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PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer will report on the meeting of the Economic and Finance Council on 13 October which he chaired and at which the United Kingdom was represented by the Minister of State, Treasury, Mr Brooke. Good progress was made in preparing the way for the draft directive on some further liberalisation of capital movements, which we aim to have adopted at the November meeting of the Council. At our instigation the Council also discussed the problems posed by escalating expenditure on the common agricultural policy. Presentations were made by the President of the Commission and the Agricultural and Finance Commissioners. They warned of the risk of an overspend on agriculture of up to 2becu (£1.4 billion) in 1987 and of the urgent need to get production and stock building under control. In spite of reservations on the part of the Germans, Danes and Dutch, the Presidency was able to represent a majority view in concluding that Community support prices should more closely reflect market conditions; the intervention system should operate according to its intended role as a safety-net; and in the operation of price support policies commercial risks should not be borne entirely through public finance. This outcome was conveyed to the Agriculture Council which was meeting at the same time. It was very satisfactory that the French gave us full support. We shall seek to build on these conclusions in pressing for their application in the current discussions on milk and beef. The contrast, however, between the approach supported in the Economic and Finance Council and the simultaneous failure of the Agriculture Council to agree on anything at all on milk or beef is very marked.

2. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council held on 13-14 October. The longest discussion was on the calculation of monetary compensatory amounts for poultry, meat and eggs, which was only partly solved by rolling the present arrangements forward to April 1987. For the longer term, however, the important items are the reform of the operation of the beef and milk regimes. The Commission has proposed major modifications to the milk regime which would reduce intervention on skimmed milk powder and butter and remedy a weakness in the quota arrangements. We had hoped that there could at least have been agreement on suspension of skimmed milk powder intervention during the winter. But this was not achieved. Given the seriousness of the situation discussions will have to continue. On beef Mr Jopling gave notice that he intended to push for decisions at the Agriculture Council in November. He also pressed for progress in the remaining Councils of the United Kingdom Presidency on the outstanding agricultural and food items in the internal market rolling programme. No proposal was made by the Commission on green currency changes for either the United Kingdom or France (who have asked for a 3.3 per cent devaluation of the green franc for beef and sheepmeat only) and no special measures were agreed to help French sheep producers, in spite of a French request.

3. The Minister of Agriculture, Fisheries and Food may also refer to incidents in France in which French producers have attacked imports of sheep and sheepmeat including some British lamb (some at least of which had already been sold to French owners). We have protested to the French authorities, demanded police intervention as required and speedy compensation. This is a perfectly legitimate trade of modest proportions (United Kingdom total exports of sheepmeat to other member states about 45-50,000 tonnes a year). The Community regime provides for equivalent support either by intervention (as chosen by France) or by a deficiency payment (a variable premium, as chosen by the United Kingdom). But the variable premium is clawed back on



export to other Community countries. In our view the United Kingdom certainly does not have an unfair competitive advantage but is simply benefitting from its greater efficiency in this sector.

4. The Secretary of State for Trade and Industry will report on the Internal Market Council on 7 October at which the Minister for Trade, Mr Clark, took the chair. Taking advantage of a light agenda, during which only one further measure from the internal market rolling programme was agreed (concerning the noise of domestic appliances), Mr Clark sought to rally the commitment of member states to ensure that the substantial number of outstanding measures in the rolling programme will be agreed in the remaining Councils of our Presidency and during the six months of the Belgian Presidency. To drive this message home the Council was followed by a first and useful meeting of a group of senior officials responsible in each member state for co-ordinating action on the internal market. This informal Council group has been set up at the initiative of the United Kingdom and will continue to meet on approximately a monthly basis to chase progress.

5. The Secretary of State for Transport may mention the informal meeting of Transport Ministers in London on 3 October, at which he was the host. The meeting usefully prepared a number of liberalising measures on air transport for the next formal Transport Council on 10-11 November, with a good chance that important steps will then be taken on tariffs, capacity and market access.

6. There will be an Industry Council on 20 October. On 20 October there will also be an informal meeting of Interior Ministers in London, which Mr Hurd has called to look at problems of drugs, immigration and the strengthening of the external frontier of the Community. There will be a Research Council on 21 October.

CONFIDENTIAL

7. You will be seeing President Mitterrand over lunch after the Cabinet meeting.

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ROBERT ARMSTRONG

15 October 1986