

FIRST SESSION: AFTERNOON OF SUNDAY 4 DECEMBER 1983

A. Introduction and general statements

- 1525 1. After welcoming everyone, Papandreou (who spoke English most of the time) began the first session by obtaining general agreement to asking Political Directors to work up texts on the Middle East, Cyprus, East-West and Central America. Turning to the Post-Stuttgart negotiation, he urged the need for all to negotiate and to conclude. This meeting must take the important political decisions, leaving the detail for the Commission and the French Presidency. If decisions were not reached they would not become easier, partly because of the EP elections. Although he recognised that the UK had a genuine case he declined to start with financial issues as the Prime Minister had requested, even though that accorded with precedent, since he feared that would preclude an agreement. He stressed that any agreement on any one issue would be provisional pending agreement on the whole package. He listed the issues for decision as:
- (a) Rationalisation of agriculture
 - Milk (global quotas and the Irish problem)
 - Cereals, including substitutes
 - MCAs (existing and new)
 - Products other than milk (need to avoid creation of new surpluses or worsening position of Mediterranean producers)
 - (b) Structural Funds
 - Efficiency
 - Increasing resources
 - Special efforts for a limited period to cope with the problems caused by enlargement (ie IMPs)
 - (c) New Policies: research, technology, innovation, ESPRIT, R&D framework programme
 - (d) Financial Discipline (including slower growth of agricultural expenditure, doubling of structural funds; discipline as a function of goals for 1990 - expenditure linked to policies)
 - (e) Increasing Own Resources (it would be logical to fix 1.6% for 1990 rising to 1.8% for 1993)
 - (f) Budgetary Imbalances (clearly UK had a problem, which should be settled once and for all)
 - (g) Enlargement (date must be fixed for the end of the negotiations so as to ensure accession by 1 January 1986).
2. He suggested a short tour de table so that each could set out the main issues of concern, followed by a more detailed survey of each subject in turn for the rest of the afternoon. The Presidency text would be the basis of the discussion. Kohl (FRG) suggested doing without the initial statements. Papandreou was content, but the Prime Minister was not.

3. The Prime Minister said that it was vitally important that the Community should solve its internal problems. Agreement on these issues would be bound to cause serious political difficulties at home for all. But the prize of an agreement should be an important incentive. It would:-

- (a) Set the Community on a new path, accelerate industrial cooperation and growth in a revived common market and help to contribute to the economic recovery which was just beginning in Europe.
- (b) Institute much stricter financial control, a vital need when all were struggling to keep public expenditure down.
- (c) At last set in train a reform of the CAP which would bring the agricultural surpluses under control.
- (d) Launch a revised own resources system which ensured that there would be no need to quarrel about money again in the next decade.
- (e) Provide a sound basis for the early completion of the negotiations for the enlargement of the Community.

4. All agreed that the Stuttgart package had to be treated as a whole, in Athens and afterwards. That was the only way we could have a balance of advantage for all of us. The most difficult and least prepared subjects should be tackled first: budgetary control, budget imbalances and the CAP, to give time to work out solutions. But it equally had to be clear that decisions on one subject depended on agreement on the others. She had made clear at Stuttgart that she could only consider an increase in the Community's own resources if arrangements were agreed for a fair sharing of the budgetary burden and for effective control of agricultural and other expenditure. On both issues the Special Councils had made some progress in substance, but the Presidency's draft conclusions were a long way from providing a satisfactory basis for an agreement.

5. The first point not adequately prepared was control of expenditure overall and of agricultural expenditure in particular. Things were still very sketchy. More work should be done on the French text. Likewise work was not sufficiently advanced on new budgetary arrangements. It was not true that this subject had always been taken first: at Lancaster House discussion had got bogged down in agricultural detail. This issue was absolutely critical. The issue could not be fudged. She would not go along with any of the various devices which had been put forward for defining the burden as less than it was. There could be no fudged compromise on this issue. A lasting solution must be fair, rational and durable for all member states.

6. The Prime Minister was pleased that Foreign and Finance Ministers had been working towards a solution on the revenue side by a reduction of VAT payments in the following year which should form an integral part of the amended own resources decision, thus keeping the expenditure side of the Community budget free for the development of genuine Community policies.

7. Turning to agriculture, the Prime Minister said that price restraint was needed on all products in surplus. There should be no exceptions. The Irish milk problem might call for special treatment but not through the milk regime. And in general international trade obligations must be respected.

8. Lubbers (Netherlands) agreed with the agenda, but he could not consider adequate a text which said nothing about employment. On financial discipline it would not be enough just to consider the French proposal. The Commission and Netherlands ideas must also be discussed. It was crucial to the Community's credibility that decisions on this should not be vague. Firm control of all agricultural products was needed. He thought that the problem of budgetary

/imbalances

imbalances would loom less large if there were proper control of CAP expenditure. Papandreou agreed that the omission of employment was wrong and would be taken into account.

9. Craxi (Italy) argued that, although Italy was a net beneficiary from the budget, the overall effects of Community membership were different. There was insufficient protection for Mediterranean products. Italy was not prepared to reduce agricultural production. That would make a solution impossible. Martens (Belgium) stressed the need to keep the Stuttgart package together. He agreed that the difficult points should be tackled first provided that the others, eg new policies, were also tackled. But it was complicated to do it all at one go.

B. Agriculture (I)

10. Papandreou invited discussion on the agricultural points in the "questionnaire" (10978/85), beginning with commercial policy (point 1.1). The Prime Minister referred to the Presidency draft conclusions (10970/85) and obtained an assurance that price policy (which Papandreou had skipped) would be discussed later. Reverting to commercial policy she said that the CAP's problems should not be solved at the expense of third countries. A basic objective of the EEC Treaty was to contribute to the progressive abolition of restrictions on international trade. The Community had made solemn undertakings at Williamsburg earlier this year. The Community should therefore proceed with very great caution in discussing possible framework agreements for EC exports on a case by case basis. The economic justification should always be fully evident. The Community also needed to take full account of its international obligations if it became necessary to review external protection arrangements for certain commodities. The text should be redrafted to reflect these points.

11. Papandreou claimed that this was the first time the UK had raised these concerns, but the Prime Minister pointed out that the Foreign Secretary had done so in the Special Council. Andreotti (Italy) then seemed to argue for inclusion of a reference to food aid policy in order to avoid having to destroy surpluses. Lubbers (Netherlands) appeared to support this point. Lubbers then turned to price policy (point 1 in 10970/85) and expressed a preference for the earlier Presidency text of 25 November.

12. The Prime Minister said that the Commission had proposed some valuable ideas both on price policy and on guarantee thresholds which should be properly reflected in the European Council declaration. Prices should be restrictive. The text should read:

"The European Council also considers that guarantee thresholds are an appropriate means to enable the CAP to fulfil its aims in a more coherent manner. They therefore call for the introduction of such thresholds both in sectors which are, or are likely to be, in surplus, and in all the other sectors where such measures prove necessary because of a significant increase in expenditure or where production is increasing more rapidly than consumption."

Sir Geoffrey Howe supported by reference to the 25 November text as it had been amended by the Special Council. When Andreotti argued for incorporation of the text in square brackets at the bottom of page 6 the Prime Minister disagreed.

13. Genscher (FRG) supported the UK view on price policy. It had to apply to both existing surpluses and to all future ones; and to products where expenditure was rising. Schlueter (Denmark) agreed with Genscher. The Presidency text on price policy was excellent but did not go far enough: thresholds should apply to all products. They were prepared to agree a specific limit on milk, which was important, but other products must also be covered. Ortoli (Commission) intervened to say that this was covered by page 6. Lubbers then pointed out that the price policy text at section 1 had been agreed by the Special Council. Varfis (Presidency) denied that the

23 November text had been agreed (a difference having remained over the words "and/or"). Papandreu asked whether the point was all that important; the Prime Minister told him that it was. Papandreu suggested that the secretariat look at the question. Andreotti insisted that the Italian point from page 6 be taken into account.

14. Gensch said that Varfis was right: Germany wanted only the word "or". The text needed to cover:

- (a) existing surpluses;
- (b) prospective surpluses; and
- (c) surpluses involving a threat of rising expenditure.

15. Chevsson (France) said that the need for guarantee thresholds was accepted by all where surpluses existed and where expenditure was rising. But this did not cover future surpluses. He opposed the last paragraph of page 2: the Commission could not decide export credit terms. Thorn (Commission) thought section 1 was acceptable as a general rule, but suggested bringing sections 5 and 6 closer to it, leaving specifics to subsequent sections.

16. The Prime Minister, responding to others' interventions on commercial policy, said that she was not prepared to agree to "reconsider" current arrangements "in order to adapt them to the market situation". She did not accept the implication that these arrangements failed to comply with the criteria which the rest of the paragraph lays down. Moreover, the Community must take careful account of the balance of its external and internal interests. Arbitrarily tampering with existing arrangements would cause serious anxiety to some 30 or 40 of our major trading partners, and risk provoking a response which would outweigh, in its effects, any advantage to the Community which might come from this ill-conceived suggestion. The reference to the Community's international obligations should be given equal weight with the reference to Community preference. She suggested an appropriate redraft of the text. There was no dissent.

17. Papandreu started the discussion on milk by suggesting concentration on the threshold: should it be 97.2 or 101 million tons? The special problems of Italy, Ireland, Greece and France should be left until later. Mme Flesch (Luxembourg) said that Luxembourg also had a special problem.

18. Thorn said that the Commission's first suggestion had been correct. The problem the Community faced was to reduce stocks and output: it would not be enough to start from present levels. He could not see how the Community could afford to cope with production at 1985 levels over the next two years. The Prime Minister agreed the threshold of 97.2 million tons on a reference base of 1985 minus 6%. There was no money for more.

19. Mitterrand (France) then spoke for the first time, and at length. He said that milk did indeed cause two-thirds of the present difficulties. But we could not forget the basis of the Community and continue to isolate individual points. When the Community was set up by the original Six, it was recognised that production could vary between member states. It had also been clear that the CAP would be one of the pillars of Europe with clear rules on common prices and export promotion. The Community could not now forget this. The present proposals were not based in the Community. There was a clear choice: either to continue on the existing basis or to renegotiate the Treaty. The original contract remained.

20. Those who had an overriding aim to reduce milk surpluses were trying to solve the problem without analysing the causes. The guarantee threshold raised a number of questions such as the total level and how it should apply - to the state, the dairy or the farm. The levy also raised questions. And what about the oil and fats tax and action on substitute products? They were relevant because the original question as to the cause of the surplus had to be answered.

21. French production had risen, but their surplus had not risen as fast as others: by 4-6% rather than double in some cases. Others had contributed more to the growth of the surpluses than France. Yet people looked at France as an agricultural country. The critics - Netherlands, Germany, UK, Ireland - should look first at their own milk surpluses. The small farm milk producer had been overtaken by the milk factories: it was the latter which devoured Community resources. Moderate and selective controls were necessary according to whether the surplus was due to small farmers or factories. The latter drew their inputs from outside Europe, eg the USA. These imports had risen by 30%, as had production, so that the growing milk surpluses were poisoning the Community.
22. Mitterrand then turned to MCAs. German milk cost less than French milk in France and less than Italian milk in Italy. He recognised that this was due to exchange rate differences and German hard work. The Germans did not want to be penalised. But MCAs contributed 1,000 mecu to expenditure. The basic causes of the milk surplus were therefore substitute products, milk factories and MCAs.
23. Mitterrand stressed that he was not saying that he did not want decisions to be taken. But to put a sudden stop to milk production would be contrary to the Treaty. The Treaty had guaranteed the right to stay on the land. He might be able to agree to quotas, but at the national level not at the farm level, since you could not put a policeman behind every cow. Answers would only be found to the milk problem if answers were also found to the problems of MCAs and imports. Only thereafter would it be possible to consider an increase in own resources and other parts of the package.
24. Schlueter said that he could not help remarking on the increase in production in Germany and the UK as a result of the application of Community regulations. The UK had increased its self-sufficiency in butter to 220% and the Germans to 110%. Germany had been a net importer. Denmark was prepared to accept the super levy: it seemed the only efficient way to deal with the problem. There were many arguments in favour of a threshold of 97.2 million tonnes, on a reference base of 1985 minus 6%. But he was not prepared to go along with quotas for each individual farmer which would involve too much bureaucracy.
25. Thorn gave figures for increases in milk production between 1981 and 1983 to show how the choice of base period would affect each member state. Each 1% increase in the overall quota would cost 160 mecu.
26. Craxi explained the Italian problem. Italy had a deficit on agricultural trade mainly in milk and meat. It would be incredible if countries which did not buy Italian products and which sold their own products at high prices elsewhere were to ask Italy to agree to a reduction in milk production. This would be against all common sense. The root causes of the large surpluses should be examined. If the corset of the CAP became too tight and too full of unreasonable contradictions people would refuse to wear it. Crisis would become inevitable. Italy was not asking to be able to increase production. He accepted that Italy would remain in deficit in the dairy sector. But he could not accept a reduction from present output levels. Martens could agree in principle to a quota system, subject to flexibility for younger farmers and to penalties being applied only to increases in quantities delivered since 1981. Belgium could not be expected to accept an arrangement which would penalise those who had not increased production since 1981. So he could not accept a base of 1985 minus 6%, but he would accept 1981 + 2%. If a quota system was to be accepted it should be temporary. The Commission should report annually. Werner (Luxembourg) said that Luxembourg would do all it could to contribute to a solution to the milk problem. But quotas did cause Luxembourg difficulties. He did not want them applied to individual holdings which would freeze the market structure and consolidate the advantage of those who had already modernised. Certain conditions would be necessary: account would need to be taken of differing structures, the problems of young farmers, disease-struck farms and farms undergoing a Community development policy as well as farms in areas devoted exclusively or largely to milk production. Milk

/represented

represented 45% of Luxembourg's agricultural output. It would therefore be necessary to take account of the problem a quota system would cause in regions with natural handicaps or a natural bias towards milk production.

27. Lubbers recalled that the object of the exercise was to rationalise CAP and to save 1 million ecu. He could accept the super levy. But he could also agree to replace intervention in skimmed milk powder by taking it into feed; and consumer subsidies could be removed. But contradictory positions were being taken on the super levy. Mitterrand had asked that the slow increase in French production should be taken into account. Ireland had asked for the opposite. A system was needed which could take account of all those problems. If mistakes had occurred in the past they were not the fault of the farmers. So he preferred 1983 - 2% as the reference base. He was flexible on the percentage reduction. But he could not accept different reductions for different countries or producers. If the reduction chosen did not save as much as was needed, the co-responsibility levy could be increased.

28. Kohl agreed to the Commission's proposal of 97.2 million tonnes. He could go along with a reference base of 1981 plus a percentage or 1983 minus 6% or 7%. FitzGerald (Ireland) said that the growth of the milk industry had been Ireland's great benefit from Community membership. 9% of Ireland's GDP was milk-based. Application of a super-levy would produce an unacceptable situation for Ireland. He would be less resistant to use of the price system and the co-responsibility levy. But even then Ireland would need a derogation because the Community itself had departed from the free market principles.

29. The Prime Minister said that she did not like the super-levy but accepted that she might have to go along with it. But she could only do that provided it was accompanied by a rigorous price policy, without which the super-levy would be ineffective in curbing production and controlling costs in the milk sector. Prices would need to be frozen for three years. The levy would also have to be fair, legal and effective. The co-responsibility levy was not effective. It was simply a tax and should be dropped, if a super-levy were introduced. If it had to remain then it should not be at a level higher than the present. She could understand why people were seeking exemptions from the super-levy. Britain's farmers would also like exemptions. But there should be none. If any special arrangement was needed for Ireland it should not be through the milk regime, and it would also need to apply to Ulster. The references in the draft to flexibility were too complex for decision by the European Council and should be left to the Agriculture Council.

30. FitzGerald was grateful for Mrs Thatcher's understanding for Ireland's problem, but could not accept compensation outside the milk sector. The changes brought about since 1972 could not be reversed. He could not accept a super-levy. Papandreou concluded that distances between delegations were too wide and compromises would need to be sought. He therefore proposed the following package:

- (a) the milk threshold to be set between 98 and 100 million tonnes with special arrangements for Ireland, ie a reference base of 1983, and possibly for Greece, Italy and France;
- (b) stabilisation of imports of cereal substitutes;
- (c) abolition over three or four years of existing MCAs with an understanding that German farmers must receive something, while in the future positive MCAs would be turned into negative MCAs;
- (d) savings on other products of 300-500 mecu;
- (e) a tax on oils and fats to yield a further 500 mecu.

/He added

He added that the CAP's problems could not be solved through the price mechanism alone: the Treaty of Rome would not have had a CAP in it if the idea had been to rely solely on the market.

31. The Prime Minister said that she could not accept element (b) which would bring a clash with the United States. Papandreou answered that that depended on how the Community set about it. He did not suggest unilateral action. The Prime Minister added that she could also not accept the oils and fats tax (element (e)). She warned that the European Council was heading for a classic failure. At Stuttgart it had been agreed to look for economies. There were none in this proposal.

32. Martens could agree to the 98-100 million tonne range but thought it should be shared out between member states according to the 1981 shares. Each member state could then share out internally as it pleased. Andreotti thought that the Presidency proposal could be a basis for agreement but could not accept any cut in production in milk or other products, ie any principle which made Italy's deficit worse. Genscher reminded Papandreou that the Stuttgart mandate had been to make savings not to raise revenue. As Mrs Thatcher had said, if it was going to be necessary to negotiate with the Americans a tax on oils and fats could not simply be introduced. Germany could accept any reference base for milk so long as the total was 97.2 million tonnes. As for MCAs, it would be necessary to compensate the effect on farm prices of dismantling them, as in the German proposals. Overall genuine savings must be found and the only place to do so was the milk sector.

33. Lubbers could agree to a figure in the 98-100 million tonne range, but it must be related to 1983. He was prepared to contemplate a policy aimed at stabilising imports of cereal substitutes, but there must be consultation, and the GATT rules must be respected. He could accept the German solution on MCAs. The proposed economies on other products were inadequate. He was opposed to the tax on fats and oils. As for the co-responsibility levy, he thought that it was effective. But a very restrictive price policy would be needed. If savings of 1 billion ecu could not be achieved in the milk sector, other products would have to contribute more. Thorn (invited to comment by Papandreou) said that the Commission could make no proposal other than what it had already tabled. Choosing 1983 rather than 1981 as a base year would give a bonus to those who had speculated on the imposition of a limit. The Presidency's proposal would increase the total cost. A threshold of 100 million tonnes would cost 500 mecu more, and that would require a VAT ceiling of 1.1%.

34. Papandreou suggested going round the table to see who could agree to the compromise package. The Prime Minister argued that a period of reflection was needed in order to consult experts. Lubbers agreed.

35. Mitterrand however said that he could accept a guarantee threshold for milk of 100 million tonnes and, in principle, the other elements in the Presidency package. The guarantee threshold for milk would only be acceptable if a reference year was added. On MCAs the wording should not be confined to negative MCAs. It would be necessary to consider further application of the super-levy to the farm, dairy or nation. He could agree that an exception should be made for Ireland alone. Prices should be set sufficiently high to protect farmers' incomes. He accepted that any new system of limiting cereal substitute imports could only be set up in agreement with the US. Finally he did not think that these questions needed consultation with experts or Agriculture Ministers: all the experts should be sent home. Heads of Government had already consulted sufficiently. He suggested that the discussion should be resumed in the morning.

36. Werner accepted the Presidency's range for the milk guarantee threshold, suggesting a figure of 99 million tonnes, with a concession for Ireland. A reference year would have to be agreed. He could accept the other elements of the package, so long as the oils and fats tax was not set exorbitantly high. Papandreou, quoting from the Stuttgart mandate, stated that an exemption for

/Ireland

Ireland was already allowed for. Martens agreed with Werner but his view on the reference year remained unchanged: he would insist on that. As an interim he could accept that each member state should choose whichever of the two reference years suited it best. In response to a question from Lubbers, Papandreou confirmed that the Presidency was suggesting that Ireland's exemption should be from any reduction on the 1983 production. FitzGerald repeated that he could not accept the super-levy at all. His proposal was different: complete exemption from it.

37. Genscher expressed a preference for a base of 1981 plus 1% but could accept 1983 minus 7%. There needed to be a tax on intensive holdings, but Germany continued to reject any tax on oils and fats for a number of reasons. On MCAs the most important thing was that there should be no positive MCAs in the future. He could accept the Commission's proposals for negative MCAs. For existing MCAs one could stick to the gentleman's agreement and turn part rather than all of the existing positive MCAs into negative MCAs; and take national measures for which the FRG would expect a contribution from Community funds. All this would still impose a great burden on the German farming community.

38. Papandreou said that he began to detect some convergence on some issues. But Craxi did not have the same impression. Why should there be an exemption for Ireland? It needed to be recognised that Ireland was a surplus country. If a surplus country was to have an exemption how could the new regime be applied to a deficit country like Italy? Italy intended to contribute by halting the increase in its production, accepting that its deficit would remain at 40%. How could Italy be expected to do that and still finance a surplus producer like Ireland? Papandreou said that his proposal allowed exemptions for Ireland, Italy and Greece. But then someone had referred to French problems, and Luxembourg had asked for exemptions. Of course the problem was serious for Ireland just as it was for Greece.

39. It was agreed to resume discussion in the morning, and the session concluded at that point.

95

Office of the United Kingdom Permanent Representative
to the European Community
Rond-Point Robert Schuman 6 1040 Brussels

Telephone 230.62.05

Ante



Your reference

P S Fairweather Esq
ECD(I)
FCO

Our reference

Date 21 December 1983

Dear Patrick,

*Mr. J. A. Shepherd
yes.*

EUROPEAN COUNCIL: ATHENS 4-6 DECEMBER 1983

At 3/1

1. It has taken even longer than I feared to produce my composite record of the Athens European Council, based on the Secretary of State's notes and Presidency briefings. But here it is at last. For completeness' sake, I have annexed the texts which were tabled, even if not all discussed, most of which you have already had with my letter of 8 December. The speaking notes attached to my earlier letter (and David Durie's of 14 December) have been incorporated where and to the extent that I had evidence that they had actually been used.

Mux 011/12			
RECEIVED IN REGISTRY			
9 JAN 1984			
DESK OFFICER		REGISTRY	
INDEX	PA	Status Taken	
	✓	D.W.	

Tom

Dr Fairweather

John

An interesting read.

J A Shepherd I was struck by the remarkable precision of the history - and brevity of it; by the very readable first introduction a tea

cc: R Bone Esq
D Williamson Esq

PS There was no time to check for typing errors. It seemed more important to get it into the bag!

PERSONAL & CONFIDENTIAL

- 1) cc. Sir C. Cobbold
- Mr. H. Langford
- Mr. Fairweather

kept and thereafter his skilful working of others (Grealy, Hill) and by his relatively stalwart tea

- Mr. Hall
- Mr. Heald
- Mr. St. John

Comings wise.

At 3/8