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26 November 1986

Background Memorandum: British Presidency of the EC

The British are generally pleased with their EC presidency. London believes the EC has made significant progress on such issues as trade relations with the US, internal market liberalization, deregulation, the budget, and agricultural reform. London is also satisfied with its success on the employment and small business initiatives, and on the EC unity displayed in launching the new GATT round. British officials believe their low key, pragmatic approach has contributed to progress in key areas. London's ability to work with the West Germans and the French has been important, because there is a consensus among the three countries on most issues which is helping to settle many EC issues. In a pre-election period, the British are probably especially relieved that during their presidency no issues arose that forced Prime Minister Thatcher to choose supporting the US-UK relationship versus lining up with her European partners.

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Internal Market Liberalization

The British have long made internal market liberalization a top priority and have used their presidency to give the issue a high profile. They believe that a genuine common market is necessary to allow British industry to maximize its trade and investment opportunities.

- British officials believe their efforts have forced the Community to focus more sharply on market liberalization but recognize movement is necessarily slow because of the number of difficult decisions that member states must make in opening domestic markets.
- Among the steps taken to liberalize markets are common broadcast standards for direct broadcasting of TV by satellite, reaching a deadline for the introduction of an EC trademark, free trade-related capital movements, and common contracts for commercial agents.
- London has failed to bring about an agreement on streamlined testing for pharmaceuticals, mutual recognition of testing lab approvals of product standards, easier frontier controls for travellers, and safety standards for toys.

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- London intends to use the remainder of its presidency to push for a community standard public procurement policy and the adoption of common standards for the pharmaceutical industry, an area in which the UK is strongly competitive. [redacted]

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### Agricultural Reform

London continues to press for agricultural reform within the EC and is not satisfied with the progress made thus far. London is disappointed in the results of the November Agricultural Council meeting but will continue to work hard on reforming the Common Agricultural Policy (CAP). The British may raise agriculture at the European Council meeting in December but an agreement on how to reduce surpluses or subsidies is unlikely.

- British officials believe their recent proposal to set aside excess cereal land will lead to useful discussions on how to reduce both cereal surpluses and the high cost of the EC's cereals program in general. [redacted]
- London has failed to get an EC agreement on how to deal with what British spokesmen see as the top agricultural issues, including paying older farmers to retire, cutting dairy quotas, establishing a new beef regime to cut the Community's surplus, and setting aside cereal land.
- The British take a more optimistic view of CAP reform over the longer term. They apparently believe that the Community will run out of funds in 1987, and that this will force the EC to undertake substantial reform. [redacted]

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### Aviation Liberalization

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London remains determined to secure airline liberalization before the end of its presidency, despite a setback when this month's Transport Council meeting adjourned without reaching agreement. The British proposals include:

- outlawing current bilateral deals under which airlines of different countries share routes and split revenues on a 50/50 basis without regard to the number of passengers carried,
- allowing more than two airlines to compete on established routes and open up more regional routes to competition to feed European hubs, and
- the relaxation of what the British view as excessively restrictive conditions -- such as Saturday night stayovers -- on discount and deep discount fares which tend to reduce their availability.

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British officials are hoping they can sway those EC members opposed to the plan during a series of bilateral meetings over the next several weeks.

- France, Italy, Greece, Spain, Portugal, and Denmark all have reservations about the British proposals. Athens and Copenhagen are the major opponents.
- London is not likely to make further concessions to win EC agreement because it believes that the political risk of such a move is greater than that of taking a strong stance and not achieving any agreement.

[redacted] if acceptable progress is not made, London might take "unilateral action" to increase airline competition. The British are threatening to not agree to any arrangements exempting airlines for the Treaty of Rome competition rules. [redacted]

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Science and Technology

London has eagerly pushed for European cooperation on high-technology development as a way to compete with the United States and Japan.

- British officials are disappointed with the results to date of most European cooperative science and technology projects, but they believe British cooperation within the EC has been dynamic. London has pushed the EC to more closely focus its research and development programs on those projects with direct industrial applications.
- After initial skepticism, London is eager to participate in the EUREKA project and believes it has great potential. British firms have won a large share of contracts to participate in EUREKA projects. In addition, British companies are actively involved in the other EC initiatives, RACE, BRITE, and ESPIRIT. Despite its new found enthusiasm, London is unlikely to significantly increase government contributions to European-wide projects, preferring to fund domestic projects instead.

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British Attitudes Towards US-EC Trade Disputes

London believes that one of the major successes of its EC presidency has been the improvement of US-EC trade relations. As evidence, the British cite:

- The interim agreement on the dispute concerning loss of US access to the Spanish grain market, a referendum agreement of the citrus-pasta dispute, implementation of the agreement

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on semi-finished steel, and the successful extension of the multifiber textile agreement.

--British officials also point to their role at the GATT meetings in Punta del Este where they helped achieve a European consensus -- largely in line with US views -- on such issues as agriculture, services, and intellectual property.

London intends to continue working towards an improvement in US-EC relations during the remainder of its presidency and afterwards.

--London places a high priority on obtaining a final settlement on the discussions regarding US access to Spanish grain markets by the 31 December deadline. Despite British efforts, an agreement is not likely by the deadline and the EC probably will ask for an extension. The British believe discussions should focus on US corn and sorghum access. UK officials claim that discussions of principle -- the industrial credits issue -- should be avoided because it is impossible to reach an agreement.

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There are several trade issues that are of particular concern to London. British officials have complained, in particular, about the protectionist legislation passed at the end of the last Congressional session.

--Officials are appreciative of the Administration's efforts to ward off protectionism in the Congress and realize that more protectionist legislation is likely during the next session.

--The British are especially concerned about the superfund tax on oil imports, customs users fee, and discrimination against foreign small aircraft -- which the British say will lead to a \$150 million trade loss for British manufacturers.

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--In addition, London is concerned about the United States' entering into bilateral trade deals such as the patent and copyright law in Korea and the semiconductor agreement with Japan. The British are concerned about the differences in the way the US and EC deal with Japan and believe the US must take a stronger approach, fearing in the end the US will "back" Japan.

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While the British are usually supportive of the US on most political and security issues, London probably will continue to side with the European Community in US-EC trade disputes.

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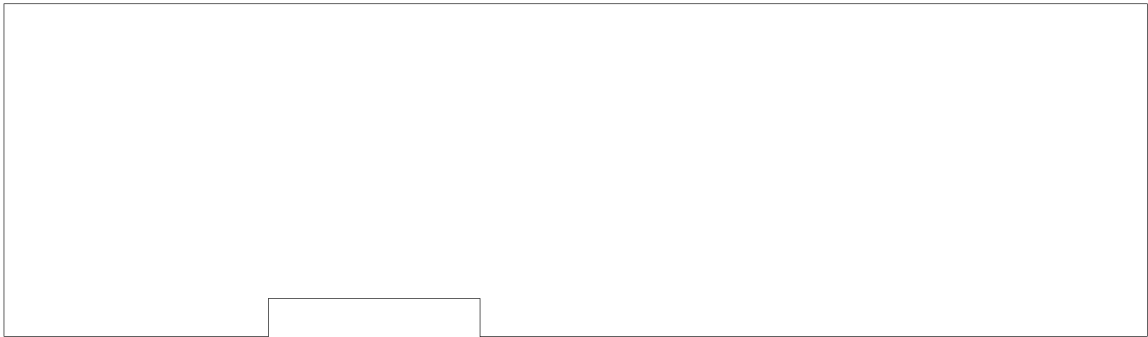
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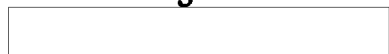


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**SUBJECT: Background Memorandum: British Presidency of the EC**

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