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The European Community  
and  
The Task for the British Presidency  
in 1986

Simon May



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THE TASK FOR THE BRITISH PRESIDENCY  
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## THE AUTHOR

Simon May is deputy Secretary-General of the recently created 'Action Committee for Europe', which consists of leaders of political parties, trade unions and the world of business in member states of the EEC and is devoted to building political support for action on specific priorities for European integration. Prior appointments included political adviser to the Vice-President of the European Commission, Christopher Tugendhat, research fellow of the International Institute for Strategic Studies, assistant to former Prime Minister Edward Heath and adviser on European affairs to Douglas Hurd, when opposition spokesman in Europe.

He has written this paper to form the basis of the conference which was organised by the Centre for Policy Studies, and held at the Institution of Civil Engineers on Thursday, 22 May 1986.

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1. On 1 July Britain begins her third stint as President of the European Community's Council of Ministers. The temptation to suggest a long shopping list of initiatives for the Government to take is great, but must be resisted. Quite apart from the legendary slowness of decision-taking in the Community, there are three facts of life which will limit the room for initiative by the British Presidency:

- First, there will be (as always) a great deal of routine, but politically difficult, business for the Community to get through, such as the annual budgetary procedure, the administration of the Common Agricultural Policy and the renewal of trade agreements with third countries. This inevitably reduces the time to take fresh initiatives in the six months that are available, particularly since the Community's institutions are largely out of action in August as well as in the second half of December.

- Second, the influence of the presidency - which resides in its rights of initiative, conciliation and the formation of agendas - though important is limited.

- Third, the Community is unlikely to be the principal vehicle for common action in many of the areas where the pressures for European cooperation are now greatest, notably in arms procurement, civilian high technologies, defence and East-West relations. The sensitivity of these areas and the fact that cooperation in them can very seldom involve all twelve member states at once creates a strong incentive to look for more flexible and more confidential methods of collective action than the formal procedures of the Community often permit.

2. With these limitations in mind, on which areas should the British Presidency concentrate its efforts? Apart from the annual budgetary procedure, the best possibilities are:

- the further development of the internal market;
- lightening the burden of regulations on business;
- launching reforms of the CAP;
- developing a European position for the forthcoming negotiations on international trade in the GATT and enabling Europe to play a more influential role in the coordination of international monetary relations and exchange rates.

3. One's first reaction to such an agenda might well be: "how boring and routine. And where is the strategy for dealing with Europe's number one problem: unemployment?". To which there are two answers: first, what is now needed to tackle unemployment is above all action at the national level: for example, freeing labour markets; increasing fiscal incentives to investment, employment and profit sharing; improving education and retraining of workers. This must be complemented by action at the Community level, such as developing exchanges between companies and universities in different member states, and coordinating tax cuts and other measures to stimulate the European economy. But



unless each country tackles its own rigidities and impediments to growth, European action along these lines will be of little lasting value. Second, economic growth and hence lower unemployment depend crucially upon the creation of more stable international monetary relations and exchange rates and upon avoiding protectionism. These are precisely the areas covered by the fourth of my priorities above.

#### The internal market

4. The 'Intergovernmental Conference', which met in the last quarter of 1985 to consider reforms to the Community's treaties, achieved one major result: a political commitment by the Heads of State or government of the Twelve to complete the internal market by 1992 and to make majority voting available for the taking of more than half the major necessary decisions. Thus we now have (a) an agreed deadline for completing the internal market, (b) a programme devised by the European Commission under Lord Cockfield for attaining that deadline step by step, and (c) the means - majority voting - for the more efficient taking of many of the necessary decisions.

5. It must be the task of the British Presidency to ensure that this procedure is followed. A programme of measures to be agreed during 1986 already exists. Since June 1985, when the White paper was unveiled, the Council of Ministers has adopted 27 proposals - about half the number placed before it. This was a much better performance than in previous years; but if the Commission's timetable is to be observed, sustained political pressure from the highest levels of government will need to ensure that:

(a) Each national government must accept that an internal market means tearing down barriers not only in those areas where free trade suits it but also where free trade will not immediately benefit its national businesses. Otherwise, the internal market will still not be created by 2092.

(b) Even after the Luxembourg agreement is ratified by all twelve parliaments later this year, political leaders will need to keep up the pressure to use voting. Otherwise it will be used as rarely as it is already under the 44 articles of the Treaty which prescribe majority decisions.

(c) The procedural rules of the Council of Ministers should be amended so that a majority vote must be called by the Presidency if the Commission and a simple majority of member states so wish. Otherwise there is the risk that majority voting will, in practice, be used as seldom in the next decade as it has been in the last.

(d) Governments must resist the calls of their national industries for exemptions to rules for free trade already agreed at Community level. Unfortunately, in certain areas, notably the protection of human, animal and plant health, the conclusions of the Intergovernmental Conference allow member states unilaterally to opt out of Community rules agreed under its new provisions.



Although such unilateral optings-out may be challenged in the Court of Justice, they will, in practice, be the death knell for the internal market if applied frequently by member states, particularly by the larger ones.

6. These remarks on completing the internal market are deliberately concentrated on the procedure needed to achieve the 1992 target, rather than on the specific priorities for action, where this author has no particular competence. The rolling programme drawn up by the Dutch, British and Belgian Governments (which successively occupy the presidency of the Community until 30 June 1987) is an excellent basis for work on the internal market under the British Presidency. There is, however, one aspect to which this rolling programme gives insufficient attention: namely the opening up of public procurement in telecommunications, notably telephone systems.

#### Telecommunications: a key high technology

7. Why telecommunications? First, because this area of high technology is central to Europe's industrial future and yet so little is being done to open up and rationalise Europe's divided markets. And second, because in this sector, unlike for example computers, Europe still has the potential to be a world leader.

8. At present 90% of public purchases of telecommunications equipment comes from national suppliers. Competition is therefore extremely limited. As a result, the Community countries have between them developed 8 telephone systems, compared with 3 in the United States and 2 in Japan. Together the Twelve spend nearly twice as much on R and D in the field of telecommunications generally than the US and over three times as much as Japan; yet they have captured only 20% of the world market. This is absurdly wasteful, and a major burden on the taxpayer.

9. It is, however, politically unrealistic to expect public markets for telephone systems to be opened at the wave of a wand - even if governments can all agree on common standards for the equipment they need. No government could afford to incur a sudden haemorrhage of jobs from so politically important a sector of its national economy. An opening up of such public markets must therefore march together with the development of consortia by the companies themselves in close collaboration with the national PTTs over the design, production and marketing of equipment. The aim would be not to create a cartel but to lay the basis for a more competitive industry in world markets, just as was done for the European Airbus. Without such consortia, it is doubtful whether even the most economically liberal member states will open their public markets in this area. Germany's PTT is a good case in point.

#### Easing regulatory burdens on business

10. The creation, at last, of a common market in Europe will in itself considerably ease the burden of regulation on businesses which export to other Community countries. But over and above



this the Community should also avoid regulations which are unnecessarily complicated and expensive for companies to implement, and should address itself to the freeing of labour markets. It is a sign of the times - and a result of the British Government's efforts - that a Commissioner with special responsibility for small and medium-sized enterprises (SMEs) should have been appointed. The need is not only to avoid complicated social legislation which is a hindrance to job creation, but also to simplify existing Community legislation where necessary, and to ensure that each new draft Community regulation or directive should in future be accompanied by an explanation of its direct or indirect impact on SMEs.

11. To bring this about will depend not only on the efforts of the Commission and its staff but also on specific ideas from national capitals. The British Government will need to follow its deregulation initiative with detailed proposals for giving it practical reality.

#### The unsolved problem of the CAP

12. It will probably be possible to avoid yet another budgetary crisis in the community this year by the now time-honoured method of deferring expenditure into subsequent years. This should enable the Community to keep within the legal limit of its resources until 1 January 1988, when that limit may be increased to 1.6% of national VAT revenues. It will not, however, tackle the root cause of the Community's recurring budgetary crisis: namely, high and rising agricultural expenditure.

13. This year's price settlement was a bold attempt to curb the cost of the CAP. (The levy on cereals and the cut in milk quotas by 3% over 3 years were particularly bold moves.) But even a rigorous policy to reduce support prices for farmers in real terms and to keep food price increases below the level of inflation is not going to be sufficient to deal with the massive increases in output which modern technical and managerial improvements in farming make possible. This is the hard problem which we have to face.

14. There is, however, no simple solution, no neat formula to reconcile painlessly the conflicting interests of producers and consumers. But in any case success will come, as James Elles MEP has rightly pointed out (Financial Times, 9 April 1986) only if "an overall approach to land use is taken ... bringing market and structural policies closer together". In addition to price restraint we need penalties for production above certain levels, and financial support for taking some land directly out of production. Such land could either be temporarily set aside or converted to non-agricultural activities, such as forestry.

15. These are some ideas which the British Presidency could well consider. Its immediate task will be to avert a transatlantic trade war, fuelled on the one hand by the declining dollar, which is massively increasing the cost of disposing the CAP's surpluses onto the world market and, on the other hand, by the new US Farm



Bill, which will encourage US agricultural exports. Such a trade war would endanger the forthcoming GATT negotiations and further damage the already strained transatlantic relationship.

#### International trade and monetary affairs

16. The Community's institutions and governments are already gearing themselves up for the forthcoming round of multilateral trade negotiations in the GATT. It is essential that this round contains the immensely strong pressures for protectionism which exist today. Their strength is reflected not only in the mounting bitterness over trade across the Atlantic but also in the fact that nearly 50% of world trade is, according to the OECD, now managed in one way or another.

17. Yet this goal of free trade cannot be assured by negotiations addressed to trade alone. The current instability of the international monetary system is in itself a serious threat to free trade, as many US Senators and Congressmen have found out over the last few years. It is also a disincentive to investment since it increases the uncertainties facing businessmen.

18. The Tokyo summit clearly recognised this. It gave the go-ahead to the development of a wide range of economic indicators to determine the policies which governments should pursue in order to bring about greater convergence between their national economic performances. The British Government should respond by taking an initiative to strengthen the Community's capacity to act as a coherent unit in the coordination of international monetary relations and exchange rates. Three developments in the world economy make this a good time to take such an initiative:

- first, a really major fall of the dollar could lead to a sudden surge of capital outflow from the United States, which in turn could precipitate prolonged instability in the relationships of European currencies to each other (not least in the Sterling-DM rate);
- second, the collapse of the oil price will further reduce inflation in Europe, and therefore present the Community with an excellent opportunity for establishing a zone of monetary stability.
- third, Germany and Japan will not for long be able to postpone a choice between reflationary policies and further revaluations of their currencies against the dollar. There are no other ways in which their huge current account surpluses and the corresponding deficit of the United States can be narrowed. One must hope that this will take place through controlled monetary and fiscal realignment rather than through a chaotic series of currency and trading crises.



(b) Bonn's European policies are more and more influenced by the growing assertiveness of the lander and their regional interests. This assertiveness can be seen, for example, in the lukewarm opinion which the Bundesrat (the Upper House consisting of the Premiers of the lander) delivered on the results of the Intergovernmental Conference on 21 February. It can also be seen in the increasing demand of powerful state premiers like Strauss, Spath and Albrecht for more national financial support for German farmers by Bonn, whether or not this would lead to further agricultural surpluses in Europe;

(c) the centrifugal power of the lander is being enhanced by the diffusion of power in the CDU away from Bonn. Indeed, the Chancellor now presides over a party many of whose regional leaders and rising figures in no way owe their careers to him. Whether in Lower Saxony, Berlin, North Rhine-Wurttemberg or Schleswig-Holstein, the CDU barons possess very much their own power base. This was not so true four years ago, and inevitably makes central decision-taking by Bonn more difficult;

(d) in the economic sphere desire is growing in Germany for self-reliance, and interest in creating a common market in Europe is lessening, even on the part of industry. And opinions are openly voiced that Germany should not run the risk of entering into tight cooperative agreements with neighbours who cannot be relied upon to pursue sound economic policies.

25. These seem to be the main reasons why Germany is increasingly cautious about new Community policies. This caution does not, however, mean that any of the major political parties wishes to slip the Federal Republic from her Western anchors; the Community and NATO. There is little evidence that Germans, except for the Greens and some on the left wing of the SPD, believe that they have additional options vis-a-vis the Soviet Union or the GDR which they are not currently exploiting, let alone that such options would best be exploited by loosening Bonn's ties to the rest of Western Europe.

26. Thus in the immediate future, Germany will more forcefully defend her interests in the Community, while being less likely to lead it with France. For Britain, as another large member state with her own interests, this may make life in the community more complicated. Yet at the same time it may provide opportunities for leadership which, after all our concern about Franco-German primacy, we should not forego.

BRITISH PRESIDENCY OF THE EC  
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A paper prepared by the Foreign Office  
and circulated to members of the conference



## ROLE OF THE PRESIDENCY

1. Each member state holds the Presidency of the European Community in turn for six months at a time. Britain has held it twice since accession, in 1977 and 1981. British Ministers and officials chair all EC meetings, and the primary task of any Presidency is the management, from the Chair, of European Community business at all levels from the European Council down to working groups, and to speak for the Council with other institutions, such as the European Parliament and the Commission, and with third countries and others. There are similar responsibilities in European Political Cooperation, in which the member states coordinate their approach to foreign policy issues.

2. The Presidency can exert some influence in the course of Community business by its control over timetables and agendas and by acting as broker in promoting agreements. But the Presidency's freedom of manoeuvre in practice is limited. By and large the Presidency is more of a constraint than an opportunity. The agenda is largely set by developments in the Community or internationally, and the Presidency's main task is to ensure the efficient management of that agenda. There are, however, areas of the agenda on which special emphasis can be placed, set out under opportunities below.

3. We have established a coordinated programme for EC business over the whole of 1986 with the current Dutch Presidency, particularly on the internal market including transport, and on deregulation, in order to lessen the loss of momentum which six monthly changes in the Presidency often entails, especially in July and September. The Belgians, who hold the next Presidency in the first half of 1987, are keen to continue this pattern of cooperation between Presidencies which we hope will set a precedent for the future.

#### OPPORTUNITIES FOR THE PRESIDENCY

4. The main focus of the British Presidency will be keeping up momentum on the action programme on the completion of the internal market (including the liberation of transport), breaking down remaining barriers to trade in goods and services within the EC. We then follow through the initiative on deregulation launched by the Prime Minister at the March 1985 European Council to release burdens on businesses, and seek agreement on measures that would promote labour market flexibility in order to demonstrate that combatting unemployment is a high priority for the EC. We will continue to work for adaptation of the Common Agricultural Policy.
5. If the European Court of Justice issues a helpful judgment on the current insurance case it may be possible also to make progress on the non-life insurance directive which should open the way for freedom to provide services in this important area. We shall want to give particular priority to the internal market in high technology, with the emphasis on market-led opportunities and liberalising public procurement, as well as using our Presidency to advertise our own technological strengths.
6. In the area of transport we shall be pressing for liberalisation on land, in the air and on sea.
7. Nearly all these priority areas are of practical relevance to our citizens and enterprises. We shall emphasise this in our handling of publicity for the Presidency, especially in the UK, while stressing also the need for progressive adaptation of the Common Agricultural Policy.
8. In external policy the British Presidency will need to conclude negotiations on the renewal of the Multi-Fibre Arrangement and the consequent bilateral agreements. We shall be active in support of Commission efforts to maintain impetus behind the new round of GATT negotiations which are vital to sustained growth in world trade. We shall need to steer through the Council the negotiation on the 1987 Generalised Scheme of



Preferences which offer developing countries major trading advantages. We shall support the Commission's efforts to deal sensitively with EC/US conflicts in the run-up to the US mid-term elections and to sustain pressure on the Japanese to accept greater responsibility for the health of the open trading system from which they have benefitted so much.

9. In foreign policy we shall, through European Political Cooperation, be looking for opportunities to enhance the standing of the Twelve as a voice in International affairs. East-West relations and the Middle-East will still be the dominant issues, both heavily influenced by US electoral considerations. South Africa will continue to be a major preoccupation as will cooperation among the Twelve in the struggle against international terrorism which we shall want to continue to develop in practical directions.

#### OBLIGATIONS OF THE PRESIDENCY

10. A major task for the British Presidency will be the negotiation of the 1987 EC Budget against a likely background of continuing dispute and European Court pleadings over the 1986 Budget. We shall want to do all we can to ensure that the outcome respects the principles of budget discipline and is within the reference framework established during the Dutch Presidency. We shall also have to deal with a 1986 supplementary budget increasing our Fontainebleau rebate in respect of 1985, and to which the Commission are likely in addition to propose substantial extra expenditure for agriculture and the Structural Funds.

11. We shall also need to steer through agreement by the end of the year on the new Research and Development Framework Programme which will set levels of Community financing up until 1991.

12. Externally we shall need to continue Dutch Presidency efforts to restore a more normal relationship between the EC and Turkey. The Council is required to decide on the 1987 butter quota for New Zealand by 1 August . We shall need to try to secure a satisfactory settlement. The Community should finalise a new generation of Mediterranean Financial Protocols by 31 October when the current generation expire. Discussions on EC/CMEA relations could also be at a delicate stage. There is likely to be continuing public attention for the plight of famine victims in Africa. We shall want to focus Council discussions on how to promote food production in Africa and the reform of food aid policies to make the best possible contribution to preventing a recurrence of recent famines.

13. The British Presidency will culminate in the European Council in December. We have agreed with the Dutch on important reforms which will be implemented in their and our European Councils. There will in future normally be two European Council meetings a year. We shall improve procedures, and aim to issue a much shorter communique highlighting the key points from the discussion. The central theme of our European Council is likely to be a review of progress towards the goal of completing the internal market by 1992, progress in deregulation, transport liberalisation (lower air fares etc) and labour market flexibility. The conclusions of the Council will set the agenda for Community business during 1987.