



Foreign and Commonwealth Office

London SW1A 2AH

17 January 1986

Dear Charles,

European Community : First Impressions
and Annual Review for 1985

The Prime Minister may wish to see the attached copy of Sir David Hannay's combined First Impressions Despatch and Annual Review. As the Despatch records, 1985 was a year in which we were able to attain some key objectives in the Community : the enlargement negotiations were completed on terms satisfactory to us; the Fontainebleu mechanism was established in Community law; and we were able to turn the potentially damaging exercise of Treaty amendment into one that was both limited in scope and directed to practical issues of concern to us.

In the coming year we shall be seeking to use our Presidency inter alia to make progress on the internal market and transport liberalisation, on the basis of an action programme which we have concerted with the Dutch and which will be pursued throughout the year. Our European Council will afford the opportunity to review progress and give a further impetus to that work. A paper for Ministers on this and our other objectives, and the handling of our Presidency generally, is in preparation.

As Sir David points out, although we have achieved price cuts in each of the past three years, the problems of the CAP are no less acute than before and will become more so unless we can achieve further reforms this year and next. A restrictive price policy will remain the key to CAP reform, though a mix of measures is likely to be necessary to produce results. This too is being considered inter-departmentally and will be discussed in OD(E) in February.

The fact that 1985 was a good year for us in the Community owes a great deal, in the Foreign Secretary's view, to the efforts of Sir Michael Butler and Sir David Hannay and their team in Brussels.

Yours ever,
Colin Budd

(C R Budd)
Private Secretary

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EUROPEAN COMMUNITY: FIRST IMPRESSIONS AND ANNUAL REVIEW FOR 1985
SUMMARY

First Impressions

1. Contrast with the Community of 20 years ago: nearly twice the population and 7 times the GDP. (Paragraphs 1-3). The Community's business is now so varied and central that none of us could afford the paralysis which de Gaulle imposed in 1965 (paragraph 3). Striking contrast in the UK's position: thanks to the budget settlement, now well placed to play a central role (paragraph 4).

2. Pace the federalists, there has been little change in the influence of the Commission or in the Community's ability to act (paragraphs 5 and 6).

1985

3. A pretty good year for the Community and for Britain within it: but it ends with problems more evident than opportunities or solutions (paragraph 7).

4. Completion of the enlargement negotiations a historic achievement, though it involved some pain and some sweeping under the carpet of problems which will return (paragraph 8).

5. Agricultural reform was set back, largely by German inconsistency over cereals (paragraph 9).

6. The new budget system and budget discipline are in place; but the latter is already under great strain - from the CAP, the European Parliament and the Mediterranean mendicants (paragraph 10).

7. The outcome of the Inter-Governmental Conference was satisfactory and it was worth swallowing the unpalatable pill of treaty amendment to bring it to a swift conclusion (paragraph 11).

8. Externally, the Community played a major and constructive part in the launch of the GATT Round and managed some very tricky trade disputes with the US, but made little impact on Japanese policies (paragraph 12).



9. The Delors Commission is an improvement on its predecessor; it produced some impressive policy papers though there are doubts about its sense of direction and consistency (paragraph 13).

Prospects for 1986

10. Some digestive problems with Spain and Portugal, though the worst probably lies beyond 1986 (paragraph 15).

11. In agriculture, especially cereals, progress will be disappointing; but the choice between radical measures (price discipline or quotas) and crisis (in the budget or relations with the US) is ever more stark (paragraph 16).

12. The other major challenge is to sustain the momentum towards the internal market, despite the temptations to apply the brakes (paragraph 17).

13. Some of the main tasks for the British Presidency are already clear: the internal market, the 1987 budget, the European Parliament and decision making in the light of the IGC. They will require much ministerial time and patience.

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31 December 1985

Sir,

1. The end of 1985 more or less coincides with the completion of my first three months as Permanent Representative. I am therefore daring to proffer my first impressions along with my annual review of the European Community, trusting that, coming from a post which bombards you and the department with nearly 5,000 telegrams a year, such a reduction in the flow of paper will be welcome.

First Impressions

2. The European Community to which I was first posted in September 1965 was very different from the one to which I returned almost exactly twenty years later in October 1985; and the same is true of UKRep, or UKDel as it was then known. In 1965 there were six member states; now there are twelve. The population of the Community in 1965 was 181 million; now it is 320 million. The Community's GDP in the same period (at current market prices) has risen from 400 billion ecu to well over 3,000 billion ecu. The Community budget for 1965 was 162 million ecu. The 1986 budget signed by the President of the European Parliament last week, whose legality is admittedly now being contested by the Council, rolls out at over 35 billion ecu. As for UKRep, it has grown from a staff of less than 10 ("very useful listening post" Personnel Department protested in 1965) to a mini-Whitehall of 75.

3. The qualitative changes have been as great as the quantitative. When I arrived in 1965, and for the six months that followed, there were no meetings of the Council, Coreper or even of Working Groups; only a few management committees conducted the bare minimum of business. General de Gaulle was hurling thunderbolts from the Elysée, denouncing the Commission as an "aréopage apatriide". That could not happen now, not just because no member state looks likely to imitate the Gaullist policy of the empty chair, but because it

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would not now be tolerable for the Community's much more complex business to be brought to a standstill in that way. The range of business transacted in the 1985 Community is far more diverse than in 1965; the economies of the member states have become progressively more interdependent; the network of overseas relationships and their content have extended and developed.

4. No change has been greater over this period than that in the UK's position. In 1965 it looked as if we were resigning ourselves to exclusion from the club. The talk in governmental circles in London was of building bridges between EFTA and the EEC. Now we have just completed our thirteenth year of membership. The ride has often been bumpy and the results disappointing; but with a lot of determination and a dash of bloody-mindedness we have now settled the uncompleted budgetary business left in suspense at the time of our accession. We have learnt from the inside how the machine works and how to make it work. Thanks in considerable part to the work of my own predecessor, I have been dealt a hand about which I cannot complain. We are as well placed as we shall ever be to play a full role in the development of Community policies.

5. Strangely enough one qualitative change much bemoaned by the Euro-federalists, a weakening of the influence of the Commission vis-a-vis the Council, is not very apparent to me. Admittedly the Thorn Commission was a remarkably weak one, but so was the Hallstein Commission once it had committed the cardinal error of taking on the government of one of the larger member states. The Thorn Commission's one outstanding personality, Davignon, was very bit as capable of getting his way and moulding Community policy as were the founding fathers. The truth of the matter, I suspect, is that what the Euro-federalists really bemoan is the failure of the Commission to turn into the European government they would have liked it to become. The reality is not that its role is much diminished, it is that it is much the same.

6. One or two tentative conclusions spring to mind after this extremely cursory glance over a couple of decades. The first is that the conventional Brussels wisdom that the 1960s, when there were only Six, was a golden age, is a myth. Like many potent political myths it reflects an attitude of mind with which we have to live; but it is not consistent with the facts. The second is that the Community's development needs to be viewed over a longer

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time scale than the intense frustrations of transacting business in its institutions normally permit. It is all too easy to fall victim to the technical complexity of the issues at stake and the byzantine nature of the decision-making process and to conclude that nothing much every gets done in Brussels. But that is not the case. And it is also important to remember that it is as true of the Community as it is of any of its component countries that its legislative history is not the whole story. There are not many important Community decisions being taken now about the customs union in which we live; but there is an awful lot of business being done on the basis of the decisions taken in 1958.

1985

7. 1985 was not an annus mirabilis for the Community. The European Community goes in for nothing as flamboyant as that; and if it ever did, it would certainly fail to present it properly. But it was a pretty good year for the Community as a whole, and for Britain within it, albeit with a spot of turbulence around the Milan European Council at the end of June. It ends, however, with the problems on the horizon rather more prominent than the opportunities and with the prospects for hammering out the necessary solutions in a newly enlarged twelve member organisation more dauntingly complicated and time consuming than ever. There is no room for the good Dr Pangloss here.

8. The first half of the year was dominated by the successful completion of the enlargement negotiations, culminating in the signature of accession treaties with Spain and Portugal. These negotiations were fully described in a despatch by my predecessor. Suffice it to say that, while their success was more or less pre-ordained, getting them into harbour was not an easy business. As in our own case a number of problems were swept under the carpet (olive oil in particular) and in some areas the terms negotiated seem almost certain to be contested sooner or later by the acceding countries. But the achievement remains a substantial one; and one liable to influence the politics of Western Europe as much as its economics. Whether or not Louis XIV ever said "Il n'y a plus de Pyrénées", that is the objective, figuratively, which the Community has set itself: a reversal of the historical trends of the last one hundred and fifty years.



9. But just as much time was taken up in that same half year on one of the longest and bitterest of the Community's agricultural price-fixing marathons as on enlargement. For month after month the Commission and the majority of the Agriculture Ministers struggled to get the Germans to resolve the inconsistencies between their advocacy of budgetary stringency and their refusal to agree to a price reduction for cereals even when there was a massive and growing structural surplus. In the end they refused the latter and made nonsense of the former, at the same time reversing their own policy on the use of the Luxembourg compromise. The immediate result of this setback were not dramatic, particularly since the Commission has filled the legal vacuum in cereals by effectively reducing prices and the rest of the price-fixing was settled reasonably satisfactorily. But, in the longer term, the consequent weakening of the Commission's resolve to press ahead with the rigorous price policy needed to reform the CAP could be very damaging.

10. The earlier part of the year also saw the final dotting of "i's" and crossing of "t's" on the new own resources decision and the texts on budget discipline; and the decisions on Integrated Mediterranean Programmes. This is another clear instance of the frequently repeated pattern in the Community of taking inconsistent, or at least mutually conflicting, decisions. The procedures for budget discipline have been implemented for the first time this year but they are already under great strain, in agriculture because of the fall in the dollar and the failure to check surpluses; outside the agricultural field because the European Parliament is not bound by them and seems determined to challenge them. We have a major fight on our hands to hold on to what we have achieved. As to the Mediterranean begging bowl, now re-christened cohesion, it will be rattled ever more loudly, even if its original wielder, Papandreou, fell unusually silent in the autumn after the collapse of his domestic economic policies. The Spaniards and the Portuguese will be doughty mendicants.

11. The European Council meeting at Milan at the end of June and the contested decision there to set up an Inter-Governmental Conference to reform the Treaty divided the year neatly into two.

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The resulting conference totally dominated the second half of the year. It has now been successfully wound up, following the Luxembourg European Council, which qualifies it to be considered in Community terms as a hundred metre sprint and not the endless marathon which it sometimes felt like to those involved. There is probably not much point in dwelling now on the sequence of events that led up to the ill-tempered disagreement in Milan. What at the time looked like the possible beginning of a dangerous split in the Community, with the UK becoming isolated from the mainstream of Community policy-making, has not turned out like that, not least because we ourselves set about preventing it from doing so. The "maximalists" (Italy, Belgium, the Commission) in the event had little support and above all not that of France and Germany; so we were able, in concert with the latter two, to shape up a package which largely reflected our own priorities for the future development of the Community and, where it did not do so as over the European Parliament, was sufficiently limited to leave the last word with the Council. The accompanying pill of accepting treaty amendment remained unpalatable. I would not seek to argue that it was sweet. But once the other member states had thrown themselves into the uncharted waters of treaty reform, it was not practical politics to persuade them to scramble ignominiously up the bank off which they had jumped. We were wise not to try to make them do so.

12. I realise that in this account of the Community in 1985 I have so far managed fully to validate the views of those who regard it as an introspective organisation, obsessed almost to the exclusion of all else with its own internal affairs. It is not quite like that, although the risk remains. In fact, give or take the odd French wobble and effort to trip it up, the Community has played an important and constructive role in the run-up to the new GATT round of trade negotiations which now seem likely to start in the latter part of 1986. A good deal more determination and ingenuity will be required before that show finally takes the road and even more to make a success of it. But the pivotal role of the Community in world trade politics and its basic commitment to resisting protectionism (at least outside the agricultural field) has again been confirmed. Trade relations with the US in what, thanks largely to the US budget and trade deficits and to Congress, has been a very tricky year, have been successfully managed,

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although damage limitation rather than progress has been the order of the day. The Community has yet again demonstrated its inability to make an effective impression on Japan's shining carapace. There is no alternative in my view to going on trying - and to going on trying too to achieve an approach which is consistent with, even if it cannot for political reasons be concerted with, that pursued by the US.

13. This has been the first year of the Delors Commission. Both man for man (no woman Commissioner yet and none in prospect) and collectively, they are an improvement on their predecessors, of whom only Davignon is really missed. Delors has himself provided both leadership and authority; but as the year wore on, the leadership was undermined by doubt as to whether he really knew where he was leading and the authority by his distinctly erratic performance in the Inter-Governmental Conference and the resulting demonstration of his being pushed aside by the member states when they were in a hurry. I fear he seeks the palm (practically any palm which brings French domestic political dividends) without the dust; and that is just not on offer in the Community. But it is far too soon to think of writing either Delors or this Commission off. The quality of their policy papers (the Cockfield White Paper on the internal market and the Andriessen Green Paper on the CAP in particular - though not Narjes' colourless paper on technology) is well above what we have come to expect. The Commission too will have to grapple with enlargement. In large measure they continue to deserve our support and encouragement, tempered from time to time with some healthy criticism.

14. I realise that I have found no place here for many significant developments during 1985, ranging from the important decisions (subject to a Danish reserve) on vehicle emissions through agreement to abolish lorry quotas by 1992 to the successful fixing of TACs and quotas on time for 1986 after a 3-day Fisheries Council. But the Community only fits with difficulty on the Procrustean couch of the 2,500 word limit; and anyway this is meant to be a review and not a catalogue.

/The Prospects for 1986



The Prospects for 1986

15. The first major event of 1986 will be enlargement. It is not easy to predict just how the Spaniards and Portuguese will play their hands. Up till now they have resembled patients in the dentist's waiting room, nervous and edgy but anxious to please. That surely will not last. Previous enlargements have each been followed by prolonged bouts of indigestion; there is no reason to believe this one will be very different. But the worst symptoms are usually delayed for a year or two, so 1986 may prove deceptively calm in that respect. Thanks to the refusal of the other large member states to take up our proposal of coming down to one Commissioner each, the Commission will have to suffer from too many Commissioners chasing too few real jobs; and they will also have the upheaval of placing senior officials from the new member states. It will not be an easy time for them.

16. The path of CAP reform will be stony. The proposals the Commission have put forward on cereals, quite apart from their considerable inherent defects, demonstrate how hard we too will find it to tread. But the Community can not afford to turn back except at the risk of both a major new budgetary crisis and a trade war with the US. However quixotic it may seem in a pre-election year in Germany, a further attempt will have to be made to extract some degree of price discipline if far worse solutions such as quotas are to be avoided. One safe but bleak prediction is that less progress will be made on CAP reform in 1986 than needs to be.

17. Perhaps the biggest challenge of 1986 will be to put flesh on the bones of the commitment to complete the internal market by 1992. Of course it does not all, or even most of it, need to be done in one year. But if there is no significant and visible progress in 1986, there will be plenty of voices raised to say that the whole thing has run into the sand. It is easier to maintain momentum than to create it in the first place. Much will depend on the efforts of the Dutch and British presidencies. We will not ourselves find some of the necessary decisions easy to take. It is all too simple in this game to magnify the snakes and shrink the ladders and conclude that it is not worthwhile. But it really is hard to see British industry (including the service industries) in the longer term prospering and competing world wide without the base of a Europe-wide internal market. So I suggest we must grit our teeth and persevere. Tax

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approximation will remain a cross we shall have to bear but the longer we can keep out of a distracting hassle with Lord Cockfield and leave that to others who have just as great problems with his over-ambitious approach as we do, the better.

18. And then there will be the British Presidency, an experience likely to be at least as liberally provided with banana skins as with good conduct marks. It is a bit early to predict the main focus because much will depend on progress under the Dutch Presidency - on the internal market, on transport policy and on CAP reform. One thing is certain, the Presidency will require much ministerial time and patience. And one or two of the larger issues can already be spotted. The 1987 budget will stretch to the full our capacity to reconcile our national objectives and those of the Presidency. The handling of an increasingly tetchy Parliament, in litigation with the Council over the budget, will be exceptionally demanding. The management of voting procedures in the Council, whether the new treaty reforms are close to ratification or are blocked by the Danes, the Italians or both, will be distinctly tricky.

19. So 1986 will not be trouble free. But no year in the Community is.

20. I am copying this despatch to Her Majesty's Ambassadors in Community posts, at Washington and Tokyo; to the United Kingdom Permanent Representatives to NATO, the OECD, the Council of Europe, the United Nations at New York and Geneva, and to the Governor of the Bank of England.

I have the honour to be, Sir
Your obedient Servant

David Harvey

