Council; discussed ways of strengthening the European monetary system; and told the Agriculture Ministers that it wished a further discussion of financing before any agreement were reached on the agricultural structures proposals.

[illegible]

4. The <u>Chancellor of the Exchequer</u> and the <u>Minister of State, Foreign and Commonwealth Office (Baroness Young)</u> may also comment on the following financial questions. The Budget Committee of the European Parliament has recommended that the Community's <u>1985</u> draft budget, which is within the 1 per cent

VAT ceiling, should be rejected. It is expected that the European Parliament tomorrow will take a formal decision to reject the budget. The result will be a monthly interim system known as "provisional twelfths" which will definitely restrain Community expenditure in the period between 1 January 1985 and the formal adoption of a 1985 budget. In the end we expect that there will be an agreement on a 1985 Community budget covering also the irreducible overrun: nine member states, including the United Kingdom, have been ready to finance this, for example by making available a limited amount of new own resources in 1985, but the Germans did not agree (link with enlargement). Within the United Kingdom the appeal of Mr Smedley about the draft Order under Section 1(3) of the European Communities Act is now being heard and is likely to go in the Government's favour. If so, the draft Order, which provides finance for the Community's 1984 supplementary budget, should be debated in the Houses of Parliament next week.

5. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council of 10-11 December. The Council reached no agreement on the proposed new package of agricultural structure measures, largely because of United Kingdom (and some German) objections to the cost. The financing has been referred back to the Finance Council - some practical effect of budgetary discipline - and there has been no rollover of existing measures which expire on 31 December. On the milk superlevy the Commission is taking a robust line to make all member states pay up the levy due by 15 December; they have already deducted the amounts estimated to be due from their December advances to member states. The Council, however, adopted a declaration requesting the Commission to delay collection.

6. The Secretary of State for Transport will report on the Transport Council of 11-12 December. This Council is still in progress but the 38 tonne maximum lorry weight derogation for the United Kingdom and the Republic of Ireland seems likely to

be obtained without a specific time limit and with any change subject to a unanimous decision.

7. The Social Affairs Council is meeting on 13 December. The Foreign Affairs Council will meet on 17-18 December, the Steel Council and the Consumer Affairs Council on 17 December, the Internal Market Council on 18 December and the Research Council on 19 December.

RtA

ROBERT ARMSTRONG

12 December 1984

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CONFIDENTIAL

Conservative Research Department Brief

THE EUROPEAN COMMUNITY

NOTES ON EUROPEAN COMMUNITY DOCUMENTS

AND THE WHITE PAPER, COMMAND NO. 9348

Prepared For:
Debate in the House of Commons on
Tuesday, 11th December 1984

Cm

Contents

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32, Smith Square, London SW1
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1. 12 items are before the House:

1984 Supplementary Budget

a)	8322/84	Preliminary Draft Supplementary and Amending Budget No 1 for 1984
b)	8879/84	Letter of Amendment to the Preliminary Draft Supplementary and Amending Budget No 1 for 1984
c)	(Unnumbered)	Draft Supplementary and Amending Budget No 1 for 1984
d)	10222/84	Amendment and Modifications by the European Parliament to the Draft Supplementary and Amending Budget No 1 for 1984

1985 Draft Budget

e)	(Unnumbered)	Draft General Budget of the European Communities for 1985
f)	9482/84	Letter of Amendment to the Preliminary Draft Budget of the European Communities for 1985
g)	10690/84	Amendments and proposed Modifications to Draft General Budget for 1985

Own Resources

h)	8454/84	Amended proposal for a Council Decision on the Community's system of own resources
i)	8445/84	Draft Regulation introducing reserve measures to cover requirements in 1985
j)	8514/84	Commission Communication concerning budgetary requirements of the Community in 1984 and 1985

Financial Regulation

k)	5899/84	Amended proposal for a Council Regulation amending the Financial Regulation of 21st December 1977 applicable to the general budget of the European Communities

Budgetary Discipline

l)	(Unnumbered)	Budgetary Discipline: common position of the Council of Ministers

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NB The draft European Communities (Definition of Treaties) (Undertaking on Supplementary Finance for the Community) Order 1984 is not before the House.

2. The Draft General Budget of the European Communities for 1985 consists of seven volumes, including individual budgets relating to the Community institutions. The Budgets of the Council, the European Parliament, the Court of Justice and the Court of Auditors are almost entirely for their administrative and running expenses. The main Community policies (eg the Common Agricultural Policy, the Social Fund, the Regional Development Fund, Aid etc) are financed out of the Commission's budget, which accounts for some 98 per cent of the expenditure in the Draft Budget, as amended and modified, by the Parliament.

The 1985 Draft Budget (Documents e-g)
The 1985 draft budget (Document e) was established by the Foreign Affairs Council on 2nd-3rd October 1984 within the 1.0 per cent VAT ceiling but accompanied by a Council Declaration that the Council would undertake to meet by 1st October 1985, the Community's inescapable financial obligations in 1985, including the UK's abatements for 1984 on the revenue side. The Council reduced the Commission's provision for the European Agricultural Guidance and Guarantee Fund (EAGGF, often known by its French initials FEOGA) in the Preliminary Draft Budget by 1,315 million ECU.

The European Parliament which considered the draft budget in its November Plenary adopted a number of amendments and modifications (Document g) which included proposals:

- to place the United Kingdom's 1,000 million ECU (about £605 million)* compensation for 1984 on the expenditure side of the budget, rather than as an abatement of our contributions, in contravention of the agreement reached at Fontainebleau;
- to increase the agricultural provision by 1,306 million ECU, thus taking total expenditure to some 2.8 million ECU above the 1.0 per cent VAT ceiling;
- to make alterations relating to the revenue side of the budget.

The Budget Council on 29th November rejected most of the Parliament's amendments and modifications, including those concerning UK compensation, and brought the budget back within the 1.0 per cent VAT ceiling. But the Budget Council went some way to meet the Parliament's wishes by including provisional figures in the budget to cover unavoidable additional budgetary requirements in 1985 as envisaged in the Council Declaration of 2nd October. These provisional figures were in square brackets and not included in the budget totals.

Timetable. The European Parliament will debate the draft general budget of the European Communities for 1985, as modified by the Council, in its December Plenary (10th-14th December). It will finally adopt or reject the Budget.

The UK Contribution to the 1985 Draft Budget is estimated to be 5,764 million gross ECU (about £3,296 million) which is equivalent to 22.4 per cent of the total. Total expenditure provided for in the 1985 Draft Budget amounts to 27,873 million ECU in Commitment appropriations.

3. The 1984 Supplementary Budget (Documents a-d)
The Preliminary Draft Supplementary Budget (Document a) presented by the Commission to the Council on 6th July proposed additional FEOGA of 1,983 million ECU and supplementary finance of 2,071 million ECU. (The figure for supplementary finance had already been revised downwards from 2,333 million ECU agreed by the Commission in April). This was reduced further at the September Budget Council when provisional agreement was reached on a figure of 1,003 million ECU. At the Foreign Affairs Council on 2nd October the Draft Supplementary Budget No 1 for 1984 was established. Supplementary fincance totalling 1,003 million ECU will be provided by an Inter-Governmental Agreement (IGA). (Document c)

The Government has made it clear that it will not be in a position to seek Parliament's approval for the payment of our share (200 million gross ECU or £120 million) of

* Converted at the exchange rate £1=1.65 ECU

the Supplementary finance until agreement has been reached on effective arrangements for budget discipline.

The European Parliament adopted a number of amendments and modifications to the draft supplementary budget (Document d) on 23rd October, including a proposal to increase the amount of supplementary financing from 1,003 million ECU to 1,475 million ECU.

The Budget Council on 24th October rejected nearly all the Parliament's amendments. The Council of Minister has consistently taken the view that the European Parliament does not have powers over the Revenue side of the Budget. Its views on the Parliament's powers in this respect remain unchanged.

Timetable. The European Parliament finally adopted the Draft Supplementary and Amending Budget No 1 on 25th October, without increasing the total amount of supplementary finance.

(Document b) is a letter of amendment to the preliminary draft supplementary budget presented by the Commission on 3rd August to take account of technical VAT adjustments in respect of 1983.

4. Own Resources (Documents h-j)
On 9th July the Commission tabled a proposal for a Council decision on new own resources (Document h) to implement the Fontainebleau Agreement on new own resources and the UK abatement. This would replace the present decision dated 21st April 1970, which is one of the pre-accession Treaties for the purposes of the European Communities Act 1972. The new decision would implement the agreement of the European Council to increase the VAT ceiling to 1.4 per cent, set up a system for correcting budgetary imbalances (from which the UK will benefit from 1985), and make a 1,000 million ECU ad hoc abatement of the UK's VAT payments in respect of 1984. The main changes between the current proposal and the text of the present Own Resources Decision of 21st April 1970 are set out below:

Article 3 refers to VAT own resources and section 2 sets the new ceiling at 1.4 per cent. Sections 3-5 set out the arrangements for the budget imbalances scheme for the UK. This scheme will apply from 1985 onwards. Section 4 provides that, in relation to our budget contribution in 1984 the UK will receive an abatement of 1,000 million ECU. It is proposed that this should be made in 1985 on the entry into force of the new decision.

Article 8. The draft proposes that the Own Resources Decision should enter into force on 1st October 1985 but come into effect on 1st January 1985. This would allow the Commission to set a rate of VAT which, if agreed by the Council, would apply retrospectively to 1st January 1985.

Reasons for the need to increse Own Resources
There are four basic reasons why the UK agreed that an increase in the own resources ceiling was justified:

a) to allow for the costs of enlargement. These are not precisely quantifiable while negotiations, especially on the transitional period, are continuing, but they will clearly exist. It was estimated last summer that the net costs could amount to a 7 to 8 per cent increase in the total budget;
b) to give headroom in the budget to finance new policies of benefit to the UK, especially the regional and social funds. This new expenditure will still be subject to overall constraint of budgetary discipline arrangements;
c) to enable other member states to finance within the own resources system the cost of the UK's abatements;
d) to meet the costs of the Community's existing obligations.

Impact on United Kingdom law
The Own Resources Decision has the force of a Treaty under the European Communities

Act 1972. The Government would expect to lay a draft order in Council under section 1(3) of the ECA 1972 for the approval of each House of Parliament.

Policy implications

The adoption of the Own Resources Decision will invlove increasing the VAT ceiling to 1.4 per cent. However, the UK's VAT rate will be abated by the arrangement provided for in Article 3.

The proposed decision requires unanimity in the Council and ratification by all member states' Parliaments before it can come into force. The Government will submit the proposal to Parliament for ratification when it has been processed through the Council and when agreement has been reached on effective arrangements for budget discipline (this was achieved at the Dublin Summit on 3rd-4th December).

Timetable

The European Council at Fontainebleau agreed that the increase in own resources should be ratified no later than 1st January 1986. The Commission are proposing that this ratification should be completed by 1st October 1985 with an implementation date of 1st January 1985.

(Document i) is a Commission proposal of 9th July, under Article 235 of the EEC Treaty, that member states should make an advance of own resources not exceeding 1,913 million ECU (£1,094 million)* in 1985. This would be used to finance the difference between available own resources up to the 1.0 per cent limit in 1985 and the size of the 1985 Preliminary Draft Budget. This proposal is a contingency measure in case a new own resources decision does not come into force in 1985. It would enable the Commission to finance expenditure beyond the present 1.0 per cent limit.

(Document j) sets out the background to (Document i) and a similar proposal to cover the 1984 budget overrun (a document not before the House today). Both these proposals have now been overtaken by events.

5. Financial Regulation (Document k)

(Document k) is a Commission proposal of 15th March, for a Council Regulation amending the Financial Regulation of 21st December 1977 applicable to the general budget of the European Communities.

The Commission's amendments are designed to introduce symmetry in the budgetary powers of the institutions; improve relations between the institutions; make special provisions applicable to external aid; and make certain technical improvements.

Policy Implications

The Financial Regulation sets out the general principles which govern the Community Budget and the detailed rules for its structure, presentation, implementation and audit.

Although the arrangements governing the Community budget differ from our own domestic public expenditure system, the Government consider that the Financial Regulation should reflect the principles of economy and discipline which characterise its approach to domestic public expenditure. The Commission's proposals have implications for the relations between the Community institutions, which will need to be considered carefully.

Timetable

No date for its consideration by the Council has yet been fixed.

* Converted using the exchange rate of £1=1.7491 ECU, the rate used in drawing up the 1985 Budget.

6. Budgetary Discipline (Document L)

The EEC Heads of Government formally adopted the text on Budgetary Discipline at the Dublin Summit on 3rd-4th December. The measures necessary to guarantee implementation of the conclusions of the Fontainebleau European Council on budgetary Discipline were originally adopted on 12th November by Economic and Finance Council Ministers. Budgetary discipline is now therefore firmly enshrined in the budgetary procedures of the Community and will have its effect on all future budgets.

Background

It has long been an objective of UK policy to secure greater financial discipline in the European Community. The principles of this were endorsed by the Brussels and Fontainebleau European Councils earlier this year and since then then, the Economic and Finance Councils have been working out the measures to ensure the effective application of these principles.

The Council's common position covers four main items:

a) agricultural expenditure
b) an overall reference framework
c) the maximum rate for non-obligatory expenditure
d) an enhanced role for Finance Ministers.

Agriculture

Article 2 of the text commits the Council to ensure that agricultural expenditure grows by less than the rate of increase in the Own Resources base. Articles 3 and 4 lay down precise definitions and a method of calculation for achieving this. Article 5 provides for 'claw back' of any excess expenditure over the following two years.

Reference Framework

Article 1 provides for the fixing by the Council, at the beginning of the budgetary procedure of an overall reference framework defined as the maximum level of expenditure to finance all Community policies. Article 6 commits the Council as legislative authority, or branch of the budgetary authority, to respect the reference framework. The reference framework is the maximum level of expenditure to finance all Community policies.

Maximum Rate

Article 9 commits the Council not to exceed the maximum rate for non-obligatory expenditure provided for in Article 203(9) of the EEC Treaty.

Role of Finance Ministers

Articles 7 and 8 provide for enhanced monitoring and intervention by Community Economic and Finance Ministers to ensure that Budgetary Discipline is effectively applied. Article 7(4) provides for a joint meeting of the Agricultrue and ECOFIN Councils to take final decisions on issues affecting agricultural expenditure, if necessary.

Policy Implications

The Government has made clear that it will only recommend to the House approval of the Inter-Governmental Agreement (IGA) for supplementary finance for 1984 when agreement has been reached on the measures necessary to guarantee the principles of Budget Discipline approved by the European Council. The Government believe that these measures, finally adopted in Dublin, will satisfy that requirement.

Impact on UK law

There is no direct impact on UK law from the common position on Budgetary Discipline: however the IGA is the subject of a draft Order under section 1(3) of the European Communities Act.

7) Main Developments in the European Community, January - June 1984 (Summary of White Paper)

The Brussels (19th - 20th March) and Fontainebleau (25th - 26th June) Summits: Agreement was reached on a package of measures covering United Kingdom contributions to the Community budget, the future control of Community expenditure, the level of the Community's own resources and new Community policies.

The UK Budget Contributions: The agreement reached at Fontainebleau resolved an issue which had been under negotiation since 1979. The Government had set as its clear objective the establishment of a lasting system which would ensure that the United Kingdom paid no more than a fair share of Community expenditure. At Fontainebleau the United Kingdom secured the agreement of the other member states to:

- a refund for 1984 of about £600 million net
- a lasting system, to come into effect from 1985, whereby the United Kingdom will receive a refund each year of 66 per cent of its budgetary burden in the previous year, measured on the basis of the gap between our value added tax (VAT) share and our expenditure share of the Community budget.

Both the refund for 1984 and the refund for subsequent years will be paid by abatement of the United Kingdom's VAT payments in the following year, rather than by additional Community expenditure, as has hitherto been the case.

The agreement will endure as long as the revised own resources decision, also agreed at Fontainebleau, and can therefore only be changed with the agreement of the United Kingdom Government and Parliament.

The agreement on the United Kingdom budget contributions will remove a basic inequity in United Kingdom membership of the Community which has been a constant source of irritation in our relations with other member states.

The Control of Community Expenditure (Budgetary Discipline): The Fontainebleau Summit endorsed the outline agreement reached at the Brussels Summit in March:

i) to apply the principles of control that govern budgetary affairs in individual member states to the budgetary affairs of the Community as a whole;
ii) to ensure that a total amount of money available to the Community is fixed annually so that revenue determines expenditure (not as in the past the other way around);
iii) to restrict any future growth in agricultural spending over a three year period to less than the rate of growth of the own resources base.

Finance Ministers have been asked to agree the measures necessary to guarantee the effective application of this agreement.

The agreement on budget discipline will help ensure a proper balance in the Community's policies. The Government's aim over the next six months will be to ensure the implementation of the agreement reached at Fontainebleau including the effective application of budget discipline.

The Community's Own Resources: The Government agreed at Fontainebleau that the ceiling on own resources should be increased to 1.4 per cent of VAT. This is an increase of about 24 per cent of the overall budget. As a result of the budget agreement, while the VAT ceiling will be increased to 1.4 per cent for the Community as a whole, the United Kingdom will be contributing substantially less than it is at present liable to contribute under the 1.0 per cent limit. The Government will be prepared to recommend the increase to Parliament when the arrangements for the control of Community expenditure are in place. There can be no further increase in the ceiling without the agreement of all member states and of national parliaments.

New Policy Priorities: The agreement reached at Fontainebleau opens the way for the Community to pursue a number of new policy priorities, including:

i) measures to break down the remaining barriers to the common market, such as the simplification of trade and customs formalities and harmonisation of standards and products. These will play an important role in economic recovery and job creation;

ii) the liberalisation of trade and services, notably road transport, air travel and insurance;

iii) action on the environment, including a firm date - no later than 1989 - for the introduction of unleaded petrol in the Community.

Development of the Community: The Heads of Government at Fontainebleau established two high level 'ad hoc' Committees to issue reports on practical steps which might be taken to strengthen the Community. The remit of the Dooge Committee will be to make suggestions for the improvement of European co-operation in both the Community field and that of the political, or any other field. That of the People's Europe Committee will be to prepare and co-ordinate measures to strengthen and promote the Community identity.

The Government's own ideas on future developments in Community policy were set out in a paper 'Europe - the Future', which was sent to all Community Heads of Government before the Fontainebleau meeting and which has since been made public.

Direct Elections to the European Parliament (14th to 17th June): In the United Kingdom polling took place on 14th June; turnout was 32 per cent (but 65 per cent in Northern Ireland). Average turnout in the rest of the European Community was 60 per cent. Turnout in all member states but two was lower than at the first European election in 1979.

Agricultural Price-Fixing 1984-85: There was for the first time an overall reduction in the weighted average level of Community common prices of about 0.5 per cent. Agreement was reached on the introduction of a quota/supplementary levy scheme in the milk sector. It was also agreed in principle to introduce guarantee thresholds for products in or likely to be in surplus or incuring rapidly rising expenditure. The United Kingdom welcomed the recognition in the Community of the need to curb over-production and control expenditure on the Common Agricultural Policy.

Common Fisheries Policy: The revised CFP, agreed in January 1983, has continued to develop. The main results have been timely agreement on 1984 catch quotas.

Social Affairs: Resolutions on youth employment, local employment initiatives, women's unemployment, and a second action programme on health and safety at work were adopted. Revised rules for the European Social Fund have been in force since January 1984; it is expected that the United Kingdom will continue to benefit substantially. The allocation to the United Kingdom in 1983 of £321 million amounted to almost 30 per cent of the funds available, and was the largest to any member state.

Regional Policy: The Regulation establishing the revised European Regional Development Fund was adopted on 19th June. It provides opportunities for the improved administration of the fund and should improve the efficiency and effectiveness of its operations.

Research and Development: The Community adopted a programme for Research into Information Technology (ESPRIT) on 28th February in response to the challenge in this sector from developments in the United States and Japan. The main programme builds on the experience gained from the pilot programme by which it was preceded. The United Kingdom is involved in 21 out of the 38 pilot projects and in 11 of those instances provides the lead contractor. This reflects the United Kingdom's considerable strengths in information technology in industry and universities.

External Trade: The Government welcomed confirmation on 14th May that the Community would advance tariff cuts agreed under the Tokyo Round of multilateral trade negotiations. The community expects similar action by its principal trading partners. In the Community discussions on the proposal for a new round of multilateral trade negotiations, the Government stressed the importance of proper preparation and full consultation amoung all members of the General Agreement on Tariffs and Trade (GATT). As permitted by GATT rules, the Community increased tariffs and imposed quotas on certain United States goods in response to United States restrictions on Community exports of special steels.

The Community also -

i) pressed the United States Government to resist domestic protectionist pressures in order not to jeopardise economic recovery.
ii) maintained pressure on Japan for more concrete action to encourage imports of both manufactured goods and services.
iii) welcomed the latest Japanese import liberalisation packages but is keen to see further specific action to meet European Community concerns.

Steel: It was agreed, in the interest of market stability, to prolong the system of mandatory quotas on production and Community sales by steel producers until 31 December 1985. Most member states submitted restructuring plans to the Commission for their steel industries.

The Government supported the extension into 1984 of the Community's external steel anti-crisis measures. Voluntary restraint agreements to cover trade in steel have now been negotiated with 14 countries. Imports form countries which have not concluded voluntary restraint arrangements are subject again to a system of basic import reference prices. The Government will work with the Commission in the operation of these measures to minimise damaging disruption to the Community steel market by imports from third world countries.

Environmental Issues: There were several significant developments -

i) Agreement was reached to adopt a Community-wide system of supervision and control of the transfrontier shipment of hazardous waste which will come into force on 1st October 1985.
ii) In response to a United Kingdom initiative, it was agreed that unleaded petrol should be introduced throughout the Community not later than 1989.
iii) A framework for a Community-wide policy against air pollution was set up with the adoption of a Directive on the combating of air pollution from industrial plants.

Community Transport Services: The Government continued to stress the importance it attached to increased liberalisation of Community transport services, and to removing the remaining obstacles to the movement of goods across frontiers. Two high level working groups were established in May, with the objective of making rapid progress with liberalisation of air transport and of road haulage.

Enlargement of the Community: The Fontainebleau Summit confirmed that the accession negotiations should be completed by the set deadline. There is political determination to make rapid progress and good progress has already been made. By June the Community was ready to begin what should be the final phase of the accession negotiations with Spain and Portugal: the Community presented substantive declarations on agriculture and fisheries to both candidates, so enabling negotiations to begin on these areas. The Community and Spain were able to narrow the difference between them on industrial tariff transition.

Political Co-operation: The Ten have continued to seek alignment of their policies on major international issues including East-West relations, the Middle East, the Conference on Disarmament in Europe and international terrorism.

Development: Substantial progress was made in the major negotiations with African, Caribbean and Pacific states on the successor to the second Lomé Convention, the Community's major contractual relationship with the developing world.

Addendum: Members requiring further information might care to refer to 'Politics Today', No 9 (28th May 1984) and No 12 (16th July 1984). Copies available from the CRD

8. Events Since the Fontainebleau Summit

The Enlargement of the Community by the Accession of Spain and Portugal
The negotiations on enlargement represented the major outstanding issue facing the Community since Fontainebleau.

'...It is important that we should conclude these negotiations. It is a matter of concern to the United Kingdom that the stability of democratic systems of government in the Iberian peninsula is helped and not diminished. It is also important to the British people that access to the highly protected industrial markets of Spain should become available to our industrial manufacturers'. Sir Geoffrey Howe, Foreign Secretary, in the House of Commons, 24th October 1984 (Hansard, Col. 696).

The recent agreement on wine should herald a series of other deals on outstanding problems (agricultural trade, fisheries and Spanish industrial tariffs). Then the Member States will be able to complete their final terms to Spain and Portugal; and the formal bilateral negotiations will follow. It is still the intention to meet the 1st January 1986 deadline for accession.

The Community Budget
Progress in Implementing Fontainebleau Agreement

- UK's 1983 refund (£440 million net) released and paid;
- text guaranteeing implementation of Fontainebleau agreement on budget discipline adopted;
- payment of UK's 1984 abatement on revenue side in 1985 reconfirmed;
- achieved substantial economies in 1984 supplementary budget thanks to UK pressure for savings.

(For progress on The Draft General Budget of the European Communities for 1985, the 1984 Supplementary Budget, the new Own Resources decision and Budgetary Discipline see the earlier section of this brief).

Agriculture
Agreement was reached in November on a detailed text to impose budgetary discipline on the Community's runaway farm spending. It is a considerable achievement by Britain, in establishing for the first time, a tight and enforceable guideline - a sort of EEC cash limit - which would hold the growth of farm spending at or near the increase in the Community's overall income.

Agriculture takes up over two-thirds of total Community spending of £16 billion a year, and is the single greatest cause of both the Community's present financial crisis and the budget distortions.

The new disciplines will pave the way for increased spending on programmes which Britain and others feel have more relevance. These include industry, energy and social projects to attack the problems of structural unemployment.

'I believe that in future years we shall regard 1984 as a watershed throughout the Community for agricultural polcy. We shall see it as a year when, at British insistence, the Common Agricultural Polcy was at last made to face reality'.
Mr Michael Jopling, Minister of Agriculture, Fisheries and Food, at the Conservative Party Conference, 11th October 1984.

Internal Market

The creation of a fully integrated internal market is near the top of the British agenda. This may be reflected in the fact that the internal market portfolio in the European Commission has been given to Lord Cockfield. He assumes office as a Commissioner on 6th January 1985.

The Treaty of Rome envisaged the expansion of trade, not the protection of home markets.

'...The Community's founding fathers would be horrified at the labyrinth of its bureaucratic regulations which entwine us like Gulliver pinned down by the little men of Lilliput'.
The Prime Minister in her address to the Franco-British Council dinner in Avignon, 30th November 1984.

Development

The new five-year trade and aid pact between the Community and the 64 African , Caribbean and Pacific (ACP) developing countries, Lomé III was signed on 8th December in Lomé, Togo. The Convention provides a total aid package of £5.1 billion in EEC grants and loans, a 40 per cent increase on the existing pact which expires in February. The United Kingdom contribution to the aid package, not included in the general budget of the Community, will be about £740 million, or £142 million a year.

AG/AW
10th December 1984