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PREM 19/1225

PART 22

MT

Confidential Filing

The Community Budget

Developments in the European Community.

EUROPEAN POLICY

Part 1: May 79

Part 22: November 83

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~.11.83~~		~~28.1.84~~					
~~.11.83~~		~~1/2/84~~					
~~.11.83~~		PART 22 ENDS —					
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25.1.84							

PREM 19/1225

PART 22 ends:-

FCS to Ch/Ex 30.1.84

PART 23 begins:-

RTA to PM (A084/365) 1.2.84

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC (83) 32nd Item 3	03/11/1983
EQS (83) 25	15/11/1983
CC (83) 33rd	10/11/1983
CC (83) 34th Item 3	17/11/1983
EQS (83) 26	22/11/1983
CC (83) 35th Item 3	01/12/1983
CC (83) 37th Item 3	15/12/1983
CC (83) 58th Item 2	22/12/1983
CC (83) 1st Item 3	12/01/1984
CC (84) 2nd Item 3	19/01/1984
EQS (84) 4	17/01/1984
CC (84)3rd Item 3	26/01/1984

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed ________ Date 17/09/2013

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons HANSARD, 26 January 1984, column 1075 to 1146: European Community (Developments)

House of Commons HANSARD, 1 December 1983, column 1012 to 1048: European Community (Budget)

House of Commons HANSARD, 14 November 1983, column 611 to 617: European Community Affairs

Signed [signature] Date 17/09/2013

PREM Records Team

(2)

Prime Minister.

To be aware of this correspondence.

A.J.C. 30/1.

FCS/84/28

I think this is unduly defensive and rather weak

MT

CHANCELLOR OF THE EXCHEQUER

Public Expenditure White Paper: Net Contributions to Community Institutions

1. Thank you for your minute of 24 January.

2. I continue to believe that it would be unwise to assume, in the White Paper figures, that the disputed £42 million balance of our 1982 Risk Sharing refunds will be paid by 31 March. It is of course our view that the Community was under a legal obligation to pay us the £42 million by the end of 1983. But the dispute is very different from that over our 1983 refunds. In the case of the £42 million, our dispute is with the Council and the Commission. Now that the end-of-the-year deadline has passed, we cannot plausibly claim that there is a new deadline which must or will be met. In practice, we know very well that, if we are to get the money, it will be as part of an overall political settlement, or as a result of legal action, or by withholding.

3. The 1983 refund is quite different. While the Community does not have a legal obligation to pay us the bulk of our refunds by the end of March, we have very good grounds, based on the whole history and practice of the refund arrangements, for claiming that the Community has an obligation to pay us the bulk of the refunds by the end of our financial year. Unlike the case of the £42 million, neither the Council nor the Commission has disputed that obligation. We therefore have every reason for including the 1983 sum in the PESC figures, in terms both of what we have a right to expect, as well as what we think will actually happen.

/4.

4. I agree that the Prime Minister did link the two refunds in her ITN interview, but she did so in the sense that both represented sums owing to us. She did not say that 31 March was a deadline for the payment of both.

5. There is a further reason why I do not think the £42 million should be included in the PESC figures, namely the issue of withholding. The more we give rise to expectations that we expect the £42 million to be paid by the end of March, the more difficult it will be not to announce that we are withholding that sum at the same time as we withhold over our 1983 refund, if that is the decision we are obliged to take. That would mean that we would be withholding, not just against the Parliament as we would wish, but against the Council and Commission as well. However small the sum we should put ourselves in an unnecessarily difficult situation both in terms of our legal case and the timing of withholding legislation and the impact of our actions on the negotiations. The damaging implications of this course are obvious. But it equally has no practical advantages. If we were withholding to cover our 1983 refunds - or that portion of them which the Parliament had made non-obligatory - it would take several months for us to build up the sums due in a suspense account. We thus have no need to take a decision on the £42 million as
Why early as March. We can afford to wait until later in the year, e.g. after the June European Council when it should be clear beyond doubt whether we were going to get our money or not.

6. For all these reasons, I hope you will agree not simply to write the £42 million into the overall White Paper figures. I continue to think that, as I suggested in my minute of 3 January, it would be better to score only the figure for that part of the Risk Sharing refund which has already been paid (£178 million) and to have a footnote to say that the remaining £42 million is in dispute.

7. I am copying this minute to the Prime Minister and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
30 January 1984

30 JAN 1984

Econ Pol
Budget
Pt 22

FILE

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10 DOWNING STREET

From the Private Secretary 30 January 1984

UK Position in the Negotiations on the Stuttgart Declaration

The Prime Minister found the paper enclosed with the Foreign and Commonwealth Secretary's minute of 27 January a very useful summary. She intends to make use of it herself.

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

NP

FILE

RW 7

10 DOWNING STREET

From the Private Secretary

28 January, 1984

EUROPEAN COMMUNITY: MESSAGE TO CHANCELLOR KOHL

Thank you for your letter of 26 January. I telephoned Peter Ricketts from Rome yesterday to say that the Prime Minister had agreed to send the proposed message to Chancellor Kohl and that it should be despatched. Mrs. Thatcher has also agreed that we should seek to arrange a short working visit by the Chancellor to London at a suitable time before the March European Council. I shall deal with the latter point separately.

I am sending a copy of this letter to John Kerr (HM Treasury), Ivor Llewelyn (MAFF) and Richard Hatfield (Cabinet Office.

A. J. COLES

R. Bone, Esq.,
Foreign and Commonwealth Office

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Prime Minister

A useful document which I will ask Mr. Flesher to keep on hand for Questions.

A.J.C. 27/1.

Thank you — it is a very useful summary, MT

PM/84/18

PRIME MINISTER

UK Position in the Negotiations on the Stuttgart Declaration

1. I recently asked my department to produce, in a single piece of paper and in clear succinct language, a summary of our position on the main issues in the post-Stuttgart negotiations. I enclose a copy.

2. I intend to use this as a kind of aide memoire in the bilateral contacts of which I will be having a considerable number in the coming weeks. Where possible we have avoided language which would be counter-productive (e.g. 'net contributions') and have picked up language from e.g. the Delors paper tabled before Athens. The words in quotation marks are taken from the Stuttgart Declaration.

3. I am copying this minute to the Chancellor of the Exchequer, the Minister for Agriculture, the Secretary of State for Trade and Industry and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

27 January 1984

ANGLO-ITALIAN SUMMIT, 26-27 JANUARY

Post-Stuttgart negotiations: speaking note for the Prime Minister

(After referring to the areas of agreement on defence)

1 At Stuttgart the Heads of State and Government set out an ambitious programme - the so-called "relaunch of the Community". The United Kingdom attaches real importance to this initiative and wants the major decisions to be taken at the March meeting. The Community is stagnating. Internal difficulties mean that it is not playing its full role in the world. Italy and the United Kingdom surely have a common interest in establishing the conditions in which the Community can develop. There is a real need for the common market in goods and services to be completed and for new policies to be developed where they make common sense.

2 The United Kingdom believes that the conditions for a sustained development of the Community are

- a financial solution which must contain a lasting correction of the present inequity in the budget and effective control of Community spending

- some changes in the operation of the common agricultural policy in order to adapt to the changed circumstances.

We have made clear that we are prepared to consider the Community's requirements for own resources, provided that the present budget inequity is corrected and that there is effective control of agricultural and other spending. There is no prospect of an increase in the Community's own resources unless these conditions

/are satisfied. We

are satisfied. We are not completely inflexible on the methods and modalities. But an increase in own resources would be a fundamental change in the acquis communautaire, requiring the unanimous agreement of 10 member states and 10 parliaments. We could not contemplate it without being satisfied that the conditions for a satisfactory future development of the Community on a fairer financial base were met.

In 1970 the original Six set up a new financial arrangement which suited them but is clearly ill-adapted to a Community of 10 or 12. The choice is to change it totally, which would take a long time, or to make the sort of changes which the United Kingdom is proposing in order to remove inequity.

On the <u>budget imbalance</u> it is quite wrong that the United Kingdom, which is of about average prosperity in the (of 12) Community, should be the only member state apart from Germany to transfer large resources to the Community every year. We believe that the solution must

- be <u>lasting</u>. This can be achieved easily by including it in the revised Own Resources Decision, which would in any event require amendment if Own Resources were increased

- <u>establish a limit</u> on the amount which each member state should transfer to the Community, taking account of ability to pay (helpful that Germans have agreed that they want a limit but not a cutback below their actual contribution)

- be implemented <u>on the revenue</u> side, ie by correcting a member state's VAT contribution in the following year. This will avoid any disputes with the European Parliament

- take account of the full burden which we bear, although we expect to remain a modest net contributor

- come into effect in respect of 1984 and later years.

On control of agricultural and other spending, our proposals are entirely in line with the Treaty and with the practices of national governments. There is wide agreement already in the Community that rate of growth of agricultural spending should be markedly less than the rate of growth of own resources, which are needed for other desirable policies. We think that this guideline should be put in the budgetary procedure of the Community. On control of spending generally, we believe that Monsieur Delors' proposals tabled in November provide a very good basis.

On agriculture, the Agriculture Ministers are now trying to work out a package. It is quite evident that price restraint, a wider application of guarantee thresholds, special measures for milk and some dismantling of monetary compensatory amounts must be achieved. Otherwise the policy will break down under the weight of its weaknesses. We believe that all member states, including large food importers such as the United Kingdom and Italy, must equally carry the burden of adjustment. Despite some differences between us, there is a common interest that the price of cereals and milk, which affect our import bills, should be restrained and that the excesses should be reduced.

On new policies I hope also that we can find common ground on such issues as the internal market (eg a genuinely liberal non life insurance arrangement), on transport (liberalisation of lorry quotas) on energy (solid fuels policy) and on some areas of high technology.

/None of the future

None of the future developments can be achieved, however, unless we settle quickly the financial package on a lasting basis.

Prime Minister

Agree message to Chancellor Kohl? Yes - and possible meeting

A.J.C. 26/1

Foreign and Commonwealth Office

London SW1A 2AH

26 January, 1984

Dear John,

European Community: Message to Chancellor Kohl

President Mitterrand will be having talks on the European Community with Chancellor Kohl on 2 February. In your letter of 10 January you said that the Prime Minister would be prepared to write to Chancellor Kohl in advance of that meeting, and following her own talks with the President.

I enclose a draft message. It does not go into the details of our negotiating position since we doubt whether this would be the right approach to the Chancellor. It does however make our essential requirements clear.

I am copying this letter and enclosure to the Private Secretaries to the Chancellor of the Exchequer, the Minister of Agriculture, and Sir Robert Armstrong.

Yours ever,

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

PRIVACY MARKING

..................In Confidence

CAVEAT......................

Enclosures—flag(s)..........

To: Prime Minister

Your Reference

Copies to:

Chancellor Kohl

SUBJECT:

As you know, I met President Mitterrand in Paris earlier in the week and, among other matters, we discussed where we go next in the negotiations being conducted on the basis of the Stuttgart declaration. I know you will be meeting President Mitterrand next week and I thought it might be useful if I were to let you know my approach to these problems.

President Mitterrand and I were at one on the urgent need to relaunch the Community and on the desirability of taking the fundamental decisions at the March European Council. Unless decisive progress can be made at that meeting, the disarray of the Community will get worse and cast a pall over the elections of the European Parliament as well as prejudicing the kind of developments in Community policies we all wish to see.

/Financial

Financial issues are at the heart of this negotiation but the wider significance of it is political. That is why I believe that we must resolve these issues, so that we can concentrate on the further development of the Community and on completing the enlargement negotiations. The agenda produced under your Chairmanship at Stuttgart identified the fundamental problems for which long term solutions are needed. Some of these problems, like the need for economies in existing policies and for future budgetary discipline, for a lasting solution to budgetary imbalances and for a decision on the Community's future financial requirements, are central to the well-being of the Community. I could not agree to stopgap, short term palliatives on these central issues.

I emphasised to President Mitterrand my wish to see the Community take new policy initiatives, especially in areas where our collective strength can bring real advantages. But I did not see how this could be achieved without resolving the problems which continue to beset the Community and which cannot be solved by more money alone. We must control the growth of agricultural spending. We also need to control the growth of non-agricultural spending so that it does not rise in a way which is inconsistent with the sort of policies on public spending which we are all now applying at a national level. I said that I very much welcomed the proposals put forward in November by M Delors, and I

/hoped

hoped these, together with other proposals on the table, could be worked up into agreed modifications to the Community's budgetary procedures.

On budget imbalances I said that the Community cannot go on pretending that a financing system which worked for the original Six, works for the Ten, or will work or the Twelve. I know you share my concern on this point. I believe President Mitterrand also accepts that we must be clear as to how much each member state contributes to the budget, and that each contribution should be fair. We are not looking for special deals, but for a lasting and equitable system. This is wholly in accord with the Treaty of Rome, and with the commitments we have been given over the years, and which were repeated at Stuttgart, that the Community would deal with unacceptable situations should they arise.

These remain difficult issues. But I believe that a balanced agreement which reconciles the existing differences between Member States is within our grasp.

We also had some discussion of the difficult problem of CAP reform. I indicated our firm support for the efforts of the Commission to come to grips with the surpluses, particularly of milk and cereals. But sacrifices must be evenly shared out and not, as some wished at Athens, ~~be~~ undermined by extensive exemptions either for products or for countries.

/President

President Mitterrand and I agreed that we should keep in close touch, to try to find a way through as many of these issues as possible so that when we meet collectively at the March European Council we may have the basis of an agreement, rather than having to try to sort out inside 48 hours a series of complex issues that have not been adequately addressed beforehand. I believe that, without in any way neglecting the normal process of Community negotiation and decision-making, our three countries need to keep in the closest touch in the weeks ahead and that together we have a crucial contribution to make in fashioning the solutions for which we are all working. I attach great importance to making full use of the special links which you and I set up when we met last November. It is for this reason that I would greatly value the opportunity for a discussion with you at some stage during the next month or so. If you agree, perhaps our Private Secretaries might explore suitable dates.

MT

This will be difficult to fit in but it would be odd not to see him at all before the Council.
A.J.C. 24/1

Agreed
MT

Germany: PM's meetings with Kohl pt 5.

26 JAN 1984

CONFIDENTIAL

Ref. A084/284

PRIME MINISTER

Cabinet: Community Affairs

You met President Mitterrand on 23 January, when the post-Stuttgart negotiations were one of the issues discussed.

2. The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 23 January which discussed the procedure for carrying forward the post-Stuttgart negotiations. The French Presidency intends that work should continue in the specialised Councils on some subjects, principally agriculture and some aspects of new policies, including the internal market. We do not object to this, provided that the work makes progress and the European Council keeps the necessary overview of the whole negotiation. The next steps in the preparation of the main financing and budget issues will take the form of a round of bilaterals followed by an informal meeting of Foreign Ministers on 18-19 February. The Foreign and Commonwealth Secretary was concerned that this programme was too leisurely and asked that these questions should be dealt with not only in the informal meeting on 18-19 February but also in the formal Foreign Affairs Council on 20-21 February. The Commission may present a new document on the financial elements of the Athens package in mid-February.

3. On other matters the discussions with Spain and Portugal are likely to accelerate, with a view to completion of the enlargement negotiations by 30 September at the latest. The information technology programme ESPRIT was also discussed, the Germans putting forward a new idea which has some attractions. The Germans themselves are now ready to agree to the ESPRIT programme at the Research Council on 28 February but only on condition that there is a financial limit on the whole research and development programme, within which ESPRIT, the joint research centre and fusion programmes would be top priorities. This could help to squeeze out other Community expenditure which we consider to be of low priority. As expected, there was no

CONFIDENTIAL

progress on the energy items (in particular, coking coal, coal social measures and energy demonstration projects); these are more appropriate to the Energy Council and we have successfully put them back there.

4. The Minister of Agriculture, Fisheries and Food may report on his meeting with the Danish Minister of Agriculture on 23-25 January.

5. You will be visiting the Italian Prime Minister for the Anglo-Italian Summit on 26-27 January. The Steel Council is meeting on 26 January and the Fisheries Council on 31 January.

6. French - particularly Breton - farmers are continuing to demonstrate strongly about the very low price of pork. Dutch lorries, railway lines and town halls are their main targets, but no further incidents involving British lorries have been reported.

RtA

ROBERT ARMSTRONG

25 January 1984

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

25 January 1984

N. L. J. R.

A. S. C. 26/1

Jon Smith,

Institute of Fiscal Studies: Study on EC Budget

p.a.

I am grateful for your letter of 9 January and Ivor Llewelyn's of 23 December about our response to the IFS Study on the costs of Community membership.

I did not intend to give the impression that, in Sir Geoffrey Howe's view, the whole approach of the IFS Study is misguided. We accept that in the absence of a well-defined alternative policy with which to compare the CAP, the Rollo-Warwick approach (current account costs) and the IFS approach (full welfare costs) are both legitimate methods of analysis. Our concern is rather that the IFS figures can easily be misinterpreted by those opposed to the Government's negotiating strategy.

Now that the powerful advocacy of Sam Brittan has been put behind the IFS Study, we are likely to hear a good deal more about it. The onset of the annual CAP price fixing negotiation and further developments in the post-Stuttgart negotiations could well rekindle press interest. Although the IFS have admitted in discussions with Government economists that their calculations are imperfect and have emphasised their preliminary nature, the publicity they have already attracted will probably result in their being used as the point of departure for subsequent public debate. For this reason we still believe that it is important to draw attention to the qualifications which should be attached to the figures and assumptions in the IFS Study.

Sir Geoffrey Howe agrees with the Chancellor that we should not stimulate a heavy-handed counterblast. But he believes it would be desirable to ensure that any further public debate on the issue is well-informed. He therefore welcomes the MAFF suggestion of encouraging Newcastle University to publish their research findings on the costs of the CAP. Dr David Harvey of Newcastle has already made a helpful contribution to the IFS debate in The Economist. It would also be appropriate to advance the argument at occasions such as Charles Capstick's forthcoming talk at

/Reading

Reading University.

He thinks we should also continue to clear our minds in Whitehall. I understand that the interdepartmental Byatt group which considered this subject in 1980/81 was far from unanimous on the best approach to take. We would welcome the opportunity to take part in interdepartmental discussion of the critique of the IFS Study which the MAFF are producing. On that occasion we could also consider how best to make use of this material.

I am copying this letter to John Coles (No 10), Ivor Llewelyn (MAFF) and David Williamson (Cabinet Office).

(R B Bone)
<u>Private Secretary</u>

Miss J C Simpson
PS/Chancellor of the Exchequer

Euro-pol: Budget Pt 22

CONFIDENTIAL

(2)

Prime Minister.

A.J.C. 25/1.

Treasury Chambers. Parliament Street, SW1P 3AG
01-233 3000

FOREIGN SECRETARY

PUBLIC EXPENDITURE WHITE PAPER: NET CONTRIBUTIONS TO COMMUNITY INSTITUTIONS

I have been thinking about your latest - undated - minute on whether the White Paper figures should assume that the disputed £42 million balance of our 1982 risk-sharing money will be paid by 31 March 1984.

13.1.84

2. I take your point that the £42 million is not subject to the same 31 March deadline as our 1983 refunds. But in practice the two issues have frequently been linked (e.g. in the Prime Minister's Channel 4 interview). And, if we broke the link, we might well be asked whether the £42 million had in practice been written off, for the impression conveyed would be that we had dropped our claim. That would of course be quite wrong.

3. Nevertheless I agree that we don't have to go out of our way to signal 'a formal public assumption' of payment by 31 March. I have therefore decided that the simplest way of getting round the problem is to leave the White Paper figures unchanged but to omit all reference to the £42 million in the text. I hope that you regard that as a satisfactory compromise - though we shall, of course, have to be prepared to say, if asked, that the figures do in fact assume payment by 31 March.

4. Copies of this minute go to the Prime Minister and Sir Robert Armstrong.

NL.

(N.L.)
24 January 1984

Euro Pol Budget Pt 23.

CONFIDENTIAL

(2)

Prime Minister.

A J C. 25/1.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

FOREIGN SECRETARY

MS

EC 1983 REFUND

In my minute of 5 January, I promised to circulate some material on whether the Commission would be able to pay us up to a 90 per cent refund at the end of March.

2. The Commission report that their cash balances held with national Treasuries and commercial banks amounted to around £1.3 billion on 1 January. Based on the estimates in the 1984 budget, their revenue in the first three months should be around £3.7 billion. Expenditure in these three months in relation to both the 1983 and 1984 budgets could amount to around £4.3 billion, taking account of their CAP management economies, introduced from this month.

3. This suggests that the position will be pretty tight, but that they ought to be able to pay up to 90 per cent of our refunds (some £515 million) and, indeed, the outstanding £42 million risk-sharing money, by the end of March. We shall watch the position closely.

4. The Commission will of course have to ensure that the required funds are in the EEC No 1 Account in London; and, given recent criticisms from the Court of Auditors, they may on this occasion wish to wait until after the transfer proposals have been issued and further progress has been made on the draft regulations, before they start to purchase the necessary sterling. UKREP will explore this angle with Tugendhat's Cabinet.

5. Copies of this minute go to the Prime Minister and Sir Robert Armstrong.

NL.

(N.L.)
24 January 1984

Euro Pol Budget Pt22

24 JAN 1994

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DMB 26/1

MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND MR KOFOED, DANISH MINISTER OF AGRICULTURE

COPENHAGEN 24 JANUARY 1984

Present: The Minister of Agriculture, Fisheries and Food
H M Ambassador
D H Andrews
Mr S Sadowski
Mr C I Llewelyn

Mr Kofoed
Mr Kristensen
Mr Ottosen
Mr Baerentsen

1. Mr Kofoed said that Denmark recognised that, in the current budgetary system, strict price proposals were inevitable. They were not, therefore, seeking to increase the total cost of the package, but they did wish to alter the balance. They were particulaly unhappy about the proposals on milk and on MCAs. So far as the rest of the proposals were concerned, informal discussion with the Minister over the course of the day had shown that the UK and Denmark agreed on a number of points; he mentioned quality criteria for cereals.

2. The Minister replied that on cereals they both opposed the introduction of quality criteria and of a limit for cellulose in barley, They also agreed that the gap between the reference prices for bread making and feed wheat should be reduced, and, indeed, that a separate price for breadmaking wheat was unnecessary. However, the UK went further than Denmark in wishing to see a reduction in nominal prices for cereals. Kofoed said that they felt that the balance between the animal production and cereals sectors was about right, and that a reduction in cereal prices would in fact lead to increased levels of

animal production. The Minister disagreed; in the UK, at least, there was still an imbalance between arable and livestock, with the former doing consistently better than the latter. A further point to be borne in mind was that action on cereal prices would be the most effective way of reducing the level of imports of cereal substitutes. Kofoed was unconvinced by this last point, and wondered whether it was in the Community's interest to reduce imports of cereal substitutes. Ottosen commented that in the pig sector a reduction in creeal prices would lead to reduced levels of protection, since the minimum import price for pigmeat was linked to the price of cereals.

3. Turning to the milk sector, Kofoed was concerned about the proposed change in the butter/skimmed milk powder ratio. A similar change had proved ineffective in 1974, and had led to the creation of a large surplus of skimmed milk powder. The Minister thought that the situation had changed since 1974; now a very restrictive price policy was also being proposed and this should check the development of additional surpluses. Mr Andrews commented that this prop sal raised a number of issues, which we had yet to consider fully. We were, therefore, not in a position to adopt a definitive line on it.

4. On the super levy, Kofoed said that the key question was how milk production could best be reduced. One way was through the price mechanism. They could agree with the UK that in principle this was the best way, but in their view it was impossible politically.For this reason they preferred the super levy route; introduction of a super levy would, in any case, have a more immediate effect on production levels than would a reduction in price. It wuld be important, however, to

get the threshold level right if the objective was to move to a balanced market as quickly as possible. They had doubts about a threshold of 97 million tonnes, since in negotiation this would be likely to be pushed up to over a 100 million tonnes. Kofoed went on to say that in his view it would be preferable to have a significantly lower threshold (he mentioned 92 million tonnes as a starting point for discussion), with correspondingly higher price levels (we were told beforehand that Kofoed would probably push this idea, which is very much his own; it does not represent Danish Government policy).

5. The Minister did not agree that action on prices was impossible. In our view a reduction of 8 to 10% would be needed. He acknowledged that there might be a small production increase immediately after a price reduction on this scale, but in the long term production would be bound to fall in line with prices. Mr Andrews added that although the Danes were right to suggest that the super levy would, if effective, be the most immediate way of reducing production levels, a super levy system would only work if it was accompanied by a strict price policy. High prices within a quota system would make it impossible to end the system without a production explosion.

6. Both Ministers agreed that there should be no exemption from a super levy and that an intensive levy should be opposed.

7. Ottosen said that it would be very useful if the UK and Denmark could reach some measure of agreement on the mechanisms of a super levy, despite our differences of approach. They wanted quotas to be set at dairy levels they thought that individual farm quotas would be impractical. Their objective was a decentralised system. Each dairy should have a

guaranteed quantity, and if its production exceeded this, it would be responsible for paying a super levy. The dairy would of course pass the super levy on to its producers, but it would have a certain flexibility in how it did this. They envisaged national rules here, which would be subject to approval by the Commission. Replying to a question from the Minister, he said that in his view a simple linear levy on all producers selling to a dairy would not be permitted. Mr Andrews commented that the Danish approach did not deal with producers who did not deliver to dairies. Moreover we were not convinced that it would be desirable to leave too much to the responsibility of the various Member States, even under Commission supervision. We felt that the only way to avoid distortions in the application of the super levy would be to have a uniform system throughout the Community. Nevertheless, given the difficulty of achieving a uniform approach, he could see advantages in the system that required Member States to pass on the levy to individual producers, but left them free, within certain limits to devise how this should be done.

8. Both sides agreed that if individual quotas were adopted, they would want these to be freely marketable; the Minister commented that some limitations on transfers between regions might be needed. Ottosen added that under their system they envisaged transfers of quotas between dairies. Both sides also agreed that much more work was needed on the mechanism of a super levy.

9. Kofoed confirmed that Denmark was opposed to a financial guideline on agricultural expenditure. In his view such a proposal approached the problem of over-expenditure from the wrong end; policies should

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determine expenditure and if policies proved too expensive, they should be changed; this would be more effective than placing artificial restraints on expenditure. The Minister disagreed. A financial guideline was an essential part of any final package for the UK, as we were determined to ensure that future spending on the CAP did not grow faster than Own Resources. The financial guideline was not intended to be a rigid ceiling or to preclude additional measures for emergencies but it was meant to lay down the share of Community expenditure that agriculture could normally expect to receive. Mr Andrews added that all national Governments operated under financial constraints and it was not unreasonable to suggest that the Community should do likewise. Ottosen then recalled that Denmark had produced a comprehensive list of economy measures, and commented that it was disappointing that the UK did not seem interested in acual ideas for saving some money. Mr Andrews replied that we did not disagree with the Danish approach; indeed, we could accept most of their ideas although we disagreed with some and some we did not feel would turn out to be savings. Nevertheless, economies of this sort should not be seen as an alternative to a financial guideline, but as complementing it. Kofoed indicated disagreement here.

10. In the course of the discussion of possible economies, Kofoed said that Denmark was proposing the abolition of the variable slaughter premium for beef. The Minister challenged the claim that this would be an economy; on our calculations it would increase Community expenditure. Moreover, the variable slaughter premium helped maintain consumption levels, while there was no evidence that it caused distortions of trade.

CIL

C I LLEWELYN
26 January 1984

<u>Distribution</u>

Private Offices
Mr Andrews
Mrs Attridge
Mr Packer
Mr Hadley
Mr Dixon
Mr Lowson
Mr Wentworth
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Mr Dickinson
Mrs Archer
Mr Waters
PS/ Secretary of State for Scotland
Mr Mackay
PS/ Secretary of State for Wales
Mr Hall-Williams
PS/ Secretary of State for Northern Ireland
Mr Chalmers
Mr Bone, PS/Foreign Secretary
Mr Coles, No.10 / PS/Chancellor of the Exchequer
Mr Williamson, Cabinet Office
H M Ambassador, Copenhagen
Mr Sadowski, Copenhagen
Mr Anderson, UKREP

CONFIDENTIAL

Ref. No: EA(84)1
24.1.84

THE EUROPEAN COMMUNITY

Notes for the debate on the White Paper "Developments in the European Community, January-June 1983" on Thursday, 26th January 1984.

CONTENTS

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London SW1
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Enquiries on this brief to:
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) MAIN DEVELOPMENTS, JANUARY - JUNE 1983 (SUMMARY OF WHITE PAPER)

The Stuttgart Summit : On 17-19 June the European Council launched a major negotiation to reform the Community's financial system. Key issues were how to ensure better budgetary discipline and effective control of agricultural and other Community expenditure; how to ensure a more equitable sharing of the burden of financing the Community budget; and the Community's requirement in terms of "own resources", taking into account the accession of Spain and Portugal and future Community action in other fields. A declaration on European union was also signed supporting the Community's democratic and political objectives and its longer term aims.

The British budget refund : The European Council agreed on the British budget refund for 1983. This was to be some £437 million.

Social affairs : On 2 June the Labour and Social Affairs Council agreed the basic texts for a revised European Social Fund to apply from 1984 onwards. The main feature of the new Fund would be the high priority accorded to schemes for young people (with a minimum 75 per cent budgetary reserve). The regional provisions stipulated that a maximum of 40 per cent of the main part of the Fund might be allocated to special priority regions with the remainder concentrated on other areas of high unemployment. The special economic and social problems of Northern Ireland were recognised and a Regulation adopted providing assistance for urban renewal prospects in Belfast.

Fisheries : After a long and difficult negotiation, agreement was reached on 25 January, on a revised common policy for the management of the Community's fishing resources which it is intended should apply for at least twenty years. A permanent Conservation Regulation was also adopted laying down certain technical conservation measures. Reciprocal fishing agreements with a number of countries for 1983 were concluded and implemented.

Agricultural price-fixing : For the first time for many years, there was no increase in the agreed overall level of common prices as compared with the original Commission proposals. The weighted average increase for prices on a Community basis was 4.1 per cent and for the United Kingdom 3.8 per cent.

Environmental issues : Community action was taken to prevent trade in certain seal pup skins and products which were already the subject of a voluntary ban in the United Kingdom and some other Member States. Agreement was also reached on the control of discharges of cadmium and proposals towards the elimination of lead in petrol were discussed. The Commission introduced detailed proposals for a new solid fuels strategy and a five year Community energy programme.

Political cooperation : There was considerable activity over the period, particularly in the Conference on Security and Co-operation in Europe (CSCE) where the Ten cooperated closely on tactics and strategy. The Community continued to harmonise policy on major international problems, notably the Middle East.

Trade : Intensive work began on a Commission proposal to strengthen the Community's ability to take defensive action against unjustifiable trading practices of others. The period also saw the first four meetings of a Council of Ministers devoted exclusively to internal market issues. In the services sector, however, progress was disappointing, particularly on the proposed non-life insurance directive. On the external side an agreement was concluded with Japan restraining exports to the Community in certain sensitive areas and a working party established to examine complaints about access to the Japanese market. Useful talks were held with the United States on problems in agricultural trade. Voluntary restraint arrangements were concluded with 14 countries to cover trade in steel. The Community began to prepare its position for the negotiations with the African, Caribbean and Pacific states on a successor agreement to the current Lome Convention.

B) BEFORE AND AFTER THE ATHENS SUMMIT

Hardly had the ink dried on the signatures to the Stuttgart Declaration when it became plain that some of the hard-won promises might not be honoured. The final document offered Britain a £437 million rebate on its 1983 contributions to the EEC budget with no commitment to an increase in the amount of money Member States must pay to the Community.

France, however, had had it written into the minutes that it would block any payment to Britain if there was no prior agreement on the way the Community should be financed in the future. Further, Mr. Piet Dankert, the president of the European Parliament, warned that the "unsatisfactory and disappointing conclusions" of the summit were just not good enough and later added: "This European Parliament will never accept that its budgetary powers be curtailed" (The Times, 24th June 1983).

On the eve of a meeting of foreign and finance ministers in Athens, less than a month before the summit itself, the Commission caused consternation. Without warning it suggested that the basis on which each Member State's budgetary balance had always been calculated should be changed in such a way as drastically to reduce Britain's real budget imbalance. This proposal was roundly condemned as "cooking the books" by Mr. Christopher Tugendhat, the Budget Commissioner. Prospects for an agreement at the Heads of Government meeting receded and in the event the three-day meeting (4th to 6th December 1983) was adjudged a failure.

No agreement on long-term financial reform, farm spending or Britain's net budget contribution was achieved. No serious timetable for Spain and Portugal's entry to the Community was drawn up and international questions such as the war in Lebanon, Cyprus and East-West tensions were not discussed in plenary sessions.

Agriculture ministers meeting in Brussels on 13th December were told by Mr. Poul Dalsager, the Agriculture Commissioner, that there was no money available for any general increase in farm prices in 1984. The cash crisis had been made worse by the failure of the Athens summit to agree on cost-cutting measures and meant that the Community faced a shortfall of about £1,000m in the coming year.

On 15th December, the European Parliament voted to block payment of rebates due to Britain and West Germany while passing a £15.5m budget for the Community for 1984. This action met with widespread criticism, and the legality of the European Parliament's decision to set spending some £80m above the figure agreed by ministers may be challenged in the European Court of Justice.

Interviewed by Sir Alastair Burnet for ITN on 4th January, the Prime Minister confirmed that as the British refund for 1982 had not been paid in full by 31st December, a detailed note had been sent to M. Gaston Thorn, President of the Commission, pointing out that the Community was therefore in default.

The next Heads of Government meeting takes place in Brussels from 19th to 20th March.

C) THE LABOUR PARTY'S POSITION SINCE THE GENERAL ELECTION

Post Election Reappraisal : Following Labour's humiliating defeat, it was widely recognised that Labour's policy of withdrawal from the Community had been one of the chief reasons for the electorate's decisive rejection of the Labour Party. Mr. Roy Hattersley said:

> "We fought the Election primarily as the Party that would put Britain to work, and the overwhelming judgement of the people, and the overwhelming judgement, I think, of the economists, was that leaving the EEC would reduce our employment prospects rather than improve them. The people knew that and they knew that our objection to the EEC was the objection of a half thought out slogan" (Tribune, 29th July 1983).

During his campaign for the Labour Party leadership, Mr. Neil Kinnock stated:

> "With the prospect of four or five more years of membership, and with Spain and Portugal about to join, the Common Market picture changes ... We cannot accept anything less than Gaullist reformism as our policy towards the EEC. The Labour Party does not offer policy paralysis but we are determined to get the best for the British people" (Guardian, 18th June 1983).

Mr. Kinnock later published a manifesto for his leadership campaign which stated on the subject of the Community:

> "By 1988 Britain will have been in the Common Market for 15 years. That will not make withdrawal impossible - it will obviously remain a constitutional right for all member countries. After that length of time, however, withdrawal should be regarded as a last resort that is considered only if and when the best interests of the British people cannot be feasibly safeguarded by any other means" (A Summary of Views, July 1983).

Other Labour spokesmen, however, remain implacably opposed to the European Community. Mr. John Silkin, for example, wrote in Labour Weekly :

> "It is frivolous ... to denounce Labour's policy on the Common Market a week after an election in which it formed a major part of our economic and industrial policies. To reject that policy now is to reject our interventionist industrial policy and the whole alternative economic strategy" (15th July 1983).

Labour Policy : Although the Labour Party Conference held in Brighton at the beginning of October 1983 did not actually debate Europe, the Conference was presented with a document drawn up by the National Executive Committee and entitled 'Campaigning for a Fairer Britain'. This contained a section on Europe which emphasised the need for the party to campaign vigorously for the European Elections. On the question of Britain's membership of the European Community, the document states:

> "Britain will remain a member of the EEC for the term of the next European Parliament, and Labour will fight to get the best deal for Britain within it. At the end of that time, Britain will have been a member of the EEC for 15 years - and this will be reflected in our pattern of trade, the way our economy works and our political relations overseas. But we also recognise the fundamental nature of changes we wish to see made in the EEC and that its rules may stand in the way of a Labour Government when it acts to cut unemployment. It is in this context that we believe that Britain, like all Member States, must retain the option of withdrawal from the EEC".

However, this dramatic shift in policy is not enough to satisfy Mr. Roy Hattersley, who has written:

> "To say that we retain the constitutional right to withdraw from the Community is either to say nothing, or to say something so damaging that its implications ought to be fully understood and described in precise language ... if it is meant as a threat that we will really leave the Common Market if we do not recreat it in our own image, it is a disastrous foundation on which to build our European election platform" (Guardian, 8th August 1983).

Selection of Labour MEPs : Labour's representation in the European assembly was reduced from 17 to 16 by the defection in December of Mr. Michael Gallagher, MEP for Nottingham.

Mr. Gallagher, who later announced he was joining the SDP, described the remaining 16 Labour MEPs as "really two groups of individuals who don't see eye to eye on anything" (The Times, 6th January 1984). He predicted that others from among the 10 pro-Community Labour MEPs would leave the party, but he would not name them.

Mr. Gallagher's defection has left the way open to the veteran Left-winger, Mr. Ken Coates, to win the Nottingham nomination. Mr. Coates is a founder member of the Institute of Workers' Control and director of the Bertrand Russell Peace Foundation.

Mr. Roger Berry, an anti-marketeer who has been selected to fight Bristol, believes that membership of the Community will not be an election issue - the question will be what kind of place Europe would be: "We should use the elections to campaign for a socialist strategy in Europe" (Labour Weekly, 18th November 1983).

Another opponent of the Community already selected is the former MP for Keighley, Mr. Robert Cryer. Mr. Cryer, a close associate of Mr. Wedgwood Benn, will be contesting the Sheffield seat.

A new selection conference has been ordered for the Inner London South seat because of improper canvassing on behalf of the sitting MEP, Mr. Richard Balfe.

JG/EJ   24th January 1984

10 DOWNING STREET

PRIME MINISTER

cc: Mr. Coles
Mr. Alison

I spoke to Sir Henry Plumb's office today saying that you would be willing to see him. As you are so busy he is going to make contact with the three Ministers concerned and try not to trouble you.

CR.

23 January, 1984

Prime Minister.

Qz.03553

MR COLES A.J.C. 20/1

I sent to you yesterday a note of our objectives in the post-Stuttgart negotiations and their conformity with the Treaty of Rome. The French are also inclined to imply that our views on certain issues such as the cereal substitutes are contrary to Community preference and out of line with Treaty objectives. In case this should be mentioned, I attach an additional page about Community preference and the Treaty of Rome.

I am sending copies to Roger Bone (FCO) and Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

20 January 1984

and the
- lowering of
customs barriers

4. Agriculture: Community preference

Stuttgart declaration:	one of the points listed among the agricultural questions which will be examined is "substitutes and Community preferences".
Treaty of Rome, preamble and article 110	The United Kingdom is not disputing that the Community's commercial and agricultural policies normally give a preference to Community goods (effect of tariffs or levies). This is not, however, an overriding requirement. We also have obligations relating to international trade. The preamble to the Treaty of Rome includes the objective -

"desiring to contribute, by means of a common commercial policy, to the progressive abolition of restrictions on international trade"

Article 110 states that -

"By establishing a customs union between themselves Member States aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers."

(". . . contribuer, conformément à l'intérêt commun, au développement harmonieux du commerce mondial, à la suppression progressive des restrictions aux échanges internationaux . . .".

Prime Minister.

CONFIDENTIAL

Qz.03552

MR COLES A.J.C. 20/1

POST-STUTTGART NEGOTIATIONS

--- I attach, as you requested, a short summary of the United Kingdom objectives in a form which the Prime Minister may find useful for her papers for the lunch with President Mitterrand on 23 January.

I am sending copies to Roger Bone (FCO) and to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

20 January 1984

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POST-STUTTGART NEGOTIATIONS: UNITED KINGDOM OBJECTIVES

Budget

1. The United Kingdom objective is reform of the Community's financial system to deal with the budget inequity (the so-called "budget imbalance"). The revised system should:

(i) be lasting, ie it must deal with the problem as long as it remains. This can be achieved by including the changes in the revised Own Resources Decision, which would in any event have to be revised if there were an increase in the 1% VAT ceiling;

(ii) set limits on member states' net contributions. The limits should be based on ability to pay and should be established as a percentage of a member state's gross domestic product;

(iii) correct the inequity by reducing a member state's VAT contribution in the following year ("on the revenue side"). (French agree);

(iv) should come into effect so that it can apply in respect of 1984 and later years. This means that we need the revised system to apply first to the Community's 1985 budget (when we would get our VAT contribution reduced in respect of 1984).

2. The United Kingdom's proposal to meet this objective is the safety net (estimated effect, if it had applied in 1982, in annex). The French do not like the fact that the United Kingdom's proposal sets a limit and gives relief relating to the whole of the net contribution (ie corrects the effect not only of our inadequate receipts from the Community budget but also of our disproportionate contribution to the Community of customs duties and levies as own resources). We must have a result which in fact gives relief equal to a substantial part of our net contribution but we seek to avoid a sterile argument about the concept of net contributions.

/3.

Control of agricultural and other spending

3. The United Kingdom objective is more effective control of Community spending and, in particular, a strict financial guideline to hold the rate of growth of agricultural support expenditure markedly below the rate of growth of own resources.

4. There is a good measure of agreement on a strict financial guideline for agricultural spending but most member states want only a political commitment. We want to include it in the budgetary procedures of the Community (not necessarily by a Treaty amendment).

5. Late last year the French came forward with proposals (the Delors proposals) for a strict financial guideline for all spending with a sub-guideline for agricultural spending. We believe that this may yet provide the basis for an agreement, although we continue to insist that more than a political commitment is necessary.

Agriculture

4. The United Kingdom objective is to get some changes in the operation of the common agricultural policy which would put it on a much sounder basis for the long term. In particular, we believe that it is in the Community's interest to have a rigorous price policy; effective guarantee thresholds when production exceeds or threatens to exceed remunerative outlets; effective measures to restore a better balance in the milk market (if necessary, a non-discriminatory quota/super-levy system); a narrowing of the gap between Community support prices for cereals and those of our principal competitors; and restraint in expenditure on Mediterranean as well as Northern products. These questions are now being discussed again in the Agriculture Council.

5. The French see the main agricultural issues as milk; monetary compensatory amounts; imports of cereal substitutes (maize gluten feed); and the oils and fats tax (which Germany, Netherlands, Denmark and UK reject).

/6.

Other policies

6. The United Kingdom objective is to press ahead with the "completion of the common market" in goods and services, eg removal of administrative barriers to trade, liberalising of lorry quotas, early progress in liberalising structure of air fares, early adoption of a genuinely liberal non-life assurance directive.

7. Anglo/French relations on "other policies" are quite good. The French have a strong interest in encouraging more industrial cooperation between enterprises in the Community and in support for high technology sectors. We have been careful to avoid any commitments to higher expenditure and greater protectionism but are well disposed to improvement of the conditions in which individual enterprises will themselves decide that industrial collaboration within the Community would be in their interest.

Own resources

8. We are prepared to consider an increase in the 1% VAT ceiling, which in our view is a fundamental change in the Own Resources Decision requested by other member states, provided that there is a fairer sharing of the budgetary burden and effective control of agricultural and other spending.

Cabinet Office

20 January 1984

ANNEX

The following are the main figures if our safety net system had been applied to 1982 -

	million ecu		
	UK	Germany	France
Unadjusted net contribution	2036	2086	19
(for information) UK adjusted net contribution if we obtained two-thirds relief, as under ad hoc arrangements	679	-	-
Safety net limit on net contribution	437	2118	1385
Adjusted net contribution after application of safety net and payment of all reliefs on a VAT-based key	437	2118	692*

*this figure could be lower (eg 500 million ecu) if a special key for financing the relief were used.

10 DOWNING STREET

PRIME MINISTER

cc: Mr. Coles
Mr. Alison

Sir Henry Plumb would like either to see you or to have a few minutes with you on the telephone next week to discuss British budget rebates and Parliamentary regulations connected with this.

Next week is ghastly but shall I fit him in?

CK. Yes MT

20 January, 1984

(2)

Prime Minister.

As requested.

A. J. C. 19/1

Qz.03545

MR COLES

THE UNITED KINGDOM'S MAIN OBJECTIVES IN THE POST-STUTTGART NEGOTIATIONS AND THEIR CONFORMITY WITH THE TREATY OF ROME

You asked to have in tabular form the United Kingdom's main objectives in the post-Stuttgart negotiations and relevant extracts from the Treaty of Rome. I attach this information for the three major objectives (correcting the budget inequity; effective control of agricultural and other expenditure, including the strict financial guideline; changes in the agricultural regimes) as we agreed.

I am sending copies to Roger Bone (FCO) and Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

19 January 1984

POST-STUTTGART NEGOTIATIONS: UK OBJECTIVES

1. Community budget: a fairer sharing of the burden

Stuttgart declaration: "The objective is . . . to agree measures which, taken as a whole, will avoid the constantly recurrent problems between the Member States over the financial consequences of the Community's budget and its financing. All appropriate ways and means will be examined to this end, . . . with a view to ensuring equitable situations for all member states."

Treaty of Rome, preamble: The Heads of State "anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions

("Soucieux de renforcer l'unité de leurs économies et d'en assurer le développement harmonieux en réduisant l'écart entre les différentes régions")

(the so-called convergence objective)

Comment: (i) it is clearly contrary to the Treaty objective of convergence that the UK with gdp per head at about the Community average should make a substantial transfer of resources each year through the Community budget to richer member states such as Denmark or the Benelux;

(ii) the Community budget financing rules and the 1% VAT ceiling are in the Own Resources Decision of 1970, any change of which requires unanimity and ratification by all ten Parliaments. It is other member states who have been the first to demand a fundamental change (ie an increase in the 1% VAT ceiling) in the arrangements which the UK accepted on accession.

2. Community spending: effective control of agricultural and other expenditure

Stuttgart declaration

"The examination of policies will take place . . . to ensure that policies are cost-effective and that economies are made wherever possible"

"The examination will result, inter alia, in concrete steps compatible with market conditions being taken to ensure effective control of agricultural expenditure . . . Expenditure must also be controlled, in cooperation with the European Parliament, outside the agricultural sector."

Treaty of Rome article 39

(Agricultural expenditure)

The objectives of the common agricultural policy in article 39 include

"to increase agricultural productivity . . . by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production . . ("en assurant le développement rationnel de la production agricole")

to stabilise markets ("stabiliser les marchés")

to ensure that supplies reach consumers at reasonable prices"

Comment: temporary surpluses are a feature of agriculture but to spend increasing sums on a surplus such as the Community now has for milk is contrary to the Treaty's objectives of ensuring the rational development of agricultural production and stabilising markets. A financial guideline on the allocation of resources is therefore needed in the Community's budgetary procedures.

Treaty of Rome article 203

(other expenditure)

There is already a strict financial guideline for non-obligatory expenditure in article 203, para 9

"A maximum rate of increase in relation to the expenditure of the same type to be incurred during the current year shall be fixed annually for the total expenditure other than that necessarily resulting from the Treaty or from acts adopted in accordance therewith."

Comment: the problem is to ensure that the European Parliament does not every year increase the budget provision to the absolute maximum. We have some common ground with the French in seeking control of other expenditure which would be more effective in practice.

3. Agriculture: correcting the operation of the CAP for particular products

Stuttgart declaration	"The basic principles of the Common Agricultural Policy will be observed in keeping with the objectives set forth in article 39 of the Treaty establishing the EEC. The Common Agricultural Policy must be adapted to the situation facing the Community in the foreseeable future, in order that it can fulfil its aims in a more coherent manner."
Treaty of Rome article 39	There is nothing in the Treaty giving priority to farmers' incomes above the other agricultural objectives in article 39, which states that the objectives of the common agricultural policy shall be

(a) to increase agricultural productivity . . . by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production (en assurant le développement rationnel de la production agricole ainsi qu'un emploi optimum des facteurs de production . . .")

(b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture ("d'assurer ainsi un niveau de vie équitable à la population agricole . . .")

(c) to stabilise markets

(d) to assure the availability of supplies

(e) to ensure that supplies reach consumers at reasonable prices

In working out the common agricultural policy and the special methods for its application, account shall be taken of . . . the fact that in the Member States agriculture constitutes a sector closely linked with the economy as a whole (. . . "l'agriculture constitue un secteur intimement lié à l'ensemble de L'économie".)

Comment: the Treaty does not require that we must have open-ended guarantees for agricultural products or the current level of prices or that we must treat agriculture in isolation from the rest of the economy. French always say that the three principles of the CAP are free trade within the Community, financial solidarity and Community preference. We are not challenging this but, like the Commission and others, seeking a sensible evolution in the operation of the CAP which is absolutely in line with the Treaty objectives, taken as a whole. An excessive rise in cost normally indicates a failure to stabilise markets and an irrational development of agricultural production.

CONFIDENTIAL

Ref.A084/184

PRIME MINISTER

Cabinet: Community Affairs

There have been no meetings of Councils of Ministers during the past week.

2. The Minister of Agriculture, Fisheries and Food may report that his representatives to the French Minister of Agriculture, Monsieur Rocard, about the stopping of two United Kingdom lorries carrying lamb were successful in securing the release of the lorries and their drivers. In spite of the activities of French farmers in giving away and damaging part of the consignments, the bulk of the lamb was still saleable. No further major incidents have been reported.

3. The Secretary of State for Trade and Industry may report on the latest position in the discussions between the Community and the United States on the latter's restrictions on imports of special steels. In the absence of any substantial improvement in the United States' offer of compensation for the restrictions, the Commission has notified the GATT of the Community's intention to take retaliatory action. The necessary implementing regulations will have to be agreed by the Council by mid-February in order that the retaliatory measures can take effect on 1 March.

4. During the next week, the Foreign Affairs Council will meet on 23-24 January and the Steel Council on 26 January. You will be visiting the French President on 23 January (that will be announced on the afternoon of Friday 20 January) and the Italian Prime Minister on 26 and 27 January. The Minister of Agriculture, Fisheries and Food is meeting the Danish Minister of Agriculture on 23-25 January.

RTA

ROBERT ARMSTRONG

18 January 1984

CONFIDENTIAL

CONFIDENTIAL

Qz.03538

SIR ROBERT ARMSTRONG

POST-STUTTGART NEGOTIATIONS

For the discussions with Monsieur Attali you may find it helpful to have this summary.

Correcting the budget imbalances

2. The key United Kingdom objective is to have a durable system (the French seem to think that we have considered either a system or ad hoc arrangements but this is not the case: the Prime Minister was very careful at Athens to explain that, in referring to figures of about 450-500 million ecu net contributions by France and the United Kingdom she was referring to a possible equitable result of the new system). The elements on which we were close to an agreement before Athens are:-

(a) durability. The new system, like any increase in the 1% VAT ceiling, will have to be included in a revised Own Resources Decision agreed by the governments of all member states and ratified by all ten parliaments, hence durability. The amendments which France tabled to the Danish proposal in the Special Council implied a new system by amendment of the Own Resources Decision, because they involved correction on the revenue side. No member state expected the French President to suggest, as he did at Athens, a short term arrangement (he began at Athens with a proposal that there should be a one year solution: this left the Prime Minister very surprised following the contribution which France had made to the discussion of new and lasting systems in successive Special Councils). We think now that, in order to take account of the French position at Athens, it will be necessary to have a review clause but this should not involve any change in the revised Own Resources Decision unless there were a further unanimous decision of governments and parliaments.

(b) correction on the revenue side. The new system should involve correction of inequitable situations by adjustment of a member state's VAT contribution in the year following the inequity. This has the advantage that it does not overload the budget with "false" schemes and leaves the budget clear for genuine Community policies and expenditures. Correction on the expenditure side, which we oppose, would also introduce all the difficulties with the European Parliament which we have experienced on the ad hoc arrangements.

(c) gdp-related limits. The new system would set limits on a member state's contribution according to a linear system related to gross domestic product (eg if the UK proposal had been applied in 1982, about 0.1% of gdp for the United Kingdom and about 0.32% for Germany). The United Kingdom does not want a system under which the limit is expressed as a percentage of the gross contribution, since unlike our own proposal this would involve an increase in our limit when our gross contribution rises (as it will in an enlarged Community).

(d) relief to be net of contribution to a member state's own relief. There is, however, a major argument in prospect on whether relief should be net of contribution to other member states' relief. This does not affect the United Kingdom substantially but it will make a big difference to the German situation. The Germans want to be exonerated from contributing to UK relief, at least above their own limit, but other member states want to do as little as possible for Germany.

3. The main features of the United Kingdom's own safety net proposal are, first, that it sets a limit on a member state's contribution related to ability to pay and, secondly, that the limit is expressed as a percentage of a member state's gross

/domestic

domestic product. We suggest that a member state whose gross domestic product is 90% or less of the Community average would have a limit of a zero net contribution and a member state with 140% of the Community average would have a limit of 0.35% of its gross domestic product. The limits for member states with gross domestic products between 90% and 140% of the Community average would be established on a corresponding linear basis between 0 and 0.35% of their gross domestic products. In an enlarged Community the United Kingdom's limit would be about 0.1% of its gross domestic product.

4. In the Community discussions the figures have normally been related to 1982. Our safety net paper is a proposal for a new system but does not contain, strictly speaking, proposed figures. The figures which we and others quote are calculated from the illustrative example which we gave of the working of the system.

5. The following are the main figures if our system had been applied to 1982 -

	million ecu		
	UK	Germany	France
Unadjusted net contribution	2036	2086	19
(for information) UK adjusted net contribution if we obtained two-thirds relief, as under ad hoc arrangements	679	-	-
Safety net limit on net contribution	437	2118	1385
Adjusted net contribution after application of safety net and payment of all reliefs on a VAT-based key	437	2118	692

"

6. It is possible to produce a different result for member states other than the United Kingdom by making the financing of relief related to a special key. The French are in favour of this because they want to pass more of the burden of financing UK relief to other member states, in particular "les petits riches". We have not ruled this out - it is, of course, implicit in the suggestion that the French and UK adjusted net contributions at the outset might be about 450-500 million ecu - but we are not playing a major role in discussing how other member states would finance our (and any German) relief.

7. On the table, besides the UK safety net proposal, there are various proposals or elements based on the following approaches -

(i) modulated VAT. This is the Commission's original proposal that expenditure on agriculture in excess of 33% of the budget (not correctly defined) would be financed on a different key. It would provide a partial relief for the United Kingdom and, as it could be cumulated with other approaches, we have supported it. It is most unlikely to have any chance of success in its present form. France is one of the member states opposing it.

(ii) the expenditure share/gdp share gap. The proposal that in some way compensation should relate to a member state's insufficient share of Community budget spending appears in three forms (the figures in brackets are the estimated actual gaps for the United Kingdom in 1982 and thus show the maximum potential relief)

- the expenditure share/gdp share gap (1263 million ecu) (Danish proposal, supported by France, and German proposal)

- the expenditure share/VAT share gap (1785 million ecu) (revised German proposal at Athens)

- the expenditure share/population share gap (1369 million ecu) (Commission proposal)

There are significant variations from year to year in these gaps. On balance we favour the expenditure share/VAT share gap, although it will not always be as favourable as in 1982. It should be noted that the actual proposals mostly contain additional conditions or calculations of expenditure which would limit relief and which we do not find acceptable.

8. The discussion of the expenditure share/gdp or VAT or population share gap has highlighted the disagreement between the United Kingdom which argues for relief related to the whole net contribution (ie including not only the effect of our low receipts from the Community budget but also the effect of our high contribution of customs duties and levies as own resources) and other member states which react sharply against the concept of "net contribution" and are not willing to take into account the excess contribution of customs duties and levies as own resources. Without going back in any way on our position, we should try to defuse this argument which contains elements of theology as well as calculation of national financial advantage.

9. It is necessary also, in judging the various proposals or any new suggestions which the French may make, to keep in mind that three conditions could seriously limit our actual relief. These conditions are, first, the point at which the threshold is set; secondly, the definition of expenditure, on which we consider that the allocated budget should be used but the Commission and some member states have tried to reduce the gap by excluding or recalculating some items in the allocated budget; and, thirdly, the "ticket moderateur", ie the view of most other member states that, if a limit is set, the member state should not have relief representing all the difference between the limit and its unadjusted contribution but only relief representing part of it.

10. I suggest that the United Kingdom's immediate objectives should be:-

(i) to get the French on board again for a settlement in March which will include the agreed system in a revised Own Resources Decision, will correct inequity by reducing a member state's VAT contribution in the following year ("on the revenue side") and will set limits based on ability to pay and established as a percentage of gross domestic product;

(ii) to avoid arguments of principle about net contributions, indicating that we shall judge whether a settlement is acceptable in relation to our estimated net contribution, while accepting that it is for other member states to make their own judgement whether the new system to correct budget inequity should be adopted.

Control of agricultural and other expenditure

11. Some progress was made during the autumn and our objective is to restart the negotiations on the basis most favourable to us. The United Kingdom's own proposal is that there should be a strict financial guideline for agricultural expenditure (the rate of growth of agricultural expenditure should be markedly less than the rate of growth of own resources) incorporated in the budgetary procedures of the Community. The Commission has proposed a strict financial guideline in the form of a political commitment but without legal force, which is not good enough for us. The apparent deadlock was broken when the French came forward in the Special Council with the "Delors proposal" which would set a guideline figure for all Community spending in advance of the budget decisions, with a separate guideline figure for agricultural spending. Unfortunately this initiative was not followed up at the Athens European Council. It remains true, however, that common ground can be found.

/12.

12. Our immediate objectives are:-

(i) that the Commission should circulate a revised text of their proposal with the Netherlands' amendments. This establishes a definition of the guideline itself, although it fails to make it legally binding;

(ii) that the French ideas on the control of all spending should be kept on the table. We do not want the French themselves or other member states to be frightened off them by potential difficulties with the European Parliament. The Presidency text from the Athens European Council includes some useful elements and should not be lost sight of, although it will need to include the requirement that the arrangements are to be incorporated in the budgetary procedures of the Community.

Agriculture

13. The agricultural discussion will now be taken forward in the High Level Group of officials and in the Agriculture Council, the overview remaining with the European Council. We are supporting this procedure, which was put forward by Monsieur Rocard in the Agriculture Council this week. We want to reduce the risks to the March European Council, and the 1984 price package (specific proposals from the Commission will be tabled very shortly) has in any event to be moved forward.

14. The points which gave rise to the greatest controversy at Athens were:-

(i) milk. Action is essential and the proposed quota/super-levy system is backed by most member states. There were disagreements over the volume of Community milk which would receive the full guarantee before the super-levy came into effect; the operation of the super-levy; and over the Italian, Greek and Irish requests for exemptions. The French will want a bigger

/quantity

quantity of milk to be covered by the full guarantee than we consider reasonable but, like us, they will wish to avoid discrimination in favour of other member states' producers;

(ii) cereals and cereal substitutes. The French will continue to insist, for reasons of agricultural politics, on some action to stabilise imports of cereal substitutes. The Commission will almost certainly propose in the 1984 price package a mandate for negotiations with third country suppliers, principally the United States for maize gluten feed. Discussion on the mandate may enable us to arrive at a middle course, ie negotiation but without prior commitment to unbind the tariff;

(iii) monetary compensatory amounts. This also is an essential element for France. A further Franco/German attempt to reach a bilateral agreement at Athens failed but some elements of agreement remain. We have an interest in ensuring that any emerging agreement does not prejudice the position of variable mcas or negate the effects of price restraint but we are not protagonists;

(iv) oils and fats tax. Discussion of this proposal rumbles on. We have continued to try to kill the proposal by assuming its imminent death. It is worth noting that Chancellor Kohl took the initiative in stating German opposition to the proposal both at the Anglo/German and Franco/German summits. The Netherlands and Denmark also oppose.

New policies

15. The Presidency text at Athens contained few points of dispute. The United Kingdom has made its attachment to new policies an important plank in its presentation of the whole post-Stuttgart negotiation. We stand by the paper which we circulated and which was well received in the Community. In

/addition

addition to any broad orientation, the European Council should in our view take some concrete decisions or give a push to such decisions eg on liberalising lorry quotas, on the common market in services (insurance), on the solid fuels proposal.

16. The French will no doubt return to the charge on new arrangements for industrial co-operation and the encouragement of advanced technology. The present text does not go as far as they want. President Mitterrand attaches importance to this part of the post-Stuttgart package both on its own merits and because it will make the budgetary and agricultural chapters more saleable to French opinion. We believe that the French will probably table another paper. Our approach has been benevolent while maintaining our more liberal stance on trade and protection. In view of public expenditure restraints, we have made clear that for us the question at issue is how we can improve the conditions within which individual enterprises will decide that co-operation within the Community makes commercial sense rather than a policy of "spotting winners" for public subvention.

Enlargement

17. We are fully committed to enlargement and want the negotiations concluded with a view to accession of Spain and Portugal on 1 January 1986. This is a further strong reason why a settlement of the post-Stuttgart package in March is very desirable.

Timing

18. We want the revised Own Resources Decision to come into effect, after ratification, in 1985, so that it can make possible relief for 1984 in the 1985 budget. This point needs to be presented carefully to the French, who may see it as a means of putting pressure on us.

D F Williamson

D F WILLIAMSON

/...

12 January 1984

Annexed in folder

1. The three United Kingdom papers on the budget inequity (safety net), the strict financial guideline for agricultural expenditure and new policies, as summarised in the Treasury's Economic Progress Report Supplement of October 1983.

2. The French paper (the Delors proposal) on control of agricultural and other spending.

3. The Athens European Council documents in EQS(84) 1.

A Message from
DAVID WILLIAMSON

Mr. Coles (10 Downing Street)

Possible disallowance of milk expenditure.

You may find it helpful, as background, to have this copy of my minute of 8 January to Sir Robert Armstrong

David Williamson
10/1/84

CONFIDENTIAL

Qz.03536

SIR ROBERT ARMSTRONG

COMMISSION THREAT TO DISALLOW UNITED KINGDOM EXPENDITURE ON MILK

We discussed in the Steering Committee on European Questions on Friday the Ministry of Agriculture, Fisheries and Food paper EQS(84) 2. Agreement was reached on the line to take, the Ministry of Agriculture, Fisheries and Food being unhappy but consenting. It was also agreed that the Prime Minister would be informed in a minute from the Minister of Agriculture, Fisheries and Food, which will follow the agreed line.

2. I, as Chairman, and the Departments other than the Ministry of Agriculture, Fisheries and Food take the view that we should not go on defending the Milk Marketing Board's practices rather like a reflex action. The situation is as follows:-

(i) Butter. The Milk Marketing Board charges a different price for milk sold for butter for the commercial market and milk sold for butter for intervention. Tactically it may be necessary for the United Kingdom to insist that there has been no breach of regulations in order to avoid the disallowance of expenditure up to now. Apart from this, however, I see no reason why we should defend this practice of the Milk Marketing Board in our own internal consideration, particularly since the Milk Marketing Board and the buyers notified the Commission some time ago that they intended to move to a single milk price for butter from autumn 1983. It is only the delay in reaching the commercial agreement which has complicated this issue.

(ii) Skimmed milk. The Milk Marketing Board charges a higher price for skimmed milk for pig feeding than it does for skimmed milk for manufacture into skimmed milk powder. Almost certainly the reason for this is

/that

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that the big buyers - and the Board itself as a processor - like to keep as much skimmed milk as possible passing through their powder factories and thus achieving economies of scale. In short, it appears to be a particularly objectionable monopoly practice. When I was in the Commission I used a lot of credit in persuading the legal service that, if the Milk Marketing Board could produce objective information on seasonal costs which would support their present practice, the Commission would not take infraction proceedings. It seems, however, that the Milk Marketing Board has not been able to do this.

(iii) Export. The Milk Marketing Board charges a lower price for milk for the manufacture of certain products for export. Since there is already a Community export refund which bridges the gap between Community prices and prices obtained in export markets, I find it incomprehensible that we should defend this practice.

3. The view taken in EQS, which I strongly support myself, is that the right United Kingdom attitude is to go back to the Commission, to say that we are prepared to ensure (if necessary by legislation) that these practices of the Milk Marketing Board will be changed on the understanding that the threatened infraction proceedings will be withdrawn and that there will be no disallowance of expenditure on milk in the United Kingdom for this reason. We should not, of course, admit any liability. In the meantime we think it probable that we can block off any disallowance of the about £260 million in issue for 1978 and 1979, which is the only immediate problem. The deal which I have referred to would then apply to any threat in respect of 1980-84 when over £1,000 million are in issue.

4. I very much hope that Mr Jopling will follow this advice.

D F Williamson

D F WILLIAMSON

cc NO

FCS/84/9

N. B. P. R.

CHANCELLOR OF THE EXCHEQUER

A. S. C. 13/1

Net Payments to European Community Institutions: Public Expenditure White Paper Figures

p.a. -

1. Thank you for your minute of 5 January.

2. I accept your argument that the White Paper should contain figures which assume that we will receive 90% of our budget refund for 1983 by the end of March. I continue to think, however, that the disputed balance of our 1982 risk-sharing refund should be treated differently. By including the figure for the sum we have actually received and referring to the disputed balance in a footnote, we would not be implying that the outstanding £42 million will not be received; we will merely be signalling that (unlike the 1983 refund) there is a dispute with out partners over the sum due and we do not know when it will be settled. Moreover, whereas our 1983 refund (or the bulk of it) should be paid by the end of March the disputed element of the risk-sharing refund is not subject to a deadline. While we ourselves may wish to take action if we have not received the sum due to us by the end of March, there is no need (as there is for the 1983 refunds) to make a formal public assumption of payment by that date. I therefore hope you will consider again my earlier suggestion for a drafting amendment to paragraph 2 of the White Paper and for a footnote to the figures in the tables.

3. I understand that your officials have now suggested a further amendment to paragraph 2 slightly altering the amendment I had proposed (paragraph 5 of my minute). I am content with their revised wording.

/4.

4. I am copying this minute to the Prime Minister and to Sir Robert Armstrong.

GEOFFREY HOWE

13.1.84

From: Sir C Tickell

Date: 12 January 1984

NOTE FOR THE RECORD

cc PS
PS/Mr Rifkind
PS/PUS
Sir J Bullard
Mr Hannay
ECD(E)
ECD(I)

Mr Williamson, Cabinet Office
Sir M Butler, UKREP Brussels
Sir J Fretwell, Paris
Lord Bridges, Rome

A-f.c. 24/1 f.a.

VISIT TO BRUSSELS: 9/10 JANUARY

1. I visited Brussels from 9 to 10 January, partly to see members of our Representation and one or two Permanent Representatives, and partly to see key people in the European Commission. One or two points may be worth recording. I comment on them at the end of this minute.

Call on the French Permanent Representative

2. I called on M Leprette, the French Permanent Representative, for a talk of almost an hour. The main points were:

- He agreed that the major issues now in dispute - control of expenditure, budget imbalances, new policies, and new own resources - could be dealt with neither separately nor together. They were all linked and the best procedure would be to work on them in parallel. Like us, the French hoped that the debate would take place in a rational tone of voice. I emphasised the need for speed if Heads of State and Government were to be in a position to take decisions at the European Council in March. He agreed.

- I said that reading the French press made me wonder if the French really understood the nature of our European commitment. This was no longer in doubt. The results of the last election were conclusive. We had now to get the contentious issues behind us and move towards a real re-invigoration of the Community. International events were pushing us in the same direction. The French had a great opportunity for turning things round during their Presidency.

- M Leprette said that he attached particular importance to new policies. These would not cost much money. But over time they would probably involve a little more expenditure. At this point he asked whether we were thinking again about full British membership of the European Monetary System. He did not have to tell me that a move in this direction would have high political significance.

/M Leprette

- M Leprette asked why British Ministers were insisting more on controlling agricultural expenditure than Community expenditure generally. I replied that this was not the case. We had welcomed M Delors's statement at the Special Council before Athens and, like the French, believed that strict control over all Community expenditure was essential. But agriculture was the biggest drain on the Community's resources, and we were naturally most concerned about it.

- M Leprette asked me whether I knew about current problems over Chapter VI of the Euratom Treaty. I replied that I had not heard anything about it recently. In my Commission days I had been concerned by the fact that this was a part of the Treaty which had been both neglected and abused, and believed that this brought discredit to the Treaty as a whole: hence the need for reform. M Leprette did not pursue the matter.

Call on the Italian Permanent Representative

3. I called on M Ruggiero, the Italian Permanent Representative. As always M Ruggiero was full of good advice.

- I put the same point to him about how to deal with the four main subjects, and he agreed. Like M Leprette he underlined the importance of new policies. Also like M Leprette he asked whether we were thinking again about full British membership of the European Monetary System. He understood that this might be difficult for technical as well as for any other reasons, but wondered whether, as a minimum, we might consider enlarging the use of the ecu in the United Kingdom. Any move in this direction would pay us big political dividends.

- M Ruggiero said that we should not deceive ourselves that alliance with the Germans would bring us what we wanted. The Italians sometimes believed that alliance with the French would help them. But in the last resort the Germans would always rat on the British in the same way as the French would always rat on the Italians. He pointed out that in the meantime by leading with our chins on so many issues we were allowing the Germans to shelter behind us.

- On budget imbalances, M Ruggiero said that we should focus more on getting sufficient rebate for ourselves than in working for a universally applicable system for correcting imbalances. In the last resort the Italians would not mind contributing to a rectification to the British budget imbalance, but they objected strongly to providing anything for the Germans and still more for the French in the future.

/M Ruggiero

- M Ruggiero said that the Italian Prime Minister did not particularly like the Community and 'hated the Common Agricultural Policy'. When M Ruggiero had briefed him for the European Council, M Craxi had produced statistics to show diminishing Italian advantage from membership of the Community and still more from participation in the CAP.

- On the next Commission, M Ruggiero said he thought it very unlikely that the Italians would agree to reduce their Commissioners from two to one. M Colombo would not, in his judgement, be a candidate for the Presidency and M Pandolfi in the last resort was not good enough for the job.

Discussion with Vice-President Davignon over dinner

4. After dinner M Davignon took me aside.

- Like M Leprette and M Ruggiero he asked what we were doing about 'the money thing'. Could we not think again about participating in the exchange rate mechanism? If this were too difficult might we not make some gesture by encouraging the use of the ecu in the City and country generally?

- M Davignon mentioned Esprit. I said that I hoped that the Commission would not press us too hard in the immediate future. M Davignon said that, as he understood it, our problem was different from the German one. He would be glad to leave us alone for the time being but hoped that we could come down clearly in support of Esprit before the end of February. I replied that I hoped that by then our position would be clear.

Comment

5. These conversations were conducted in a good atmosphere. There was no feeling of crisis, nor disposition to blame Britain for the Community's current woes. I was particularly struck by the way that each of my interlocutors raised the question of full British participation in the EMS and/or extended use of the ecu as a medium of exchange. I do not know why M Leprette mentioned Chapter VI of the Euratom, but having raised it without result he was obviously keen to drop it. I think that M Ruggiero's advice was generally sound although he made no bones about Italian self-interest (particularly over the introduction of a system for correcting budgetary imbalances). No one raised the problem of the British refunds or the threat of withholding. The mood was rather that the Community was up against it, and we had now rapidly to settle the major problems confronting us.

Crispin Tickell

12 January 1984

Crispin Tickell

Euro - Bl : Budget A22

File

12 January 1984

EEC - "WITHHOLDING"

The Prime Minister has seen Lord Cockfield's minute of 11 January and has noted its contents.

A. J. COLES

Alex Galloway, Esq.,
Chancellor of the Duchy of Lancaster's Office.

VCCNO

Chancellor of the Duchy of Lancaster

Prime Minister.

Would you like me to seek the views of the Chancellor and the Foreign Secretary on this?

A.J.C. 11/1

PRIME MINISTER

EEC - "WITHHOLDING"

I do not know whether this subject will come up at Cabinet tomorrow. But I feel strongly - as I said at Cabinet before Christmas - that in relation to the balance of the 1982 refund (about £42 m) the correct procedure is set off, not withholding.

We say that we have a legal right to the £42 m. If we do we are entitled to set this off against our contributions in the same way as any private creditor would: it is quite unnecessary to resort to withholding.

Presentationally our position would be much better. Set off is a claim of legal right: withholding is an admission of illegality. Why should we present ourselves as acting illegally when we can present ourselves as acting legally?

Tactically we would also be in a better position. The Commission have suggested that if we think we have a legal case we should go to Court. If we proceed by set off it would be the Commission who would have to go to Court. It is always better tactics to force your opponent to have to make the next move.

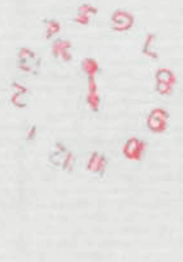
Finally withholding is our ultimate weapon. One ought never to use one's ultimate weapon until one has to. Here we can achieve our objective by the use of a lesser weapon. We ought to do so and keep the greater weapon in reserve.

I believe that the 1983 refund (about £450 m) should be dealt with in the same way. There is a crucial difference between the 1982 and 1983 refunds on the one hand and the long term settlement on the other. The 1982 and 1983 refunds are a matter of legal or quasi legal right. The long term settlement is a matter of political negotiation. "Set off" is a legal act: "withholding" is a political act. The right course surely must be to tailor the response to the situation: to use set off in the legal dispute and withholding in the political dispute.

A.C.

A C

11 January 1984



Ref. A084/120

PRIME MINISTER

MS

Cabinet: Community Affairs

In the Foreign and Commonwealth Secretary's absence in the Middle East, the Minister of State, Foreign and Commonwealth Office, (Mr Rifkind) will report on the Foreign and Commonwealth Secretary's meeting with Monsieur Thorn, the President of the Commission, on 6-7 January. The discussion dealt mainly with the procedure and substance of the negotiations leading up to the March European Council. The French Presidency has not yet made available formally its proposals for the handling of the negotiations but is likely to follow the view of the Commission that the agricultural and "other policies" issues should be carried forward in the specialised Councils, leaving the European Council with an overview of the results. The major financial issues (budget inequity, control of agricultural and other spending, own resources) will need to be handled in a single body - possibly the Foreign Affairs Council at which Ministers of Finance will also be present. The Foreign and Commonwealth Secretary agreed with this broad approach, stressing the need to put into place quickly the arrangements for the further negotiation in Brussels of the central financial and budgetary questions. Monsieur Thorn confirmed that Monsieur Dumas, the new French Minister with responsibility for Community affairs, will take a much bigger role in the negotiations than his predecessor.

2. The Foreign and Commonwealth Secretary also pressed Monsieur Thorn to make a proposal to the European Parliament to transfer the 1983 refunds in the 1984 Community budget back from the reserve Chapter 100 on to budget lines and the prospect of such a proposal in February/March is not bad. On the disputed element of the 1982 risk-sharing, the letter which you approved has been sent to the Commission and made available in all Community capitals. Contrary to certain newspaper reports, there was no disagreement with Monsieur Thorn on this point: the

Commission is considering the letter and will probably reply in February. The United Kingdom Government will then be able to decide its position at the same time as its contingency plans on the financially much more important 1983 refunds.

3. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 9-10 January. This discussed the future handling of the agricultural component of the post-Stuttgart negotiations. It was agreed that this and the 1984/85 price proposals, which will be tabled shortly and will be very restrictive, should be handled in the Agriculture Council. The high level group of officials will meet on 18-19 January to look at milk, green currency adjustments and other products, while the Council itself will have its first discussion of this year's price proposals on 6-7 February. The United Kingdom supported the Commission against criticism from other member states of their recent economy measures which in our view are necessary in the tight budgetary situation of 1984.

4. The Secretary of State for Trade and Industry is away in India, but the Steel Council on 22 December, at which the United Kingdom were represented by the Minister of State, Department of Trade and Industry, (Mr Lamont), approved the measures for stabilising the Community steel market, and the United Kingdom secured a satisfactory arrangement on customs procedures for the accompanying document. Agreement in principle was given to monitoring traditional trade flows. The Council also agreed that the regulations implementing the Commission's proposals for the non-quota part of the Regional Fund should be circulated for agreement by the written procedure by 13 January. This agreement is probable but not certain. The United Kingdom will gain about £86 million of mainly additional receipts to spend on measures to improve the environment and to help to generate new small and medium-sized businesses in steel, shipbuilding and textile closure areas. The United Kingdom is the principal beneficiary under these three measures together and our negotiators in this sector have done well.

5. Over the next seven days the Consumer Affairs Council will meet on 17 January and the Industry Council on 19 January.

RtA

ROBERT ARMSTRONG

11 January 1984

CONFIDENTIAL FILE

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10 DOWNING STREET

From the Private Secretary 11 January 1984

Dear Roger,

European Community: Transport Issues

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute of 9 January. She agrees that all the British Ministers concerned should do their best to press for progress towards transport liberalisation between now and the European Council of 19/20 March.

I am copying this letter to the Private Secretaries to other Members of OD(E), Dinah Nichols (Department of Transport), and Richard Hatfield (Cabinet Office).

Yours ever

John Coles.

Roger Bone, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

da

PERSONAL AND CONFIDENTIAL

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Downing Street
LONDON
SW1

11 January, 1984

A. & C. 18/1
f.a.

Dear Geoffrey

Further to your memorandum of 6 October requesting departmental comments on policies for the European manifesto there are three areas of Community policy where there is a substantial Northern Ireland interest: regional affairs; agriculture; and the role of the European Parliament.

On regional policy I would hope we could strike a positive note while calling for continued improvements in the operation of the ERDF. These improvements should include: greater selectivity in designating those areas of highest, and structural, unemployment as priorities; and more awareness of the importance of tackling the problems of urban blight. In addition the point should be made that while the ERDF is essential in increasing the Community's economic cohesion and, in particular, in aiding peripheral areas, the Community should also show a greater awareness of the impact of the operation of some of its other policies - such as the CAP - on disadvantaged regions.

I don't imagine that I would diverge from Michael Jopling's comments on the reform of the CAP. However, a central point to emphasise, I believe, is the importance of restoring a more equitable balance in the rate of return between arable and livestock farming. A redressing of the balance away from arable farming in favour of livestock producers is long overdue. It is also important from the point of view of Northern Ireland farmers that access to cereal substitutes should remain as free as possible.

As a matter of general principle our proposals on CAP reform should be based on dealing with over production primarily through the price mechanism. However if we eventually have to accept a quota system for milk these should be implemented at farm level, without pooling, and exemptions for special cases should be firmly resisted (although

PERSONAL AND CONFIDENTIAL

you/...

you will be aware of my position should the Republic of Ireland gain an exemption)! Northern Ireland farmers also feel very strongly that the variable beef premium must be defended and sustained.

One of the more contentious actions of the European Parliament has, of course, been its decision to commission a Report on Northern Ireland. I think we must see how the Haagerup Report progresses before deciding on how to approach this question in the campaign. As long as the resolution itself continues to emphasise the social and economic role of the Community in Northern Ireland I anticipate few problems. While the Parliament can have no business interfering in the Constitutional or political affairs of a member state - and their attentions have not been welcome - in the event, the Haagerup Report may work to our advantage in clarifying the situation in Northern Ireland for many continental minds. While a stern note might be appropriately struck - in general terms - in the manifesto about the importance of the Parliament restricting itself to its legitimate areas of activity I would not wish to make a great issue out of their Northern Ireland intervention, nor to appear too churlish. The European Parliament does, after all, deserve credit for helping to promote the cause of Community aid for Belfast's urban problems and this deserves recognition.

On the wider question of campaign themes might I make some brief observations beyond my departmental remit? I feel there are three themes which we should be pressing hard, summed-up in the words: experience; achievement and commitment. As the Party that took Britain into the Community and which has provided three quarters of our representation in the directly elected Parliament, experience must be one of our greatest advantages over both Labour and the Alliance. Although much still remains to be resolved in the aftermath of Athens our record of achievement as a Party in Government and in the European Parliament can also be portrayed as formidable - especially when contrasted with the weak performance of the Wilson and Callaghan Administration. Commitment to the success of the Community, and to a vigorous defence of British interests within it is, perhaps, the most important theme. However, both strands have to be emphasised. I don't believe that there is any doubt in the public mind about the Government's determination to improve Britain's position within the Community or about the strength of our resolve. Thus, to over-emphasise this point without balancing it by references to our commitment to the success of the whole community ideals begins to cast our relationship with the Nine in a purely adversarial light Thus we do need to re-emphasise the broader objectives and community of interest which underpin the Treaties, otherwise we put ourselves into a rather defensive posture viz a viz what increasingly would be perceived as an organisation inimical to our interests. In such a situation the public might well ask 'if the common market is only about fighting for each country's interest why bother to have it at all?' I am also quite certain that the Labour Party's fudge on the question of membership is as fragile as their position in the General Election over disarmament - and should be exposed as such.

I hope that it will also prove possible for the Prime Minister to make some sort of joint statement or appearance with leading members of our associated parties in Europe - such as Paul Schluter and Helmut Kohl. The Socialists and Liberals will otherwise make great play of isolation - real or imagined - as a political grouping in Europe, compared with the changes of collaboration open to them within the Parliament. Given the current predominance in Northern Europe of governments of the centre-right this is a ploy with which they should not be allowed to get away.

I am copying this letter to the Prime Minister, other members of the Cabinet, John Selwyn Gummer, Peter Cropper and Sir Robert Armstrong.

Yours ever

Tom

(1)

Prime Minister.

Agree that all British Ministers concerned should press for progress towards transport liberalisation between now and the European Council?

PM/84/8

PRIME MINISTER

Yes mo

A.J.C. 10/1

European Community: Transport Issues

1. I have seen Nicholas Ridley's helpful report on the outcome of the 20 December Transport Council, and on prospects for progress in this important area of Community business before the European Council of 19/20 March. I am glad to see that we managed to take a broadly constructive line at the last Council on the major issues, including lorry weights, where our present 38 tonne maximum is at odds with the Community consensus figure of 40.

2. I am sure that Nicholas Ridley is right to press for progress through early bilateral meetings with his key Community counterparts - the French and the Germans. They and the Italians are our traditional opponents in the campaign to liberalise Community road transport services by the phased abolition of all road haulage quotas; they also favour the restrictive status quo on air transport services. I also agree that we should raise liberalisation of land, sea and air transport at the next European Council, if time and circumstances permit. Progress in this area is one of our declared objectives in the "New Policies" chapter of the post-Stuttgart negotiations. We have a good story to tell on our attitude to the completion of the Community's internal market (including the Treaty's requirements of unfettered competition), and we should continue to press our views at every appropriate opportunity in the run-up to the March European Council. Apart from the intrinsic merits of transport liberalisation, by doing so we form a useful alliance with the Dutch, who, like us, attach prime importance to a dynamic Common Transport Policy and free intra-Community trade.

/3.

3. I suggest that colleagues should do what they can to support Nicholas Ridley's efforts in their bilateral contacts between now and March. In particular, we should consider raising transport with the Italians at the Summit Meeting at the end of this month. My officials will be in touch with Nicholas Ridley's to discuss this.

4. I am copying this minute to Nicholas Ridley, to members of OD(E) and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
9 January 1984

Euro Pol : Budget Pt 22

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

9 January 1984

R B Bone Esq
Foreign and Commonwealth Office

N. B.P.R.

A.S.C.
9/1.

Dear Roger,

INSTITUTE OF FISCAL STUDIES: STUDY ON EC BUDGET

The Chancellor has seen your letter of 19 December and Ivor Llewellyn's of 23 December exploring possible Government ripostes to the recent IFS study on the costs of the CAP.

As you will know, Government economists have been in touch with the authors of the IFS study, and it is clear that their calculations include a number of substantial errors. But the Chancellor does not share your Secretary of State's view that the whole approach of the study is misguided and that the Rollo/Warwick method is the correct way of measuring the non-budgetary costs of the CAP. He feels that, when looking at the hypothetical situation of a UK outside the Community, the assumption in the Rollo/Warwick studies that we would maintain CAP support levels is as misleading as the IFS assumption that we should have no agricultural support at all.

In the Chancellor's view, both the current account costs of the CAP (Rollo/Warwick) and the full welfare costs of Community membership (the IFS approach) are legitimate methods of analysis: both were used in the 1980 interdepartmental report on the costs of the CAP (the Byatt report). The Rollo/Warwick approach is probably the more useful in bolstering our case in the Community about our net budgetary contributions; but the resource cost analysis (though not the defective IFS figures) is of considerable relevance to our efforts to reform the CAP.

The Chancellor therefore feels that, rather than looking for opportunities to produce a systematic critique of the IFS study, Ministers if pressed to comment on the IFS study, should simply say:

a. they understand that it is an attempt to model the budgetary costs and other economic effects of Community membership;

b. the CAP does indeed impose economic costs which are greater than the budgetary costs; and

c. the proposals which the United Kingdom has put forward in the post-Stuttgart negotiations are designed inter alia to reduce those costs.

The Chancellor is afraid that, by actively seeking platforms to attack the IFS study, the Government would run the risk of being accused of being seriously turned by it. Taking up an existing opportunity to comment indirectly on studies of this type as Ivor Llewellyn suggests Charles Capstick could do at Reading, seems to us a much less dangerous approach. We were pleased to note that Mr Capstick intended to discuss with our departments any comments he might wish to make.

I am copying this letter to John Coles (No.10), Ivor Llewellyn (MAFF) and David Williamson (Cabinet Office).

Yours ever,

Judith Simpson

MISS J C SIMPSON
Private Secretary

European Policy
EC Budget Pt 22.

EURO Pt
Budget
with

(3)

10 DOWNING STREET

Prime Minister

Before considering the letter to President Mitterrand you may like to read the attached F/C.O. letter on his performance at Athens.

A.J.C. 3/1

See now my minute of 6 January to Sir Robert Armstrong.

A.J.C. 6/1

p.a.

10 DOWNING STREET

THE PRIME MINISTER

No - wrong psychology

1) I made the suggestion - he did NOT issue an invitation - he merely responded

2) Too soon

3) We must see what happens about the £42 million

MT

Over the holiday period I have had a chance to reflect further on the disappointing outcome of the Athens European Council.

I am quite sure that the well-being of the European Community requires that we should resolve the Community's problems as soon as possible; the longer the delay, the worse the difficulties become. This is already evident in the regrettable action taken by the European Parliament on 20 December when they unilaterally exceeded their powers both by increasing expenditure and by interfering with the UK and Germany's 1983 refunds. The Parliament's action will certainly not help matters; indeed it adds a further complication to an already difficult situation. Geoffrey Howe and Claude Cheysson have been in close contact over how to respond and I am glad we see very much eye to eye on this.

As President of the European Council, you will clearly have a major role to play in preparing our next meeting in March. It seemed to me that there might be advantage in following up the suggestion you made during our breakfast

He didn't I did

/meeting

meeting in Athens that I should come over to Paris for an informal meeting. I would much welcome the opportunity of a quiet talk about the major issues facing the Community. I leave it to you to suggest a date.

His Excellency Monsieur Francois Mitterrand.

SCPC

(5)

COMMISSION
OF THE
EU PEAN COMMUNITIES

The Vice-President

MWF 100/12
RECEIVED IN REGISTRY
26 JAN1984

DESK OFFICER		REGISTRY
INDEX	PA	Action Taken
	PJ	J.t.

Brussels, 6. I. 1984
SG(83) D/ 124

Sir,

The Commission informed the United Kingdom authorities in its telex No. 71299 of 28 April 1983 of its decision to invoke the provisions of Article 10, paragraph 2 of Council Regulation No. 2891/77 of 19 December 1977 which states that, "if necessary, Member States may be invited by the Commission to bring forward by one month the entering of resources other than VAT resources on the basis of the information available to them on the 15th of the same month."

The United Kingdom did not implement this invitation to enter to the credit of the Commission's account on 20 May 1983 the resources established in April. These resources, amounting to UKL 115,089,307.99, were entered one month later on 20 June 1983.

Article 11 of Regulation 2891/77 states that:

"Any delay in making the entry in the account referred to in Article 9(1) shall give rise to the payment of interest by the Member State concerned at a rate equal to the highest rate of discount ruling in the Member States on the due date. That rate shall be increased by 0.25 of a percentage point for each month of delay. The increased rate shall be applied to the entire period of delay."

The number of days delay amounted to 31 and the highest rate of discount ruling in the Member States on the due date was 20.5 % (Bank of Greece). The calculation of the interest due is thus as follows:

$$\text{UKL } 115{,}089{,}307.99 \times \frac{31}{365} \times \frac{20{,}5}{100} = \underline{\underline{\text{UKL } 2{,}003{,}815.21}}$$

./.

The Right Hon. Sir Geoffrey HOWE, Q.C., M.P.
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1A 2AL

In his letter of 8 July 1983 to the Permanent Representative of the United Kingdom to the European Communities, the Director-General for Budgets requested him to arrange for the United Kingdom authorities to credit the account EEC 1 opened in the name of the Commission with H.M. Treasury with the sum of UKL 2,003,815.21 as soon as possible.

The United Kingdom authorities rejected the Commission's request in a reply from the Permanent Representative to the Director-General for Budgets on 16 September 1983.

I regret that the Commission is unable to accept the two particular arguments put forward in that letter.

In the first place, Regulation 2891/77 states in fine that "This Regulation shall be binding in its entirety and directly applicable in all Member States". The dissolution of the United Kingdom Parliament is therefore not relevant as regards its application.

In the second place, as Article 10, paragraph 1 and paragraph 2 of the Regulation are intimately related, the provisions of Article 11 are applicable to paragraph 2 as well as to paragraph 1. That being so, it cannot be left to the individual Member State to decide at its entire discretion whether and how Article 10, paragraph 2 is to be applied.

On a more general level, this position reflects the development from a Community budget based almost entirely on expenditure to one in which increasing emphasis is being given to income.

In the light of the above, the Commission would request the United Kingdom authorities to review their position and to enter the sum of UKL 2,003,815.21, representing the interest for late payment into its account EEC 1 with H.M. Treasury within two months of the receipt of this letter.

In the absence of the United Kingdom Government complying with this request, the Commission invites it in accordance with the provisions of Article 169 of the EEC Treaty to submit its observations within the same period of time.

./.

The Commission also reserves the right to deliver the reasoned opinion provided for in Article 169 of the EEC Treaty after having studied these observations. The Commission similarly reserves the right to deliver such an opinion if the observations do not arrive in the required time.

Yours faithfully,
For the Commission

Christopher Tugendhat

Christopher TUGENDHAT

ce NO

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

N.B.P.R.

A.S.C. 7/1.

FOREIGN AND COMMONWEALTH SECRETARY

NET PAYMENTS TO EUROPEAN COMMUNITY INSTITUTIONS: PUBLIC EXPENDITURE WHITE PAPER FIGURES

You wrote to me on 3 January about the basis for calculating the figures for net payments to the EC institutions which are to be published in the 1984-85 Public Expenditure White Paper.

2. Your first point concerned whether we should assume receipt of 80 per cent or 90 per cent of our Budget refunds for 1983 by the end of March this year. I remain convinced that 90 per cent is the right figure. It is, after all, the proportion that we are working to receive, and it is also the proportion that we actually received by end-March 1983 in respect of our 1982 Budget contributions. Moreover, you will recall that we used the 90 per cent assumption when calculating the figures for future years in the 1983 White Paper and I believe that as far as possible we should aim at consistency from one White Paper to the next.

3. I note your fear that the Commission will not have the money to pay us a 90 per cent refund by the end of March. My officials calculate that the money should in fact be available and I shall be circulating material on this shortly. The recent proposals for delaying certain agricultural payments should be helpful in this respect.

4. You also questioned the treatment of the disputed balance of our 1982 risk-sharing money (worth £42 million net). Again, my

view is that we should stick to the present assumption that payment will be made by the end of March. Although I agree that there is clearly a possibility that payment will not in fact be made by then, I think it would be tactically most unwise to publish a White Paper in mid-February which omits the payment from the projections and appears to assume that the money will not be received.

5. In paragraph 7 of your minute, you referred to the implications of the White Paper figures for our discussions in E(A) committee on how to avoid Community expenditure adding to domestic public expenditure. We shall have to return to this question soon in E(A) and our officials will shortly be discussing the "effective mechanism" for which E(A) called. One of the questions that we shall need to consider is how to keep our public expenditure within the projections in the White Paper, since they reflect a number of assumptions which will change as decisions are taken.

6. Paragraphs 5 and 6 of your minute refer to two drafting suggestions, which I am happy to accept.

7. Finally, I should like to clarify a few factual points. In paragraph 2 you stated that in 1980/81 we received only 54 per cent of the refund payable in respect of 1980 by the end of the financial year. Our own estimate is that, taking account of payments made under the Financial Mechanism (which were later repaid), some 80 per cent of the refund was paid by the end of the financial year. Second, your budget refund figures for 1983/84 appear to assume that we receive either 80 or 90 per cent of our net refund by the end of March. In fact, the assumption used in the White Paper is that 90 per cent of the gross refund is received by end-March. Finally, in paragraph 5 you suggested that our first refund was received in 1981 rather than 1980. In fact, our own records show we did receive an advance of supplementary measures in December 1980.

8. I am copying this minute to the Prime Minister and to Sir Robert Armstrong.

NL.

NIGEL LAWSON
5 January 1984

Euro pol : Budget Pt 22

cc Press Office. (2)

Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister.

To note.

A.J.C. 3/1.

3 January 1984

Dear John,

1982 Risk Sharing Refunds

The Prime Minister has approved the draft letter from Sir Geoffrey Howe to M. Thorn, sent to her under cover of Sir Geoffrey Howe's minute of 23 December. The Foreign Secretary has instructed Sir Michael Butler to deliver the message before M. Thorn visits here on 6 January; M. Thorn will not be able to receive the letter until 4 January. Sir Geoffrey has also instructed our representatives in other EC posts to draw it to the attention of the government to which they are accredited.

In his minute of 23 December Sir Geoffrey Howe said that, if asked by the press or in Parliament what we were doing about failure to pay the sum owing in 1983, we should need to refer to the steps we were taking. This situation is now upon us with the Daily Telegraph article of 3 January.

The Foreign Secretary agreed that in response to questions (none were put at the daily press conference at noon) we should say that we have repeatedly made clear that the £42 million remains outstanding, following the majority decision of the Budget Council in July arbitrarily to reduce the amount entered in the 1983 Supplementary Budget. Now that the Community has failed to make the money available by 31 December, we shall be pressing the Commission and our partners to take the appropriate steps to make good the outstanding sum. But he considers it would be a mistake to announce the action we have taken or to release the text of the letter before Sir Michael Butler sees Thorn tomorrow. To do so would reduce our chances of persuading the Commission to give us a positive reply. (Realistically, we should not expect too much of the Commission's response. But that is a further reason, given the weaknesses of our legal position in the eyes of the European Court, for our not appearing to press the Commission to reply too quickly. An early reply by the Commission could require us to take a premature decision on whether to initiate legal or other action.)

After Sir Michael has seen Thorn, we propose to confirm that the Foreign Secretary has sent a letter to the President of the Commission pointing out that the sum established by the Budget Council for our risk sharing payment was arbitrary and insufficient and that failure to make the required provision

/constituted

constituted in our view non-fulfillment by the Community of its legal obligations. We have therefore requested the Commission to initiate the necessary budgetary action to ensure that the sum due (£42 million) was paid. We shall confirm, if asked, that we have kept other Member States in the picture but will point out that the request to initiate action is addressed to the Commission and not to them.

If asked about the possibility of bringing a case in the Court or of withholding, we propose to say that before taking any decision of that sort we intend to exhaust all possible alternatives. Now that the Community has failed to meet its obligations in 1983, we have taken the necessary formal steps to draw the facts to the Commission's attention and to ask for remedial action. We hope that the Commission will give detailed and careful consideration to our approach. Should it prove impossible to resolve the issue through this means, then we should have to consider other means of safeguarding our position.

If asked whether the Community can afford to pay us, given its present cash crisis, we shall say that we expect the Community to meet its obligations and that it will be for the Commission, in any proposals they make, to recommend how the money should be found, including any necessary offsetting savings.

I am copying this letter to the Private Secretary to the Chancellor of the Exchequer and to the Private Secretary to Sir Robert Armstrong.

Yours ever

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

EURO POL : Budget
Pt 2

FCS/83/282

CHANCELLOR OF THE EXCHEQUER

N. B. P. R.

A. S. C. 3/1.

Net Payments to European Community Institutions: Pulbic Expenditure White Paper Figures

1. Thank you for sending me a copy of your minute of 16 December.

2. In general, I agree with your approach but I have some comments as follows. In paragraph 3 of your minute you say that we should receive the bulk (90%) of our 1983 refunds by the end of the financial year. This implies that 90% is the amount we normally receive by the end of March, whereas in practice, it has only been in respect of the 1982 refund that we received 90% by the end of the financial year ie 31 March 1983. In 1980/81 we received only 54% of the refund by the end of our financial year. In 1981/82 we received 80%. In view of this and of the Community's rather special cash flow problems in 1984 which will make it distinctly difficult for a large payment to be made in one lump you may wish to consider whether it might not be wise to use a rather lower figure than 90% in scoring the refund that we expect to receive by 31 March 1984. The sums involved are not great, £352m (80%) by comparison with £396m (90%). But there might be presentational advantages in using the lower figure, particularly if we do not succeed in getting as much as

/we

Amendments telephoned through from the FCO.
[initials] 6/1/84.

we hope by the end of March. Moreover, the consequential increase in the refund figure for the 1984/85 financial year might have some advantages in PSBR terms. I recognise of course that showing the figures in this way will slightly increase the figure for our net contribution in 1983/84 and thus the gap that has to be explained away between that figure and the forecasts contained in the last White Paper.

4. My second point is that, while I am sure we must continue to use the working assumption that we shall receive the bulk of our 1983 refund in our 1983/84 financial year since that ~~is the agreed position~~ has been the past practice of the Council and even the Parliament have pointed to the need for action by the end of March, I do not think we should treat the unpaid element of our 1982 risk-sharing refund in the same way. We are about to take formal action with the Commission, calling on them to remedy the ~~Commission's~~ Council's default. In practice, the issue is likely to be resolved either in the context of the overall negotiation or by action by us decided in the light of the European Council. This means that, even if we secure the sums through negotiation, they are unlikely actually to be paid before the end of March. I suggest therefore that it would be better to deal with this problem by scoring only the figure for that part of the risk sharing refund which has already been paid (£178m) and having a footnote saying that the remaining £42m is in dispute. If you agree to this paragraph 2 of the draft White Paper wold need to be amended on the following lines:

/"The

"The estimate for 1983-84 also includes payment of £178m representing a large part of the 1982 'risk sharing' refund. This compensates the UK because our uncorrected net contribution in 1982 turned out to be greater than was originally expected. The United Kingdom does not accept that this payment discharges the obligation under the Council decision of 26 October 1982 and is pursuing the claim to the £42m (net) of this obligation that is outstanding."

5. In addition to these suggestions I have two drafting points on the White Paper text. First I do not think it is strictly accurate to speak, as the present draft does in paragraph 2, of "the first refund in 1980" since no money was actually paid over until 1981. It might be better to say:

"The effect of the agreement reached at Stuttgart is that, on average, in respect of the four UK financial years 1980/81 to 1983/84, the UK's net contribution to the budget has been reduced by around two-thirds."

6. Secondly, in describing the conditions in which the UK would be prepared to consider an increase in the Community's own resources, I think it important to stick as precisely as possible to the language used by the Prime Minister at Stuttgart, not least because this includes the vital element of the control of all Community spending, not just agricultural spending, which is missing from the present draft. I suggest that the last sentence of paragraph 5 be redrafted as follows:

"The UK has made it clear that it would be prepared

/to

to consider an increase in own resources provided that agreement was reached on an effective control of agricultural and other expenditure and provided this was accompanied by an arrangement to ensure a fair sharing of the financial burden so that no country has to pay a share disproportionate to its relative national wealth."

7. Finally I would observe that paragraph 6 raises a general point which is very germane to the discussion we are having as to whether expenditure by the UK on EC programmes represents a net increase in UK public expenditure for 1983/84 and 1984/85. Am I right in thinking that the figures for 1983/84 and 1984/85, annexed to the White Paper, reflect expenditure levels provided for in the 1984 EC budget as it has now been adopted? If so, it would appear to be the case that any UK expenditure involved in implementing those programmes in the years in question will not amount to an additional public expenditure cost since account has already been taken of the programmes in question, in your forecast figures.

8. I am copying this minute to the Prime Minister and the Secretary to the Cabinet.

GH

GEOFFREY HOWE

Foreign and Commonwealth Office
3 January, 1984

EURO POL: Budget Pt 22

CONFIDENTIAL

Private Secretary to the Secretary of State
FCO

1982 Budget Refunds : Risk-Sharing Elements

The Lord Advocate has seen the minute of 23rd December by your Secretary of State to the Prime Minister and her Private Secretary's reply of that date. He has no objection to the terms of the proposed letter to Mr. Thorn.

Copied to the Private Secretaries to the Prime Minister and the other recipients of your Secretary of State's minute.

I. Jack.

Iain Jack
PRIVATE SECRETARY
30.12.83

With the compliments of

the Solicitor-General

Attorney General's Chambers,
Law Officers' Department,
Royal Courts of Justice,
Strand, W.C.2A 2LL

01 405 7641 Extn. 3407

SOLICITOR GENERAL

nbpm
Duts
30/12

SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

1982 REFUNDS: RISK-SHARING ELEMENTS

In the Attorney General's absence, I have seen a copy of your minute to the Prime Minister, relating to our 1982 risk-sharing refunds. I am content with the draft attached to your minute.

I am sending a copy of this minute to the recipients of yours.

30th December, 1983

Law Officers' Department
Royal Courts of Justice

Euro Pol;
Budget;
pt 2

'o.2.

Foreign and Commonwealth Office

London SW1A 2AH

29 December 1983

AJC: to deal o/v

Dear John,

The Post-Stuttgart Negotiations and the French

As you know the Prime Minister and the Foreign Secretary agreed in the aftermath of Athens that we needed to consider very carefully our future contacts with the French in general and with President Mitterrand in particular. Sir Crispin Tickell wrote to Sir John Fretwell in Paris after the Athens European Council to seek his views on President Mitterrand's performance on that occasion and on how best to proceed in our future contacts with the French. I enclose copies of his letter and John Fretwell's reply.

// 8 12 83 + 21 12 83

John Fretwell's analysis is essentially that

(a) President Mitterrand's working methods mean that he is often not well prepared to go into detailed consideration of the more technical issues on the agenda of European Councils;

(b) His concept of his constitutional role means that he has no compunction in disavowing the work and the words of his Ministers;

(c) President Mitterrand probably finally decided how to play his hand only after he had sensed the atmosphere at Athens. While he might have been ready to move if a real negotiation had got under way and if he had judged that an outcome satisfactory to France was attainable, his politial instincts told him that this was not on the cards. He therefore reverted to first principles as regards the negotiating issues of major concern to us, disregarding work already done (by the French as well as others).

(d) By his actions in Athens, President Mitterrand has probably stored up a great deal of trouble for himself and the French Presidency since the domestic political implications of an agreement at the March European Council, in June or later under the Irish Presidency are all for different reasons disagreeable.

/We agree

We agree with John Fretwell's analysis. But, as he says, it is in part speculative. The fact is we do not know with certainty why the frequent ministerial and official level contacts in the weeks before the Athens European Council failed to give us any forewarning of the line the President was likely to take and seem moreover not to have given President Mitterand himself any appreciation of what we require from the negotiations.

But whatever the explanation, the clear operational conclusion which emerges is that we have to find a way of getting our views over to the French at the only level that matters - that of the President.

As John Fretwell argues in his letter of 21 December, and as he has argued before, notably in his despatch of 13 April the relevant paragraphs of which are annexed to his letter, the key is President Mitterand himself. But he is not readily accessible, and his work methods mean that there can be no guarantee that, whatever the effort put in with officials close to him in the Elysee, we shall establish a better flow of information in both directions. It is therefore very desirable in the Foreign Secretary's view, and as he explained at his meeting with the Prime Minister on the Thursday before Christmas, that the Prime Minister should take up the suggestion made by the President during their bilateral meeting at breakfast on 6 December that Mrs Thatcher should visit Paris for an informal meeting with him.

He did not make it. I did

The question of the timing of such a visit will be important but we believe it would be best to leave President Mitterrand to suggest dates. I enclose a draft message. An additional reason for responding to the invitation given at Athens is that this should ensure that if President Mitterrand were tempted to do so (and a slight flavour of Franco-German "ganging-up" emerged during Telstchick's visit - see FCO telegram No 615 to Bonn), he could not overlook the British factor at his bilateral meeting with Chancellor Kohl in January (the date of which we still don't know). Sir Geoffrey will be suggesting separately what steps we should take to keep in close touch with the Germans. An opportunity to do this will arise if we succeed in getting Genscher to London in January.

As John Fretwell says, the appointment as the new Minister for European Affairs with cabinet rank of a close personal friend and political associate of President Mitterrand provides another opening which we should not neglect. Sir Geoffrey has already sent a welcoming message to M. Dumas

/and we

and we have made it clear that the Foreign Secretary and Mr Rifkind look forward to seeing him here soon. We must of course ensure that in cultivating M. Dumas we do not put M. Cheysson's nose out of joint.

Finally, John Fretwell recommends that we should maintain the range of ministerial and official contacts built up in recent months. Sir Geoffrey is sure this is right. Sir Crispin Tickell will be paying a first visit to Paris next month (January) to make contact with his French opposite numbers. Sir Geoffrey hopes that Sir Robert Armstrong, David Williamson and Treasury officials will pursue actively in the weeks leading up to the March European Council the contacts they have developed in recent months with their French counterparts.

I am copying this letter to John Kerr (HM Treasury). Ivor Llewelyn (MAFF) and Richard Hatfield (Cabinet Office).

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

CF: Await response from FCO

DWB 29/12

MR BARCLAY - 10 Downing Street

cc: Sir Robert Armstrong

EUROPEAN COMMUNITY: TRANSPORT ISSUES

1. You asked about the issues covered in the Secretary of State for Transport's minute of today to the Prime Minister. I would draw attention to these points:-

(1) We have consistently demanded in the discussion of "other polices" in the post-Stuttgart negotiations that there should be liberalisation of lorry quotas. This is an excellent example of useful action within the Community which does not cost the budget anything. We shall continue to press this in the discussions up to and including the next European Council. We agree with the Secretary of State for Transport that the chances of at least some greater liberalisation are improving.

(2) The Germans have been opponents of liberalisation of lorry quotas, maintaining that the conditions of competition are disturbed by other factors. We see no difficulty about trying to persuade the German Minister, Dr Dollinger, that there is a reasonable harmonisation of vehicle lengths and dimensions in prospect. The Prime Minister will recall, however, the political sensitivity of lorry weights and it is extremely important that the discussion should not be taken to imply any weakening of our own resolve to maintain the United Kingdom lower weight limit for lorries.

D F Williamson

D F WILLIAMSON

23 December 1983

29 DEC 1983

MJ

BF

23 December 1983

European Community: Transport Issues

The Foreign Secretary will have received a copy of the Secretary of State for Transport's minute to the Prime Minister about transport issues in the European Community.

In considering this minute, I am sure the Prime Minister will be grateful for any advice that the Foreign Secretary may care to offer.

BF

I am sending a copy of this letter to Richard Hatfield (Cabinet Office).

David Barclay

Roger Bone Esq
Foreign and Commonwealth Office.

DMP

020

Prime Minister

EUROPEAN COMMUNITY: TRANSPORT ISSUES

On the face of it, the Transport Council which I attended on Tuesday of this week achieved little. The key issues - lorry weights and dimensions, Community aid to transport infrastructure and liberalisation of road transport - have been carried forward into the French Presidency. But we are now comfortably placed on all of these issues and it is others who are seen to be blocking progress.

I see a prospect of considerable advance in the next six months if we keep up this pressure. I believe that my German colleague Dr Dollinger, is aware of the inconsistency between the liberal approach of the Federal Republic to economic issues generally and their highly restrictive transport policies. If we can now apply pressure at the Chancellor's level and at the same time give Dr Dollinger some evidence of harmonization, such as the modest advance on vehicle weights and dimensions - blocked by the Italians on Tuesday - I believe the Germans would be prepared to move a considerable way.

For their own reasons, not least the wish to have a successful Presidency, the French, too, are showing signs of flexibility.

I have already arranged to meet my French colleague in February. I will take an early opportunity to meet Dr Dollinger also.

There was no opportunity to discuss transport matters at the European Council earlier this month. But I hope you will be prepared to raise this at the next Council in March if time can be found. If you agree, I will do my best in bilateral contacts between now and then to prepare the ground for agreement on a substantial advance which could make a positive contribution to breaking out of the general impasse in which we now find ourselves on Community matters.

I am also working hard on the liberalisation of European air fares, and hope to have some progress to report before March.

I am copying this minute to members of OD(E) and Sir Robert Armstrong.

NR

NICHOLAS RIDLEY

December 1983

2F

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's Private Office

R B Bone Esq
Foreign and Commonwealth Office
Downing Street
London SW1

nbpm
DWB
29/12

23 December 1983

Dear Roger

INSTITUTE OF FISCAL STUDIES: STUDY OF EC BUDGET

You send me a copy of your letter of 19 December to John Kerr inviting our views on the handling of the I.F.S. work on the costs of Community membership.

So far as the costs of the CAP are concerned, my Minister agrees that it is damaging in domestic political terms to have public discussion proceeding on the basis of the IFS figures without the qualifications which they should attract. The IFS consumer effects are calculated on a basis which is open to serious questions and the figures for the producer effects are plainly inconsistent.

This is, of course, a very diffiult area, both from a methodological and political viewpoints, not least because any discussion of it raises questions about the nature of the alternative regime which is assumed to replace the CAP. We agree, therefore, that any published critique of the IFS approach needs to be very carefully handled.

We have three approaches in mind. Newcastle University has done a good deal of work on the costs of the CAP, with some sponsorship from here. We believe that they could be in a position to publish their research findings which would help to put the IFS work into a better perspective.

Secondly, we are producig a critique of our own, which we shall of course wish to discuss with the FCO and Treasury. This could follow on the Rollo-Warwick work which was done when they were officials in MAFF. We have not taken a view on how best to publish - but this can be discussed interdepartmentally. It will, however, be impossible to do all this by mid January given the Christmas/ New Year break.

/Thirdly, Charles Capstick ...

Euro Pol, Budget, pt 2

Thirdly, Charles Capstick (our Director of Economics and Statistics) is due to make a speech on 8 February at Reading University. We have it in mind that he might use this platform to comment indirectly on studies of the IFS type. Again, we shall consult other Departments on the line he proposes to take.

I am copying this letter to John Coles (No 10), John Kerr (Treasury) and David Williamson (Cabinet Office).

Yours ever

Ivor

C I LLEWELYN
Private Secretary

Cleths

10 DOWNING STREET

From the Private Secretary

23 December 1983

<u>1982 Refunds: Risk-Sharing Elements</u>

The Prime Minister was grateful for your Secretary of State's minute of 23 December, and for the draft letter to M. Thorn about the risk-sharing element of the UK 1982 refunds.

The Prime Minister thinks that the draft is excellent, and agrees that it should be despatched as your Secretary of State proposes.

I am sending a copy of this letter to the Private Secretaries to the recipients of your Secretary of State's minute.

DAVID BARCLAY

Roger Bone, Esq.,
Foreign and Commonwealth Office.

DBS

The Prime Minister thought that this was excellent and agree that it should be despatched as proposed. ERB

PM/83/104

PRIME MINISTER

1. We agreed at Cabinet that we should send a formal letter requesting the Community to remedy its failure to fulfil by 31 December 1983 its obligations over part of our 1982 risk-sharing refunds. I enclose a draft of the letter.

2. The purpose of the letter is to obtain the remaining element of our refund. If we do not succeed, either separately or as part of a general settlement, we shall then have a choice between taking a case to the European Court or withholding. The letter gives formal notice of the Community's default on its legal obligation but does not itself constitute the start of legal proceedings. The Law Officers have advised that our chances of success in a legal action are poor.

3. I have carefully considered the suggestion that you should write to other Heads of Government. The legal advice is that, as we are asking for action in the first instance by the Commission, the letter must be addressed to the President of the Commission. In view of the importance that we attach to this issue I shall of course ensure that a copy of the letter is sent to Member States so that they are clear about our determination not to accept the Community's default on the sum owing to us. If asked what we are doing about the failure to pay us this sum in 1983, we shall need to refer in public to the steps we are taking.

4. A number of colleagues in Cabinet mentioned the possibility of putting the sum concerned in a suspense account. This would of course be a form of withholding and would be seen as such. We are all agreed, of course, that we may at some stage come to that. I have, as

/colleagues

colleagues suggested, looked for a way of freezing the £42 million, but have not found any way of doing so short of withholding. And I am sure that it is tactically better to bring that point to a head only when we know where we stand on the 1983 refunds.

5. I am copying this minute and its enclosure to the Lord Chancellor, the Chancellor of the Exchequer, the Attorney General, the Lord Advocate and the Secretary of the Cabinet.

GEOFFREY HOWE

Foreign and Commonwealth Office
23 December 1983

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Sir Geoffrey Howe

DEPARTMENT: TEL. NO:

Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

PRIVACY MARKING

..................In Confidence

CAVEAT......................

TO:

His Excellency Monsieur Gaston Thorn

Your Reference

Copies to:

SUBJECT:

1. I wish to draw your attention to the following issue relating to the risk sharing element of the UK refunds in respect of 1982.

2. The Council conclusions of 26 October 1982, state that compensation for the United Kingdom in respect of 1982 should be 1092 mecus gross, 850 mecus net, on the basis of a reference figure of 1530 mecus (the Commission's estimate of the UK's net contribution in respect of that year). If the UK's net contribution (the reference figure) turned out to be higher or lower than 1530 mecus, risk sharing arrangements were provided to come into operation. These conclusions were given juridicial effect in Council Regulations 624/83 and 625/83.

3. When these conclusions were reached it was agreed that the UK should receive refunds in respect of 1982

Enclosures—flag(s)..........

which whould effectively be net of the cost to the UK of the UK refund itself and of the UK's share of the payment of 210 mecus to Germany subsquently given effect under regulation 625/83. Regulation 624/83 expressly stated that the sum due was net. The basic refund of 1092 mecus gross in respect of 1982 was duly paid.

4. After the end of 1982 the UK's uncorrected net contribution for that year was calculated by the Commission to have been 2036 mecus. This calculation was correctly based on the payments basis which has always been used for the calculation of net balances. The Commission therefore proposed in draft supplementary and amending budget No 2 for 1983 that a further 385 mecus should be paid to the UK under the risk sharing provisions of Regulation 624 /83. Contrary to the 1982 agreement, which provided that the United Kingdom refunds be effectively net of its share of German refunds, the risk sharing payment proposed by the Commission (385 mecus) did not compensate the UK for its share of the further German refunds.

5. At its meeting of 22 July 1983, the Budget Council established a figure for risk sharing refunds to the UK in respect of 1982 of 307.5 mecus. The United Kingdom formally recorded the following objections:

> "The United Kingdom declares that in its view, the sums entered in draft supplementary and amending budget no 2, 1983 in respect of risk sharing payments to the UK do not discharge in full the obligation

entered into by the Council in paragraphs 1, 3 and 5 of its conclusions of 26 October 1982. The United Kingdom recalls that paragraph 5 of these conclusions specified that the risk sharing adjustments should be entered in the budget for 1983, and accordingly calls upon the Community institutions to take the necessary action as a matter of urgency to ensure that the UK receives its entitlement in full as agreed."

6. The United Kingdom raised the matter again in similar terms at the Foreign Affairs Councils of 19 September and 17/18 October and at the Special Councils of 9-11 and 28/29 November. Nonetheless, the supplementary and amending budget no 2, 1983 was adopted by the Parliament on 24 October 1983 without further ammendment to the figures established by the July Budget Council.

7. The United Kingdom considers that neither the gross provision proposed by the Commission, nor that established by the Council, fully discharges the requirements of Regulation 624/83. In the view of the United Kingdom, the correct figures which ought to have been established and entered in the 1983 budget on the basis of the Commission's calculation of an uncorrected net contribution by the UK in respect of 1982 of 2036 mecus are 408 mecus gross for the UK and 87 mecus gross for the FRG. The figure of 370 mecus established by the Council to cover both the United Kingdom and the Federal Republic was arbitrary and insufficient.

8. In the light of the above, I wish to inform you that my Government considers that the failure to make the required provision in the 1983 Budget in accordance with Regulation 624/83 constitutes non-fulfilment by the Community of its legal obligations. I therefore request the Commission to initiate the budgetary action to discharge in full the requirements of regulations 624/83 and 625/83.

9. I shall be grateful if you would inform me of the action you propose to take.

FILE LPO

10 DOWNING STREET

THE PRIME MINISTER

23 December, 1983

Dear Henry,

Thank you for your letter of 16 December setting out the action taken by the European Democratic Group in the European Parliament this week on the question of the 1984 Budget, and within this the question of payment of the 1983 British refunds. I am grateful to you for this detailed account.

Thank you for your seasonal greetings. I wish you a very happy Christmas and New Year.

Yours sincerely

Margaret

Sir Henry Plumb, D.L., M.E.P.

5H

OVO

Europe Budget

CONFIDENTIAL

~~CF: to await FCS minute~~

Qz.03511

DMB 23/12

MR COLES

cc: Sir Robert Armstrong

RISK-SHARING ELEMENT OF 1982 REFUNDS

As the Foreign Secretary's minute will make clear, the draft letter can serve as a prelude either to legal or to other action if the Commission fail to initiate the necessary budgetary action on the outstanding element of our 1982 risk-sharing refunds.

2. Following the official discussion I have been asked to draw your attention to one related point. If, subsequently, the Government decided to follow up the letter to Monsieur Thorn with legal action, that action would have to be under Article 175 of the EEC Treaty which deals with infringements of the Treaty arising from a failure to take action. An alternative legal route would be action under Article 173 of the EEC Treaty under which the European Court of Justice can be asked to review the legality of acts by Community institutions. Under Article 173, however, legal action has to be taken within two months from the relevant act (publication of the relevant budget) and would thus have to be taken before the end of January. Since it could be embarrassing if the Government, having initiated legal action, then decided to pursue a non-legal route by withholding, it would be better not to precipitate legal action under Article 173. There are no similar time limits under Article 175. The course proposed by the Foreign Secretary therefore keeps the option of non-legal action open at a late date in a way which Article 173 action would not.

DF Williamson

D F WILLIAMSON

23 December 1983

CONFIDENTIAL

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A083/3543 22 December 1983

Dear John,

European Community Financing

The last sentence of the note circulated with my letter of 2 December has given rise to a query. I should therefore make clear that under the United Kingdom's safety net proposal, unlike some other proposed forms of relief, an increase in the United Kingdom's gross contribution (eg because of an increase in the VAT ceiling to 1.4 per cent) would not increase our net contribution. You may wish to delete the existing last sentence of the note and to insert:

> "The United Kingdom's proposal for a safety net would also ensure, if other factors remained unchanged, that our contribution of VAT remained at about the equivalent of a VAT rate of 0.4 per cent, even if the VAT ceiling for the Community were raised to 1.4 per cent. The reason for this is that the safety net limit is related to gross domestic product and out maximum net contribution is unaffected by the level of Community expenditure once the safety net is in effect."

I am sending copies to the Private Secretaries of all members of the Cabinet.

Yours

(R P Hatfield)
Private Secretary

A J Coles Esq

C

BRITISH EMBASSY,
PARIS.

FROM THE AMBASSADOR

21 December 1983

Copy to: PS
PS/Mr Rifkind
PS/PUS
Sir J. Bullard / Mr Fairweather
Sir C. Tickell o.v.
ECD (I)
WED
D. Williamson, Cab. Off.
J B Unwin, Tsy
D. Andrews, MAFF

Sir Crispin Tickell KCVO
FCO

Mr Fairweather

Dear Crispin, We are now submitting with a letter to No 10.

PRESIDENT MITTERRAND AND THE EUROPEAN COUNCIL

1. Thank you for your letter of 8 December about Mitterrand's performance at the European Council. We have been asking ourselves the same questions. They are obviously of great importance for the continuation of the post-Stuttgart negotiation under the French Presidency. Our answers are necessarily partly speculative; we shall add any further evidence that may come to light on the reasons why Mitterrand played his hand at Athens as he did.

2. In Paris telegram N° 1140 of 8 December commenting on the outcome of the Council, I said I suspected that Mitterrand decided at the last moment that he did not want to make the compromises necessary to reach agreement at that stage. I enclose a note in which we have attempted to analyse more closely the decision-taking process up to Athens, and the spirit in which French officials approached the brainstorming and other bilateral contacts with us. My tentative view, taking into account the pointers in Michael Butler's letter of 12 December to you, is that Mitterrand probably arrived in Athens, having focussed on the negotiating hand very late in the day, with the expectation that a satisfactory deal for France was unlikely to be attainable. He may have been prepared to soften his opening position somewhat if a negotiation had developed there. But in the event it seems that - perhaps daunted by a confused set of dossiers - he backed away from what would have been a difficult negotiation, believing that any outcome that could be negotiated would be difficult to sell to French public opinion. He evidently felt that no agreement was better than one that appeared to sell French interests short (cf his comment in the National Assembly in April 1980, referring to the then forthcoming European Council. "It is better not to negotiate if the negotiation is not going to succeed. It is time, high time to stop the Community from sliding down the slope which will lead to its destruction ...").

/3.

3. In declining to engage in a negotiation at Athens Mitterrand may have thought that with his renowned political skills he would later be able to dribble the ball past the opposing players. But he has in fact stored up a great deal of trouble for himself and for the French Presidency - it is possible that he did not himself appreciate all the implications (to which the French press was quick to draw attention after Athens). The arguments put across to us by French representatives in the six weeks or so before Athens, in favour of reaching at least an outline agreement at the European Council, still seem to me to hold good. It is inevitable that member states - and especially France - will have increasing difficulty in making the concessions that will ultimately be essential if a compromise is to be achieved, as the June European elections get nearer. Michael Butler reports the comment made in Brussels (his letter to you of 12 December) that Mitterrand's own objective may be to secure agreement finally at the June European Council, ten days after the European elections. This could be right. But by March the Community's budgetary dilemma will be becoming more acute and the prospect of a zero increase in CAP prices, already proposed by the Commission, will look pretty unattractive. (Although French farmers could probably live for a year or so on the proceeds of dismantling France's negative MCAs, which currently stand at about 5 1/2 points for most major commodities, there would be no prospect in those circumstances of reducing German positive MCAs, which cause such resentment among French farmers. And would not surreptitious price increases achieved by dismantling MCAs have the same effect on production, and hence on CAP expenditure, as real price increases? If so, the budget would still be burst.) If Mitterrand thinks that he has won even a breathing space, he must in my view be mistaken.

4. It seems to me that the alternatives now facing Mitterrand must be profoundly distasteful. He could aim (a) for agreement at the March Council, despite the fact that Chirac and other opposition leaders could be relied on to exploit in their campaign for the European elections any sign that Mitterrand was giving ground on British claims for budgetary compensation, or on measures which would reduce the advantages to French farmers. Alternatively, he could regard the March European Council as simply an occasion for (b) taking stock, and aim at a settlement in June; but in that case the problem of agricultural price increases would become an increasingly political issue here, as elsewhere during the spring and early summer - and Mitterrand is particularly sensitive to the farm lobby. He could pass the buck to the Irish Presidency in July; but that would not remove the problems of the budget and agricultural prices;

/and

Important to campaign, in best way we can devise, against this

and Mitterrand would have to face the prospect that the French Presidency would be seen as a failure. However, there is a further possibility. He may reckon that Mrs Thatcher can be persuaded, through massive pressure by the other Nine member states acting together, to accept an increase in own resources without any permanent solution on the budget, or effective control on CAP spending. A settlement on those lines would cause Mitterrand no domestic political difficulty. There was a well-orchestrated campaign in the French press ten days or so after Athens, to point a finger at Britain as responsible for failure at Athens and to raise all the old shibboleths of British failure to adapt to the Community, combined with a sermon on the need to respect Community preference and its financial consequences. (We will write separately about French misuse of the notion of Community preference.) But curiously it was not sustained; and officials may have come to the conclusion that it was unwise to press straight on to a Franco-British confrontation, at least at this stage, in briefing journalists. Morel attributed the French line to the need, as the French saw it, to reply to the effective UK press campaign on the outcome of Athens.

This § is uncomfortably close to the truth, I fear

5. Leaving aside the tactics for the French Presidency, I am inclined to doubt that Mitterrand's basic aims have changed much since I wrote to Richard Evans on 19 July about the French approach to the Grand Negotiation, though he may have endorsed some form of overall budgetary control. My present guess is that Mitterrand will in any event fight hard against a long-term budgetary solution for the UK at anything like an acceptable level; in particular, French propaganda - which he himself endorses and stimulates - will make it well nigh impossible for him to accept that levies and duties should be included in the basis for calculating refunds. We should bear in mind that Mitterrand may also have a propensity for believing his officials' propaganda. I suspect that the Elysée officials may have convinced themselves and Mitterrand with the line they put out here immediately after Stuttgart - namely that it was Mauroy who had sold the pass on the UK budgetary refund at Stuttgart after Mitterrand had left early: (whereas in fact it is our impression, and that of Quai officials, that Mauroy put up a stout fight to try to claw back the concessions made by Mitterrand himself). If so, Mitterrand may conceivably consider that the "first principles" approach he took on the UK budget refund in Athens represented no change in his own position.

/6.

6. On other matters, Mitterrand will resist strongly anything much more than a Lancaster House-type formula on the control of agricultural spending; but he is likely to accept constraints on milk production involving progressive co-responsibility, provided that imports of cereal substitutes are stabilised at their present level. There is not much for our comfort here. Incidentally, I do not think that Mitterrand is aiming to block enlargement (paragraph 6 of your letter); officials here regard the principle, at any rate, as acquis provided that agreement is reached on the post-Stuttgart dossiers and especially on raising the 1% VAT ceiling; and they present Mitterrand's remarks in Bonn on 25 November on dates as a positive step. The Moran/Cheysson agreement reported in Madrid Telno 700 and confirmed by French representatives in Brussels (UKREP Telno 4583) to press ahead with the negotiations with a view to concluding them by the end of the French Presidency, while it seems optimistic, must be a positive sign. The German Ambassador here believes that Mitterrand gave Kohl some sort of commitment on enlargement. But he will probably avoid any definite public pronouncement until after the European elections.

7. In these circumstances, there seem to me two lines of action which we could profitably take. The first is to launch, as early as possible in the New Year, a vigorous (a) lobbying campaign in other member states, to urge them not to lose sight of the important principles agreed at Stuttgart itself, and to build on the progress made during the autumn negotiation. We should, I think, try to deliver our message in capitals before the French lobbying process (likely to start early in the New Year, and to include some contacts at least at Head of State and Government level - we know of the planned Mitterrand/Kohl meeting) is too far advanced.

8. The second is to raise the level of our contacts (b) with the French. I am sure it is right, as you suggest in your letter, to think in terms of a meeting between the Prime Minister and Mitterrand - which the French ? — may indeed be planning (my telegram N° 1171). It seems to me that much could be achieved by a quiet talk in which the Prime Minister explained in some detail to Mitterrand the realities of the situation as we see them - and from which Mitterrand is generally, I suspect, insulated by his staff. At the same time we ought to maintain the range of Ministerial and official contacts which have stood us in good stead during the autumn, at least in establishing the direction in which official thinking has been moving and creating some sense of mutual understanding, even if they did not take us very far towards knowing how Mitterrand would behave on the night.

/9.

9. The appointment of Roland Dumas as Minister for European Affairs with Cabinet rank (my telegram number 1186) could be a helpful factor. His closeness to Mitterrand should enable him to take in hand the briefing for Mitterrand, and remove the incoherence which has characterised relations between the Elysée and the Government machine on EC matters in recent months. I understand that the Department have in mind to recommend that Dumas should be invited to London fairly soon. I strongly endorse this suggestion; I believe it would create an excellent impression if he were to be invited by the Secretary of State (in view of Dumas' standing the Secretary of State will be his closest counterpart). I hope that if he does visit London, it will be possible to arrange a call for him on the Prime Minister.

Yours ever

Peter

for John Fretwell

cc to:-
D Williamson Esq, Cabinet Office
J B Unwin Esq, HM Treasury
Sir M Butler KCMG, UKREP, Brussels
HM Ambassadors in other EC posts

Memorandum

FRANCE: BRIEFING AND DECISION TAKING PRE-ATHENS

1. The Embassy's contacts with officials in the French administration since Athens have tended to confirm that the final decisions were taken very late. In addition to senior officials not directly involved (such as Andréani) Legras (Quai) and Prével (SGCI) have made it clear that they themselves were perplexed by the line taken by the President in Athens, especially with regard to the UK budgetary contribution, on which he moved the French position back to pre-Stuttgart first principles - though he took a harder line than expected on other issues too. Delors himself indicated to George Walden MP, on 17 December that he too had been surprised by what happened at the Council. It is our impression that French Ministers and officials - at least those outside the Elysée - believed that they were preparing for the President a hand that would enable him to play for an agreement at Athens, while preserving the most important elements of the French position, and that he would duly pick it up. It presumably included elements of financial control (on the lines of the watered down successor to the Delors' paper circulated by the French on 29 November though it seems that even this version of the paper was not given proper inter-Departmental clearance in Paris); a durable, if not permanent, arrangement to alleviate the UK budget burden, at least on the expenditure side, possibly including some protection for France; a super-levy on milk, with suitably flexible arrangements; a deal with the Germans on MCAs (which was probably in sight in Athens); and stabilisation of cereal substitute imports at their present level, with an oils and fats tax to be included if possible.

! Volume?

2. In our view, the French negotiators in Athens and Brussels, and officials who took part in the "brainstorming" and other Anglo-French contacts did so in good faith; and Morel himself must have reckoned that the ideas he floated sous toutes réserves were at least possible runners. Morel's reluctance last week to comment to a member of the Embassy staff on the outcome of Athens suggests a certain embarrassment on his part - though this must be partly attributed to the fact that the lines are still being cleared in the Elysée on the French approach to their Presidency. The comments made to Resemary Spencer by Nallet (conseiller technique for agriculture at the Elysée) as early as the end of September are worth recalling. He said that while the President was kept quite closely informed of the negotiations, he was letting Ministers carry them forward without much direction, keeping his own views in reserve until the time came. It seems likely that this is broadly what happened:

/it

it would be consistent with both his concept of his own role, and working methods - as described towards the end of the Ambassador's despatch of 13 April 1983 on the Mitterrand Presidency. A copy of the relevant paragraphs is attached for ease of reference. He sees himself as operating on a higher plane than his Prime Minister and members of the Government and has few hesitations about disowning them.

3. What then was Mitterrand's own knowledge of the dossiers? His apparent ignorance of the Delors paper and his repetition of two or three basic points at his breakfast meeting with Mrs Thatcher, suggest that his grasp of the dossiers was far from complete. Legras (Quai) told Roger Garside that he simply could not tell whether Mitterrand's performance at Athens reflected unfamiliarity with the issues or an approach dictated by political considerations. It is well known that he regards the detailed "housekeeping" issues of the Community as unsuitable subjects for Heads of State and Government. It has also been suggested to us that, having a less than detailed knowledge of the subject matter, he may feel at a disadvantage in discussion with Heads of Government who are better briefed, like the Prime Minister. It seems that the basic briefing material for Athens was sent to the Elysée by the Ministries concerned a few days before the Franco-German summit. We shall probably never know how much of this reached Mitterrand, and to what extent he relied on short briefing notes prepared by the Elysée staff and submitted through Attali and Bianco - and what was the tone of those notes. A civil servant dealing with EC matters in the French administration has spoken to us of the difficulty of fathoming the decision-taking process in the Elysée, because of the various specialist "Conseillers techniques" involved in EC questions, as well as the coordinators (Morel, Attali and Bianco), and the cross-currents and cliques among Elysée staff. It is our impression that the mercurial Attali, who had a key role, takes a simplistic approach to EC issues and tends to reinforce Mitterrand's own chauvinistic instincts and the priority he gives to short-term political factors. Morel may well have had a thankless task in trying to get more enlightened ideas past him, and it is quite conceivable that the President was not properly briefed on the French ideas for budgetary control which were perhaps unpalatable to certain Elysée advisers.

4. The Franco-German Summit on 24-25 November may have been a crucial point, so far as Mitterrand's decision on tactics was concerned (it was certainly regarded as such by at least one Ministry before the Athens summit). In Bonn, or immediately thereafter, Mitterrand may have come to the conclusion that, given the German lack of willingness to work out and help impose the sort of deal he had in mind on the budget, and problems over MCAs (even if these were not ultimately insuperable), there was little hope of an agreement at Athens which could be presented to French

/public

public opinion as a success, bearing in mind his own firm pre-election pronouncements to the effect that Giscard had sold France short over the 1980 UK budget refund. But Attali's view two or three days later was that a deal was possible if the meeting went Mitterrand's way on the other issues and the UK budget refunds were dealt with last (Paris Telno 1099). On the question of the milk super-levy, we have heard that Mitterrand's hostility reflected the views of the French farm organisations which had been presented formally to the French Government only in the week or so before Athens (they came out finally against the super-levy as proposed by the Commission, but ready to concede progressive coresponsibility measures within national quotas). Guillaume, President of the main farm union evidently put these views across forcefully when he called at the Elysée on 1 December and took an equally tough line on enlargement, inter alia. Mitterrand is sensitive to the farm lobby, and Guillaume's call may have influenced his stand on matters going wider than milk.

5. It seems more likely that Mitterrand, while influenced by developments in the previous ten days or so, did not finally decide how to play his hand until he had sensed the atmosphere at Athens. This line has been put about by French officials: while it obviously contains an element of propaganda, it is not inconceivable that Mitterrand's distaste for "mégotage", combined with over-simplified briefing, led him to decide at the summit that the time was not ripe for satisfactory decisions. He therefore reverted to the old first principles of the French position on the UK budget refund, while at some stages of the various meetings apparently indicating flexibility of the figures, and took a tough defensive line on the other major dossiers.

ownership of the principal means of production as an instrument of social change is tempered by a strong libertarian streak. Defence of individual rights and personal freedom and the promotion of social justice are the dominant themes of his writing. Mitterrand likes to depict himself as a free agent bound by no particular political creed, philosophy or religion. His pragmatism makes it all the more difficult to predict how he will react to new circumstances.

14. What lessons can be learnt from the style of the Mitterrand presidency about the best means of trying to influence him on matters of interest to the UK? The concentration of power in Mitterrand's own hands makes it a prime objective to try to get our views through to him both directly and indirectly. This is not an easy task: Mitterrand is not readily accessible even to his own staff. He does not receive visiting Ministers (except Prime Ministers) from other Community countries and only sees Ambassadors in rare and exceptional circumstances. He does not always reply to messages from other Heads of Government; and when he was in a sour mood with the US President over the Soviet pipeline he apparently refused either to read Reagan's letters or to respond to a telephone call. Quite apart from his own temperamental inclination, he has absorbed from De Gaulle the notion that a national leader should keep himself somewhat aloof, remote and inscrutable.

/15.

15. This means that as far as the UK is concerned a considerable burden has to rest on the Prime Minister personally: no-one else will be in a position to put British views directly to Mitterrand on a regular and continuing basis or to develop a relationship through which he can be directly influenced. Mitterrand respects the Prime Minister; and such evidence as we have about his private thoughts suggests that he wants a good working relationship and would like to win her approval. In personal contact he has been on the whole reasonably direct, open and forthcoming. He has on occasion shown evidence of a deeper and more positive concern about Anglo-French relations than any of his recent predecessors. There is therefore a good basis on which to build in the remaining five years of his period of office. Could this link at the top level be strengthened by having bilateral summits twice a year rather than once? I hope this will not be excluded from consideration at some point in the future, but I think that for the time being it would be more effective to seek to maintain continuity by arranging bilateral discussions - which might be quite short - in the margins of meetings of the European Council and of summit meetings of the Seven. Such personal exchanges could be supplemented on occasion by written messages. Ideally these should not always relate to subjects which are a matter of disagreement between Britain and France. The occasional message relating to a Community crisis is more likely to command a sympathetic hearing if it comes against a background of exchanges on subjects where we

have interests in common. Messages need to form part of an ongoing dialogue rather than being used primarily to appeal against decisions taken lower down in the Government machine.

16. There are of course many channels by which we can get our ideas through to Mitterrand indirectly. We are in touch, with varying degrees of frequency, with all the key members of the Elysée staff. The Embassy's contacts are usefully re-inforced by direct exchanges between Whitehall and French officials; and these in turn have been put on a firmer and more regular basis since they were endorsed at the last bilateral summit. We can also seek to influence discussion in the French Council of Ministers through regular contact with the key French Ministers concerned - Mauroy, Delors, Cheysson, Rocard, Fabius etc - both by British Ministers and by the Embassy. Certain French officials, especially Gutmann the Secretary General at the Quai, also play a part in the decision-making process in the Elysée. We have in addition been casting the net wider by making contact with industrialists, journalists and even members of Mitterrand's family whom we know to have contact with him: there is no certainty that they will transmit the particular views we want to put across, but we can make sure that British concerns are at least present in their minds. I believe that in these ways we can ensure that Mitterrand, even though somewhat cut off in the Elysée, is continually aware of British views and interests.

Ref. A083/3536

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will wish to report on the Foreign Affairs Council on 19 December. The Council approved the Community's declaration on rollback of protectionism (acceleration of tariff cuts if other developed countries will take similar action). Although this is not of major economic significance, it is a useful signal and was taken despite the United States announcement of further protectionism measures on textiles. On the 1984 budget the Council continued to support the United Kingdom view that the refunds should be put on budget lines. The Council decided to write formally to the President of the European Parliament registering its view that the Parliament had exceeded its powers in a number of respects including the classification of part of the United Kingdom's and Germany's 1983 refunds. Despite this letter the President of the European Parliament, Mr Dankert, has declared the 1984 budget adopted in the form approved by the Parliament. The United Kingdom is thus in dispute with the European Parliament, not with the Council, on this point and the position taken by the Council should be helpful when we seek to get the refunds out of the reserve chapter before 31 March 1984. The Council was close to agreement on a number of regulations under the Regional Fund from which the United Kingdom would gain about £86 million (principally on textiles, steel and shipbuilding). If the Steel Council can reach agreement at its meeting on 22 December, it is possible that all the regulations will then be adopted. There was a successful negotiating session with Spain on trade matters, at which the Spaniards accepted a satisfactory statement on the need for non-discriminatory treatment of Gibraltar.

2. The Secretary of State for the Environment may report on the Energy Council on 16 December at which the Parliamentary Under Secretary of State, Mr Waldegrave, represented the United Kingdom. Agreement was reached only on a directive on mercury discharges.

3. The Secretary of State for Transport may report on the Transport Council which he attended on 20 December. Items discussed included lorry weights and a proposed regulation for Community aid to transport infrastructure. Decisions were postponed until the new year.

4. The only Community meetings planned in the period up to 12 January are the Steel Council on 22 December (at which it is hoped to reach agreement on short-term measures on the Community's internal market) and the Agriculture Council on 9-10 January.

RA

ROBERT ARMSTRONG

21 December 1983

HL

20 December 1983

Net Payments to European Community Institutions:
Public Expenditure White Paper Figures

The Prime Minister has noted the contents of the minute of 16 December on the above subject which she received from the Chancellor of the Exchequer.

JOHN COLES

John Kerr, Esq.,
H.M. Treasury.

~~PO~~

Foreign and Commonwealth Office

London SW1A 2AH

19 December 1983

A.J.C. 19/12

f.a.

Dear John,

Institute of Fiscal Studies: Study on EC Budget

will request if required.

Sir Geoffrey Howe has seen a copy of an unpublished study by the Institute of Fiscal Studies on the costs of Community membership (copy enclosed). As you know, the study has aroused considerable press interest.

Sir Geoffrey Howe has noted that the IFS study is helpful up to a point in the context of the post-Stuttgart negotiations because it reinforces our argument that to measure the non-budgetary effects of the CAP and the efficiency costs it imposes would strengthen our case on the size of our inequitable burden. Nevertheless, the effect in domestic political terms could be damaging, suggesting as it does that the cost of UK membership is greater than generally believed. There may therefore be value in getting the counter arguments out into the open before this arithmetic becomes part of the conventional wisdom, with all the implications in terms of strengthening the position of those on both sides of the House who are opposed to the Government's negotiating strategy. Sir Geoffry has suggested that it might be right to think in terms of getting a suitably authoritative economist to publish a critique of the IFS study, pointing out that they have compared the cost of belonging to the CAP with a situation in which no domestic agricultural support policy existed and the UK's agricultural trade was conducted entirely at current world market prices - both highly unrealistic assumptions.

Any such critique would have to be written with considerable care. The line would perhaps best be that the IFS study is a useful theoretical piece; but that it is misleading to focus on its aggregate figures; and that for practical purposes the non-budgetary cost of the CAP to the UK is best measured by the method set out in the Rollo/ Warwick study.

/The Foreign

The Foreign Secretary did wonder whether Rollo himself might be put up to write an article. On balance however this does not seem desirable. The arguments are political as well as technical. No doubt Treasury or MAFF officials would be able to suggest an alternative. The Commission Office in London, with whom our officials have also discussed the IFS study, have suggested that Christopher Johnson, who edits the Lloyds Bank Review, could be a possibility. We doubt however whether he would be ideal.

I should be grateful to know how the Chancellor and the Minister of Agriculture, Fisheries and Food consider we should handle this question. Subject to any further thoughts, Sir Geoffrey's inclination would be that we should seek to ensure that an article appears after the holiday season around the middle of January.

I am copying this letter to John Coles (NO 10), Ivor Llewelyn (MAFF) and David Williamson (Cabinet Office).

Yours ever,

Peter Ricketts

pp. (R B Bone)
Private Secretary

J O Kerr Esq
HM Treasury

OW

Conservative and Unionist Party, GB
Det konservative folkeparti, DK
Ulster Unionist Party, N. Ireland

EP PE

EUROPEAN DEMOCRATIC GROUP
EUROPEAN PARLIAMENT

Chairman
SIR HENRY PLUMB DL MEP

LONDON

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16 December 1983

The Rt Hon Margaret Thatcher MP
The Prime Minister
10 Downing Street
LONDON SW1

Dear Prime Minister,

In view of the conflicting and sometimes misleading reports which British journalists have been filing this week from Strasbourg, I thought it worthwhile to write and set out briefly to you the Group's strategy and action in the Parliament this week.

Our principal aims this week have been twofold: to avoid the 1984 Budget being rejected and to ensure that the British refunds for 1983 were paid within that budget as soon as possible. From early in the week, it was clear that the Budgets Committee would not recommend rejection of the budget to the Parliament. The Budgets Committee, continued, however, to consider the placing of the British and German rebates for 1983 in a suspensory account (Chapter 100) as a possible means of " putting pressure on the Council to produce a lasting solution to the Community's financial problems;" our argument that this would be to discriminate against the principal victim of these problems, the UK, was forcefully but ultimately unsuccessfully put by our representatives on the Committee. It seemed at one stage as if the Committee might recommend the immediate paying of the rebates as long as they were classified in new, non-obligatory budget lines; but the Committee's final recommendation to Parliament was, unfortunately, for the British and German refunds to go into Chapter 100.

Even until voting in the Plenary yesterday on the specific amendment to put the refunds into Chapter 100, we had hoped to persuade enough of our allies in other Groups at least to abstain from voting on the amendment; this might have prevented the amendment's obtaining the minimum of 218 votes needed on second reading in the Parliament. In order not to antagonise unnecessarily these potential allies, we abstained on the unsuccessful Labour motion to reject the entire budget from the Council, including the British refunds on their original spending "lines". After the British refund had been voted into Chapter 100, we put and voted for our own, again unsuccessful motion to reject the whole budget, a symbolic gesture of our anger at this discriminatory decision by the Parliament; we continued then to vote against all further amendments to the Council's budget.

The Budget has now been voted by the Parliament in Plenary session; it is not officially adopted until signed by Mr Dankert. I understand he intends to sign it on Tuesday 20 December, failing serious objections from the Council of Ministers. Unless the Council therefore persuades him not to declare the budget adopted (for example by strongly disputing Parliament's calculation of its margin of manoeuvre, a calcuation in which the classification of the British refunds would be central), the Community will have a budget for 1984. I have pointed out in interviews that the date by which it is essential that the British refund be paid is 31 March 1984, and that the European Council earlier in March of that year might well make it easier to meet that deadline for payment. As you yourself said in the House of Commons yesterday, the European Parliament earlier this year released the British refund which it had blocked in the December session of 1982; I hope history will repeat itself.

The purpose of this letter has been to look back and describe rather than look forward. May I take this opportunity, however, of wishing you and your family a Happy Christmas and a peaceful and prosperous New Year? If nothing else 1984 can scarcely be as bad as a certain Burmese policeman once thought it would be!

Yours ever,

Henry.

HENRY PLUMB

Prime Minister.

To note.

A.J.C. 19.12

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

PRIME MINISTER

NET PAYMENTS TO EUROPEAN COMMUNITY INSTITUTIONS: PUBLIC EXPENDITURE WHITE PAPER FIGURES

file with AJC

When we agreed, on 10 November, on the figures to be shown in the Autumn Statement for net payments to Community Institutions in 1984/85, we also agreed that I would consult you again in due course about the figures, and relevant text, for the Public Expenditure White Paper.

2. We now plan to publish the White Paper in mid-February, and I propose that it should contain the following figures:-

£m cash	1983/4	1984/85	1985/6	1986/7
UK net payments to Community Institutions	500	375	550	600
Figures contained in last White Paper and in Autumn Statement	380	450	530	
Difference	+120	-75	+20	

3. These figures take account of a new estimate of our likely payments to and receipts from the Community budget. For 1983-84 it is assumed, despite the current problems with the European Parliament, that we shall receive the bulk (90 per cent) of the 1983 refunds agreed at Stuttgart (worth about £440 million net) along with the whole of the disputed balance of our 1982 risk-sharing refunds (worth £42 million net). Since no agreement was reached at Athens, or is likely to be reached by mid-February, the assumptions for future years are those adopted in the last White Paper and in the Autumn Statement ie. budget refunds

of two-thirds of our uncorrected net contribution to the allocated Community budget (this will be described in the White Paper as a "stylised" assumption rather than a forecast or a negotiating objective); and a Community budget constrained by the 1 per cent VAT ceiling.

4. On 10 November we considered and rejected the idea of showing in the Autumn Statement our 1984/85 net EC contribution "uncorrected" - ie. without any refunds. The objection to this approach was that it would represent a change from past practice, add some £700 million to expenditure planning totals in 1984-85 (which would be difficult to explain), and weaken our negotiating position vis a vis the Community. These arguments remain valid for the White Paper. It is true that there is some risk that the figures I propose may be regarded as the negotiating target, but the presentation in the text of the White Paper (see attached draft) is designed to reduce the risk.

5. The 1983-84 figure is £120 million higher than the one in this year's White Paper. The main reason for this is that we now have to base the figures on the Stuttgart agreement rather than the "stylised" assumption used in the White Paper. As a partial offset, however, we now expect higher agricultural receipts.

6. The projected budget contribution for 1984-85 is somewhat lower than that contained in the Autumn Statement, and lower too than the 1983-84 figure. This partly reflects the use of the stylised assumption on budget refunds, but also a quirk in the way our VAT payments to the Community (which constitutes half our total payments) are calculated (using a low sterling/ecu "budget" exchange rate). This depresses our overall budget contribution in respect of 1984.

7. The draft White Paper text refers to four tables, two of which I enclose. The first, as in the last White Paper, shows net payments to European Community Institutions; and the second payments to and receipts from the European Community budget. The latter will have a footnote referring to the "stylised assumption" used for estimating budget refunds in 1984-85 and later years. The other tables, described in the text, have not yet been finalised. One will give figures for our net contribution in respect of particular Community Budgets in past years; the other will give a breakdown of the estimated figures for gross receipts in future years.

8. Copies of this minute go to Geoffrey Howe and Sir Robert Armstrong.

(N.L.) NL.

16 December 1983

WHITE PAPER TEXT: CONTRIBUTIONS TO EC INSTITUTIONS

The UK's net payments to European Community Institutions, shown in table 1, are made up of three components: net payments to the European Community budget (excluding our share of the cost of the Communities' overseas aid expenditure, which is included within the aid programme); contributions to the capital of the European Investment Bank (EIB); and receipts from the European Coal and Steel Community (the ECSC). As shown in table 1, the main component is our net payments to the European Community budget. These are calculated as the difference between our gross payments to, and receipts from, the budget. Since 1980-81, our EEC net contribution has been much reduced by budget refunds, which are enabling other areas of public expenditure in the UK to be maintained at higher levels than could otherwise be afforded.

2. The latest estimate of our net contribution to European Community Institutions in 1983-84 is £500 million, compared with £616 million in 1982-83. The estimate for 1983-84 takes account of the agreement reached at the European Council Meeting in Stuttgart in June 1983 that the UK would receive refunds of 750 million ecus net (about £440 million) in respect of our contribution to the Community budget in 1983. These refunds have been entered in the 1984 Community budget and it is assumed that the bulk will be paid by 31 March 1984. The remainder should be paid by the end of 1984. The Stuttgart refunds will finance expenditure in the UK on energy, transport and employment measures. The effect of the agreement reached at Stuttgart is that, on average since the first refund in 1980, the UK's net contribution to the budget has been reduced by around two-thirds. The estimate for 1983-84 also includes payment of the UK's full 1982 "risk-sharing" refund. This compensates the UK because our uncorrected net contribution in 1982 turned out to be greater than was originally expected. At present some £42 million (net) of this is outstanding.

3. For future years, 1984-85 to 1986-87, it has been conventionally assumed that the UK will continue to receive a refund of two-thirds of our estimated net contribution to that part of the Community budget which the Commission allocate between Member States (the so called "allocated" budget, which excludes Community expenditure on overseas aid and certain other items). This follows the approach used in the last White Paper. It is, as before, a stylised assumption, not a forecast nor a negotiating objective. The Stuttgart European Council decided that, for the future, the Community should seek to agree "measures which, taken as a whole, will avoid the constantly recurrent problems between the Member States over the financial consequences of the Community's budget and its financing". Discussions are continuing within the Community on how this might be achieved. The UK has proposed that a "safety net" arrangement be introduced to ensure that no Member State bears an unreasonable burden. The estimate of the UK's net contribution to the Community budget in future years would be subject to revision in the light of the precise arrangement agreed.

4. Tables 2 and 3 /not yet finalised/ present the latest estimates of our net budget contribution on a "payments" and "budget" basis, respectively. Table 2 shows the net payments actually made during UK financial years, irrespective of the Community budget to which they relate or from which they are financed. Table 3 shows our net contribution in respect of a particular Community budget, regardless of when the payments and receipts actually take place. It shows our refunds against the year to which they relate. Thus our refunds for 1981 are shown against our net contribution to the 1981 budget (excluding refunds), even though they were mostly paid from the 1982 budget.

5. Tables 2 and 3 show gross contributions and gross receipts, including negotiated refunds, as well as our net contributions. Gross contributions are made under the "own resources" system, established by a Council decision on 12 April 1970. Under this system, which has applied to the 6 original Member States in full since 1978 and the UK, Denmark and Ireland in full since 1980, Member

States pay over monthly to the Community agricultural levies, customs duties and the yield of a value added tax not exceeding 1 per cent of the value of transactions included in a harmonised base agreed in 1977. The budget is financed almost entirely from these own resources. The projections in this White Paper assume that the existing basis of own resources will be maintained, and in particular that the 1 per cent limit on VAT own resources will remain in force. The European Commission have proposed that this limit be increased to 1.4 per cent and this proposal is supported by a number of Member States. The UK has made it clear that it would be prepared to consider an increase in the Community's own resources limit only if both a "safety net" mechanism and an arrangement for ensuring effective control of agricultural expenditure were introduced as well.

6. Gross receipts from the budget by UK public sector bodies (other than negotiated refunds) come mainly from the Agricultural Guidance and Guarantee Fund, the Social and Regional Funds, and refunds in respect of own resources collection costs. The expenditure by the Intervention Board for Agricultural Produce and other public authorities in the UK which gives rise to these receipts scores as public expenditure in the programmes concerned. The UK's share of total receipts (other than negotiated refunds) in 1984 is expected to be of the order of 12¼ per cent. Table 4 provides a break down of the UK's receipts from the budget for past periods. Also shown are the Government's expectations as to future receipts.

7. The projections for future years of both our gross contributions and our gross receipts - and hence of our net contribution to the Community budget - are very uncertain. The forecast of our gross contributions is dependent on, amongst other things, changes in imports and import prices (particularly the prices of certain agricultural products), while the forecast of our gross receipts is dependent on future changes in the level and pattern of expenditure within the Community as a whole. Agricultural receipts are particularly difficult to predict accurately.

8. The final element in the calculation of the UK's net payments to European Community Institutions is the exclusion of the UK's contribution to the overseas aid element of the Community budget. This expenditure is attributed to the overseas aid programme, Programme 2.5.

TABLE 1

£ million cash

NET PAYMENTS TO EUROPEAN COMMUNITY INSTUTITIONS (EXCLUDING OVERSEAS AID)

	1983-84	1984-85	1985-86	1986-87
Net payments to Community Budget	622	485	665	725
Contributions to the capital of the European Investment Bank	11	20	20	20
Grants received from European Coal and Steel Community	- 33	- 20	- 20	- 20
Less: Contributions to Community Budget expenditure on overseas aid included in programme 2.5	-100	-110	-115	-125
TOTAL	500	375	550	600

TABLE 2

EUROPEAN COMMUNITY BUDGET

UK PAYMENTS AND RECEIPTS BY UK FINANCIAL YEARS

£ million cash

	Gross Payments	Public Sector Receipts	Negotiated Refunds	Net Payments including Overseas Aid(2)	Net Payments excluding Overseas Aid(3)
1978-79	1323	555	-	768	743
1979-80	1665	781	-	884	837
1980-81	1900	970	645	285	255
1981-82	2330	1128	959	243	157
1982-83	2787	1240	836	711	616
1983-84	3087	1656	809	622	522
1984-85(4)	3171	1625	1061	485	375
1985-86(4)	3493	1680	1148	665	550
1986-87(4)	3761	1785	1251	725	600

Notes

(1) For 1983-84 onwards, an exchange rate of 1.73 ecus to the £ is assumed.
(2) Payments in respect of overseas aid are included within programme 2.5 of table 2.2.
(3) Included within programme 2.7 in table 2.2.
(4) The figures for 1984-85 and after reflect the stylised assumption on budget refunds explained in paragraph [ ].

Ref. A083/3449

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer may report on the Budget Council in Strasbourg on 13 December, when the Economic Secretary represented the United Kingdom. This was held to prepare for the session of the European Parliament on 12-16 December which is considering the draft budget for 1984. The draft budget resubmitted by the Council to the European Parliament correctly includes 750 million ecu net for the 1983 United Kingdom refunds on budget lines. The European Parliament is not expected to take a decision until after Cabinet has met, but it now seems unlikely that it will reject the draft 1984 budget outright. It is possible, however, that it will put all or part of the provision for United Kingdom refunds in the reserve chapter. The Foreign and Commonwealth Secretary may wish to give the latest information on the European Parliament's budget discussion.

2. The Secretary of State for Trade and Industry will report on the Research Council on 13 December at which the Parliamentary Under-Secretary of State (Mr Trippier) represented the United Kingdom. The most important item on the agenda was the information technology programme (ESPRIT). Ministers had agreed that the United Kingdom could accept a one year programme (United Kingdom share of payments about £6 million, United Kingdom share of commitments about £12 million), which was within the original financial provision made by the Budget Council in the draft 1984 budget. It was not possible, however, to agree on the offsetting reductions in the financing limits of the nationalised industries for which the Chancellor of the Exchequer had asked. No decision was reached at the Research Council as a result of United Kingdom and German reservations on finance.

3. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 12-13 December, at which he was accompanied by the Ministers of State from the Ministry of

Agriculture, Fisheries and Food and the Northern Ireland Office (Mr MacGregor and the Earl of Mansfield). Although, as expected, no definitive decision was reached on imports of New Zealand butter after 1 January 1984, the Council did agree to a roll-over for two months at a figure which is acceptable both to the United Kingdom and New Zealand. In view of the French and Irish opposition, this is a good result in the circumstances.

4. A number of other Councils were held during the last week to which Ministers may make brief reference. The Finance Council on 12 December, at which the United Kingdom was represented by the Economic Secretary, had a preliminary discussion of possible revisions to the Community loan mechanism. The Irish requested an extension of their derogation from the directive concerning travellers' allowances; the Economic Secretary indicated that the United Kingdom would not stand in the way of a reasonable Commission proposal. At the first Consumer Affairs Council, where the United Kingdom was represented by the Parliamentary Under-Secretary of State, Department of Trade and Industry (Mr Fletcher), agreement was reached on an early warning system for hazardous consumer products. Some progress helpful to the United Kingdom was made on the draft directives on misleading advertising and doorstep selling. The Steel Council on 14 December, at which the Minister of State, Department of Trade and Industry (Mr Lamont), represented the United Kingdom, considered Commission proposals to stabilise the Community steel market, including minimum prices and guarantees or cash deposits from producers. The Fisheries Council on 14 December was attended by the Minister of Agriculture, Fisheries and Food and the Ministers of State in the Ministry of Agriculture, Fisheries and Food and the Scottish Office (Mr MacGregor and Lord Gray). This had a first general discussion of the Commission's proposals on catch quotas for 1984. The Social Affairs Council on 8 December, at which the Secretary of State for Employment represented the United Kingdom, agreed on a resolution on youth employment with certain changes to meet United Kingdom points.

5. The Secretary of State for Northern Ireland may refer to the report and resolution on Northern Ireland which was put to the Political Affairs Committee of the European Parliament on 12 December by Mr Haagerup, a Danish Liberal member. This condemns violence, rejects the idea of a British withdrawal and accepts that a united Ireland is not a possibility "in the foreseeable future". It calls on the European Parliament to press for greater Community aid for economic and social improvement in Northern Ireland and the border areas. On the political level Mr Haagerup calls for closer links between the United Kingdom Government and the Government of the Republic of Ireland to bring about "a political system with an equitable sharing of Government responsibilities" which he envisages would be accompanied by a joint Anglo-Irish Parliamentary body. The resolution is unlikely to come before the full European Parliament until March and in the meantime may be amended by the Political Affairs Committee.

6. In the remaining period up to Christmas the Environment Council will meet on 16 December, the Energy Council on 19 December, the Foreign Affairs Council on 19-20 December (including some discussion of the follow-up to the Athens European Council) and the Transport Council on 20 December.

RTA

ROBERT ARMSTRONG

14 December 1983

cc MASTER SET.

B/c: Mr Cops ✓

10 DOWNING STREET

From the Private Secretary

MR WILLIAMSON
CABINET OFFICE

The Prime Minister took a telephone call from Sir Henry Plumb at 10 am on Saturday, 10 December.

Sir Henry said that in the course of a recent dinner with Mr. Dankert (I think on Thursday, 8 December) the latter had imparted some serious news about the prospective size of the Commission's budget deficit. He said, apparently, that even if there were no agricultural price increases next year, the budget would be 2½ billion ecus in deficit. This could mean blocking payments on milk and meat as early as January. Sir Henry made clear that Mr. Dankert had mentioned this figure informally, and was not proposing to use it in Parliament.

Sir Henry Plumb was clearly concerned about the impact of early bankruptcy on British farmers. He instanced one farmer in Gloucestershire who was apparently waiting for about £300,000 already.

The Prime Minister thanked Sir Henry for calling. She gave him a brief account of the Athens negotiations, and went on to say that the figure for the size of the budget deficit which Sir Henry had quoted was higher than any forecast she had previously seen. She added that if it could be substantiated it would mean that any financial crisis in the Community would happen much earlier. Sir Henry said that he would be trying to get in touch with Mr. Tugendhat, and would telephone again if he could obtain any further details. In the event he did not telephone again over the weekend.

DMB

12 December, 1983

GRS 990

CONFIDENTIAL

Prime Minister.

An interesting comment from Sir J. Fretwell on French attitudes.

A.J.C. 12/12.

CONFIDENTIAL
FRAME ECONOMIC
FM PARIS 081837Z DEC 83
TO PRIORITY FCO
TELEGRAM NUMBER 1140 OF 8TH DECEMBER
INFO ROUTINE DUBLIN, LUXEMBOURG, BONN, THE HAGUE, BRUSSELS,
COPENHAGEN, UKREP BRUSSELS, ROME, ATHENS.

EUROPEAN COMMUNITY: FIRST REACTIONS IN FRENCH GOVERNMENT AFTER ATHENS.

SUMMARY.

1. THERE HAS NOT YET BEEN TIME FOR THE FRENCH ADMINISTRATION TO FORM A VIEW ON HOW TO PICK UP THE THREADS OF NEGOTIATION AFTER ATHENS. MINISTERS ARE, FOR THE MOST PART, PUTTING ON A BRAVE FACE IN PUBLIC THOUGH THERE ARE AGAIN SIGNS OF DISAGREEMENT AMONGST THEM.

DETAIL

2. AT THE NATIONAL ASSEMBLY YESTERDAY CHEYSSON CLAIMED THAT FRANCE AND GERMANY HAD REACHED AN AGREEMENT WHICH WOULD PERMIT EXISTING MCAS TO DISAPPEAR. BUT ROCARD, MINISTER OF AGRICULTURE IS NOW BEING QUOTED AS SAYING THAT THERE WERE NO NEGOTIATIONS IN THE MARGINS AT ATHENS AND THAT AGREEMENT COULD ONLY BE REACHED BY TEN NOT BY TWO. CHEYSSON ALSO CLAIMED THAT NO-ONE NOW INSISTED THAT MILK PRODUCTION IN FRANCE SHOULD BE REDUCED FROM ITS 1983 LEVEL. MOREL AT THE ELYSEE ADOPTED ATTACK AS THE BEST MEANS OF DEFENCE WHEN SPEAKING TO THE TIMES AND THE FINANCIAL TIMES YESTERDAY. BUT IN THEIR FIRST CONTACTS WITH US, OFFICIALS HAVE SPOKEN IN A DIFFERENT TONE.

3. PREVEL, SECRETARY GENERAL OF THE SGCI, SPEAKING PERSONALLY, ADMITTED THAT HE AND OTHER MEMBERS OF THE FRENCH DELEGATION HAD BEEN SURPRISED BY MITTERRAND'S PERFORMANCE AT ATHENS, PARTICULARLY ON THE BUDGET ISSUE. IT HAD SEEMED TO THEM AS THOUGH HE HAD NOT APPLIED HIS MIND TO THE SUBJECT SINCE STUTTGART, AND HAD THEREFORE REVERTED TO FIRST PRINCIPLES. RUSQUEC (DIVISION CHIEF FOR EUROPEAN AFFAIRS AT THE TRESOR) SAID THAT OFFICIALS THERE WERE PERPLEXED. THE SGCI AND THE MINISTRY OF FINANCE ARE SOMEWHAT APPREHENSIVE OF THE DIFFICULTY FOR THE FRENCH PRESIDENCY OF PREPARING THE NEXT SUMMIT DISCUSSION OF THE MAJOR ISSUES.

4. OFFICIALS TAKE THE VIEW THAT THE PROGRESS MADE IN BRUSSELS TOWARDS AGREEMENT ON FINANCIAL ISSUES REMAINED A REALITY DESPITE THE LACK OF AGREEMENT IN ATHENS. EVEN MOREL TOLD MISS GEDDES AND HOUSEGO THAT THE FRENCH ACCEPTED THE PRESIDENCY PROPOSAL ON THE BUDGET AS LEADING TOWARDS A SOLUTION. NEITHER THE SGCI NOR THE TRESOR HAS CONSIGNED TO THE WASTE BASKET THE SECOND FRENCH PAPER ON BUDGET DISCIPLINE, CIRCULATED IN BRUSSELS ON 29 NOVEMBER. NO OFFICIAL REGARDS ATHENS AS HAVING MADE IMPOSSIBLE

FURTHER WORK ON A ''DURABLE SOLUTION'' TO THE PROBLEM OF BUDGET IMBALANCES. THE SGCI DO THINK THAT AMENDMENT OF THE TREATY OF ROME, AS IMPLIED BY THE DELORS PAPER OF 28 NOVEMBER, SHOULD BE FORGOTTEN FOR THE TIME BEING, (PARTLY, AT LEAST, THEY SAY BECAUSE THE GERMANS ARE SET AGAINST CURTAILING THE EUROPEAN PARLIAMENT'S POWER), BUT THE TRESOR ARE LESS READY TO GIVE UP THE IDEA.

5. NO CLEAR IDEAS ON ORGANISATIONAL ASPECTS OF THE NEGOTIATION ARE LIKELY TO EMERGE UNTIL THE MIDDLE OF NEXT WEEK. THE SINGLE PREPARATORY GROUP IS REGARDED AS HAVING MADE LITTLE PROGRESS, LARGELY BECAUSE ONLY A MINORITY OF COUNTRIES APPOINTED MINISTERS TO IT. CHEYSSON IS THOUGHT TO LEAN TO THE VIEW THAT HEADS OF STATE AND GOVERNMENT SHOULD TAKE A CLOSER INTEREST IN THE PREPARATION OF THE NEXT SUMMIT DISCUSSION. OFFICIALS ARE DETERMINED THAT BOTH THE NUMBER OF ISSUES AND THEIR TECHNICAL COMPLEXITY MUST BE REDUCED FOR SUMMIT CONSIDERATION. RUSQUEC CLEARLY RELISHED THE OPPORTUNITIES THAT THE OCCUPATION OF THE PRESIDENCY WOULD OFFER FRENCH MINISTERS FOR DRAWING TOGETHER THE THREADS OF NEGOTIATION THROUGH A SERIES OF BILATERAL CONTACTS IN THE MONTHS TO COME. THE CHOICE OF A SUCCESSOR TO CHANDERNAGOR (ASSUMING THAT THERE IS ONE, AS OFFICIALS SUPPOSE) WILL BE IMPORTANT. IT IS NOT YET KNOWN WHETHER HE WILL HAVE THE RANK OF MINISTER DELEGUE, AS DID CHANDERNAGOR, OR THE MORE JUNIOR TITLE OF STATE SECRETARY. FOR THE MOMENT THE SGCI IS DIRECTLY RESPONSIBLE TO THE PRIME MINISTER.

COMMENT

6. ON THE BASIS OF THE INCOMPLETE ACCOUNT OF DISCUSSIONS AT ATHENS WHICH WE HAVE SO FAR RECEIVED, I SUSPECT THAT MITTERRAND DECIDED, PERHAPS JUST BEFORE SETTING OUT, THAT HE DID NOT WANT TO MAKE THE COMPROMISES NECESSARY TO REACH AGREEMENT AT THIS STAGE. THE FIRST DAY'S DISCUSSION ON AGRICULTURE MAY HAVE REINFORCED HIS ANXIETY ABOUT TAKING A RAFT OF CONTROVERSIAL DECISIONS. HE MAY BELIEVE THAT HE CAN USE THE NEXT SIX MONTHS TO HIS OWN POLITICAL ADVANTAGE IN THE RUN UP TO THE EUROPEAN ELECTIONS AND THAT ANY DECISIONS WHICH CANNOT BE DELAYED CAN EITHER BE SWUNG A LITTLE IN THE FRENCH DIRECTION OR AT LEAST BE PUT IN A FORM MORE PALATABLE TO DOMESTIC OPINION. IN THE MEANTIME, HE AND HIS MINISTERS WISH TO AVOID FRANCO-BRITISH RECRIMINATION AND HAVE ABSTAINED FROM FEEDING THE NATURAL INSTINCTS OF THE PRESS TO ENGAGE IN IT. MORE SAID YESTERDAY THAT THE PRESIDENT WAS CONCERNED THAT THE FUNDAMENTALS OF OUR CLOSE BILATERAL RELATIONSHIP SHOULD NOT BE IMPAIRED.

7. I DOUBT WHETHER MITTERRAND EVER REALLY GOT TO GRIPS WITH THE ISSUES OR THAT HE HAS THOUGHT THROUGH THE PROBLEM OF DEALING WITH THEM IN THE FRENCH PRESIDENCY. WITH NO EARLY PROSPECT OF ADDITIONAL OWN RESOURCES THE DIFFICULTIES OF THE AGRICULTURAL PRICE FIXING WILL OBVIOUSLY BE FORMIDABLE. AWARENESS OF THIS MAY EXPLAIN WHY ROCARD IS CLEARLY PUTTING DOWN A PUBLIC RESERVATION ABOUT THE OUTCOME OF ATHENS.

FRETWELL

FRAME ECONOMIC
ECD(I)
WED

THIS TELEGRAM
WAS NOT
ADVANCED

(A)

Foreign and Commonwealth Office

London SW1A 2AH

8 December 1983

Sir John Fretwell KCMG
PARIS

PA MP 12/12

Dear John,

PRESIDENT MITTERRAND AND THE EUROPEAN COUNCIL

1. As you will have seen from the press and from Michael Butler's full account of events at Athens earlier this week (Athens telegram No 742), one of the fundamental reasons for failure was President Mitterrand's firm position that he was not prepared to contemplate dealing with the British (and German) budgetary imbalances with a new system but would only consider a short term ad hoc arrangement, modest in size, to relieve the British burden.

2. This, and the French failure to speak up for their own budgetary discipline paper, came as a surprise to us. But the record of the discussion between the Prime Minister and President Mitterrand at the working breakfast in Athens on 6 December (copy for you and Michael Butler only) suggests that he had no idea that this would be the case. Indeed Mitterrand appeared not to know what the Prime Minister was talking about when she referred to the Delors paper. (I understand that when Mrs Thatcher mentioned it, Attali had to give Mitterrand a rapid briefing.) All this has raised some pretty fundamental questions in the minds of the Prime Minister and the Secretary of State about how to communicate with Mitterrand. They are most concerned about the mechanics as well as the substance of our relationship with him. Obviously we want your help and advice.

3. It may simply be, to quote your own words (your telegram No 1113), that disagreement and disarray are characteristic of the French position on European Community questions. But, as the Prime Minister said, the fact remains that we thought we had established contacts at the Anglo-French Summit which would prevent surprises even if they did not bring about agreement between us. Are we to think that Pierre Morel was in the dark about the line Mitterrand would take in Athens? Or that he knew about it and chose not to tell David Williamson? Did Mitterrand go to Athens ignorant of the line his own Minister had been taking in the Special Councils and of our approach to the negotiations? Or did he go there properly informed but decided without warning us or them, to shift his position radically? Could he be deliberately working for a crisis from which he would hope France would be able to benefit?

/4.

4. In the weeks running up to the European Council, the French went to a lot of trouble to put it about that they hoped for an agreement in Athens because (a) there would otherwise be a crisis in the Community and (b) it would be progressively more difficult for them to agree a package as the date of the European Parliamentary elections approached. Are we now to suppose that their assessment since changed? Or that it was put about to mislead?

5. An allied question perhaps: do the French now calculate that an agreement can be reached in March (or June) which would be less costly to France? Seen from here this would be a mistaken assumption. All the signs are that opinion here, particularly but not exclusively in Parliament, is if anything hardening against an increase in own resources without very clear fulfilment of the Prime Minister's conditions. Short-sighted though it may be (when one takes into account our exposure over the lack of a refund arrangement for 1984), many here were probably relieved that there was no agreement in Athens to an increase in own resources. This current of opinion will not dispose Ministers to be more yielding next spring.

6. Does Mitterrand seriously believe we would settle for a short term ad hoc arrangement in return for an increase in own resources? Though our differences with the French over net balances and the safety net have been clear over the last weeks and months, the French then gave every indication that they had at last accepted the need for a system. For example, the French put in an amendment to the Danish convergence fund system. Could the French have now decided that an outcome which would leave us blocking a decision to increase own resources was a less bad option than agreeing to a new system which would let us off the budgetary hook once and for all? Or is Mitterrand conceivably looking for an excuse enabling him to block enlargement?

7. How now do we establish and maintain an appropriate level and degree of contact with the French to avoid a repetition if not of the disagreement, at least of the surprise? Perhaps I labour the point but this year's official level contacts have been I think more frequent than in the past. Hardly a week has gone by without contacts at a senior level supplementing your own. Yet none of these contacts brought us the right signal about French intentions, or gave Mitterrand a clearer idea of what Britain was seeking and could accept. In this connection the Prime Minister may be inclined to pick up Mitterrand's suggestion of a private talk. How would you regard this proposal, and when do you think she might take it up?

/8.

8. In your telegram No 1113 you came uncannily close to what appears to me to be the reality: that Mitterrand did indeed follow his instincts in Athens. Officials from other countries with whom I spoke in the corridors of Athens had complaints similar to ours. Many discerned a wide gap between the doings of French Ministers and the occasional lofty pronouncements of their President. French officials seemed as much in the dark as anyone else.

9. You may think some of our questions are virtually unanswerable. But we shall have to do our best to put the answers together before the crucial six months of the French Presidency begin.

Yours ever

Crispin

Crispin Tickell

cc H M Ambassadors in EC Posts
Sir Michael Butler UKREP Brussels
D Williamson Esq, Cabinet Office
J B Unwin Esq, HM Treasury

bc Sir J Bullard
Mr Jenkins
Mr Hannay

Qz.03476

PRIME MINISTER

Cabinet: Community Affairs

You will wish to inform the Cabinet about the European Council on 4-6 December. You may like to stress that the compromises put forward were certainly unacceptable to the United Kingdom but that we were not isolated. There were widely differing views on the agricultural measures and requests for exemptions. The discussion on the budget burden-sharing did not develop to a point where a serious basis for agreement could be found and was set back by President Mitterrand's proposal for a short term rather than a lasting solution. On the effective control of spending the French did not follow through their own paper which we had supported and sought to improve. A factor contributing to the failure was the deficiencies of the Greek Presidency in overloading the agenda and in failing to tackle the budgetary issues at the start. For the future, you may wish to mention that you have rejected the idea of an inevitably ill-prepared emergency European Council in January and to underline the determination you have already publicly expressed to continue to press for the United Kingdom's objectives.

2. The political consequences for the Community and for enlargement cannot yet be fully assessed. A potential immediate problem is that the European Parliament at its session next week may react to the collapse of the Summit either by rejecting the Community's draft 1984 Budget which makes provision for the United Kingdom's 1983 budget refunds or by putting the refunds back into the reserve chapter and refusing to release them until there is a permanent settlement. As you will know from your meeting on 1 December, contingency plans have been prepared for such an eventuality.

/3.

3. The Secretary of State for Transport may report that the Transport Council on 1 December agreed the frontier facilitation Directive on easing goods transport across member states' borders and the road haulage tariff Regulation. He succeeded in maintaining the United Kingdom's position on transport infrastructure support and vehicle weights and dimensions, and pressed for progress on the liberalisation of air services.

4. Over the next seven days the Social Affairs Council will meet on 8 December, the Finance and Consumer Affairs Councils on 12 December, the Agriculture Council on 12-13 December, the Research Council on 13 December, and the Fisheries and Steel Councils on 14 December. The European Parliament will be in session on 12-16 December.

DF Williamson

D F WILLIAMSON

7 December 1983

EC Budget

AJC 3/12.

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A083/3368 2 December 1983

Dear John,

European Community Financing

I regret to say that there was an error in the figures for the United Kingdom gross contribution to the European Community budget shown in paragraph 3 of the attachment to my letter earlier today (Ref. A083/3361). The attached page should therefore be substituted for page one of the fact sheet.

I am sending copies to the Private Secretaries to members of the Cabinet.

Yours

Richard

(R P Hatfield)
Private Secretary

A J Coles Esq

RESTRICTED

EEC Budget

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A083/3361 2 December 1983

Dear John,

European Community Financing

In accordance with the Prime Minister's instructions at the meeting of the Cabinet yesterday I attach a short fact sheet on the financing of the European Community.

I am sending copies to the Private Secretaries of all members of the Cabinet.

Yours

(R P Hatfield)
Private Secretary

A J Coles Esq

RESTRICTED

EUROPEAN COMMUNITY: FINANCING

Fact Sheet

1. The European Community's existing finances

The European Community's finances ("own resources") comprise the import duties, agricultural levies and VAT on a standard basis within a 1% ceiling. In 1984, the Community's maximum available own resources are estimated to be:

Total	£14,600 m
of which VAT (within the 1% ceiling)	£8,500 m

2. Increase in 1% VAT ceiling

On 1984 figures, the effect of an increase in the VAT ceiling on the total own resources available to the Community is as follows:

Increase in VAT ceiling	Additional resources
for each 0.1%	£850 m

3. United Kingdom contribution

Gross The United Kingdom's gross contribution to the Community's budget in 1982 was £2950 ~~£2,680~~ m

of which the VAT component was ~~£1,450~~ m £1,600

Net The United Kingdom's unadjusted net contribution to the allocated budget*in 1982 was £1,180 m

(*which excludes overseas aid and some minor other expenditure)

After taking account of the annual refund which the United Kingdom negotiated, the United Kingdom's adjusted net contribution for 1982 should be £530 m

A.T.C. [illegible] 2.12

CONFIDENTIAL

Ref. No: EA(83)2
Date: 30.11.83

DEBATE ON EUROPEAN COMMUNITY BUDGET

A brief for the debate on the European Community Budget to be held on Thursday, 1st December 1983.

CONTENTS

(see over)

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CONTENTS

DEBATE ON COMMUNITY BUDGET DOCUMENTS

a. Future Financing of the Community

In this document the Community puts forward a draft decision on 'own resources' to replace the original 'own resources' decision of 21st April 1970. This would require Treaty amendment and constitutes a very major change in Community funding.

The main features of the proposals are:

i) an increase in the VAT ceiling from 1% to 1.4%. This would be worth about 6 billion ecus.

ii) the introduction of a corrective VAT mechanism for part of the revenue derived from VAT. Part of VAT would be raised according to a special key reflecting shares in the Community's agricultural production and 'net operating surplus', modified to take account of relative prosperity. See paragraphs 8 and 14 of Commission document for detailed explanation. It is estimated by the Treasury that this would reduce the UK's net contribution by about 25%.

iii) other:
- the Commission would retain any surplus of revenue over expenditure at the end of each year rather than return it to member states.
- the Commission proposes that the Council (acting unanimously) and Parliament (by three fifths majority) should have the power to reduce the reimbursement of the cost of collection of 'own resources'. This is at present 10% of total levies and duties. This proposal would be worth about 1 billion ecus.
- the Commission proposes to include customs duties on products under the ECSC Treaty as part of general budget revenues. This would be worth about 60 million ecus.
- the Commission is considering the introduction of a tax on non-industrial consumption of energy as part of 'own resources'.

iv) the Commission also reiterate a controversial proposal outlined in their February paper. They urge consideration of a proposal which they tabled in 1973. Under this the Community institutions would be empowered to create additional sources of revenue without having to obtain ratification by national parliaments. Following consultation with the Parliament the Council would consider whether, and in what manner, new revenue should be introduced by the Community. The European Parliament could then, acting on a Commission proposal, and after the Council had given its unanimous assent, amend the upper limit of the VAT ceiling if the proposal obtained a sixty per cent majority.

The overall impact of these proposals would be to increase 'own resources' for the Community by about 25-30%.

b. Report by the Court of Auditors on Financial Management of Community activities

These detailed reports have been effective in uncovering waste of financial resources and are useful as an independent source of support for the Government in its demands for more stringent scrutiny of Community finances.

The Court is critical in this report of:

- EAGGF Guarantee Expenditure and recommends that producers assume responsibility for costs incurred as a result of over-production. The Court also recommends that MCAs (Monetary Compensatory Amounts) be reformed so as to limit their budgetary effect and to encourage a return to economic balance by means of competition. The Court would undoubtedly prefer to see the abolition of MCAs.

- the absence of clearly defined objectives for the Structural Funds and the Commission's failure to evaluate systematically policies according to objectives. Here the Court recommends that 'the Commission should work in conjunction with Member States from the decision-making stage to that of on the spot monitoring.'

The Court of Auditors' report, valuable as usual in highlighting inadequacies of aspects of the Community's financial affairs, is unfortunately unlikely to have much impact.

c. & d. The Fourth and Fifth Reports from the Commission on the Supplementary Measures Scheme

These half-yearly reports serve to verify the implementation of the Special Programmes which form the UK refunds. Together with any refunds paid under the amended financial mechanism, these receipts make up the United Kingdom's entitlement to refunds under the Budget Agreement of 30th May 1980. The Commission appears to be satisfied with their implementation.

e. & Preliminary Draft Supplementary and Amending Budget No. 2 for 1983

f. The Draft Supplementary and Amending Budget No. 2 for 1983

g. Letter of Amendment to the Draft Supplementary and Amending Budget No. 2 for 1983

The Supplementary and Amending Budget No. 2 for 1983 was adopted by agreement between Council and the European Parliament in October. The main elements of the adopted Supplementary budget were:

i) extra EAGGF spending of 16.5 thousand million ecus.

ii) rebates to the UK of 307.5 million ecus and to West Germany of 62.5 million ecus for 1982.

The difficulties encountered in passing this Supplementary budget reflect the urgent need for a long term solution to the budget problem as a whole. Several Groups in the European Parliament attempted to put pressure on Council to produce a long term solution by suggesting that the Supplementary budget be blocked (by placing it in chapter 100). The European Democratic Group, after considerable lobbying, was successful in preventing these Groups from mustering the required 218 votes.

h. Community Structural Funds

The Stuttgart Council emphasized the need to make the Structural Funds subject to greater budgetary discipline and the Commission was asked to produce a report with proposals.

The Commission advocates that the Funds make a more affective contribution to economic convergence and suggests that the Commission should have more influence over the allocation of funds to ensure this. The Commission also advocates that these funds should be more distinct from national funding programmes and that they be geographically targeted to ensure a higher proportion of Community finance in approved projects than at present.

The report concentrates on the Regional Fund. The priority for Community funding should be the development of structural adjustments for less developed regions and declining industrial areas, the intention being to direct funds more towards those areas where problems have been created by Community policies (for example rationalisation of the steel industry). Although initially programmes would be agreed jointly between the Commission and Member States the Commission feels that ERDF operations should eventually satisfy 'specifically Community objectives'. The Commission also anticipates abolishing the distinction between 'quota' and 'non quota' sections of the Fund, after a transitional phase. The Commission points to the problems of co-ordination of Funds, their complementarity, and the danger of overlapping assistance. The Commission also points to the benefits to be derived from improvements in monitoring and assessing projects as they proceed.

The Government is generally sympathetic to many of the suggestions in this paper, agreeing about the need to concentrate effort geographically and favouring emphasis on problems of industrial decline. However handing over further control to the Commission at this stage may not reap clear benefits and may be more costly to administer.

2. The British Government's Position

There have been numerous clear statements on the Government's position over the past few years. Sir Geoffrey Howe's speech in The Hague, 'the positive approach', submissions by the UK delegation to Special Council after the Stuttgart Summit this year, and other recent statements are summarized below.

a) The Hague Speech

Shortly before the Commission produced its Mandate Report in June 1981 the Chancellor of the Exchequer, Sir Geoffrey Howe, outlined the British Government's philosophical approach to the Budget problem in a speech at The Hague. The central tenet of the Chancellor's speech was that the Community should be more rational and deliberate in its distribution of resources. While stressing that he was not advocating a system of juste retour, Sir Geoffrey said:

> 'Within nation states, it is an established and overriding principle that resources should tend to flow from more to less prosperous regions, and not vice versa. But there is no comparable principle governing resource flows between Member States. The net effect on individual Member States is largely fortuitous. It emerges accidentally from a multitude of separate, unco-ordinated decisions by the Commission and the Community's specialist Councils ... The conclusion which seems to me to emerge, is that the Community will need in future to take conscious decisions on how the budget should affect individual Member States. We cannot allow the budget to go on producing redistributive effects which are entirely perverse' (3rd June 1981).

Among the Chancellor's more detailed proposals were that:

- the 1 per cent VAT ceiling should remain intact for at least as long as the Community's expenditure priorities remain unreformed. He expressed considerable scepticism about whether, even then, Member States would feel able to release proportionately larger funds to the Community at a time of great financial stringency at national level;

- the non-budgetary costs and benefits of Community membership (e.g. Italy's net receipts from the budget which are broadly offset by adverse resource transfers outside the budget on trade in agricultural produce) should be taken into account;

- expenditure on agriculture should rise annually by less than the rate of growth in 'own resources' and should thereby be reduced as a proportion of the budget;

- increases in expenditure on regional and social projects would not be sufficient to offset the budgetary effects of the CAP. A resource-transfer mechanism was therefore required.

- the cost of the CAP should be reduced through the elimination of structural surpluses and by subjecting agricultural spending to the same financial disciplines as apply to national public expenditure programmes.

b) 'The Positive Approach'

During the Autumn of 1982 British Ministers launched a series of speeches on the development of new Community policies designed to show that the United Kingdom's interest in Community affairs is not restricted to the problem of the British net contribution to the Budget. These proposals for increased European co-operation (quotations from which have been collected in a pamphlet called 'The Positive Approach') included the following suggestions:

- increased Community support for the devlopement of coal and greater energy pricing transparency between Member States;

- an expansion of the European Regional Development Fund and a concentration of Community aid on unemployment blackspots;

- liberalisation of the Community market in services, particularly air transport, road transport and insurance;

- increased exchange of information about, and co-operation to overcome, the problems of urban decay;

- improvements to the Common Agricultural Policy to reduce and ultimately eliminate structural surpluses, and action to achieve a better balance between livestock and cereal prices;

- in relation to the new technology industries the British Government would like to see a liberalisation of the market (particularly in relation to public procurement) in order to secure the full advantages of the Community's 'home' market of 270 million consumers;

- an expansion of the resources available to the Social Fund and greater concentration on combating unemployment amongst the young.

c) Submissions to Special Council

The Government's position in Stuttgart and negotiating stance for Athens remains that any increase in 'own resources' can only be considered if a lasting and equitable solution to the sharing of the budgetary burdens between Member States and the strict budgetary control of agricultural other expenditure is found.

The UK delegation have suggested the creation of 'a safety net' whereby:

- the Community would agree that Member States whose relative prosperity (after enlargement) was below a given level would be net beneficiaries of the budget and not in any circumstances net contributors;

- above that level a Member State's net budgetary burden would be expressed as a small percentage of a Member State's GDP and a limit would be placed on the extent of that burden;

- any Member State bearing a net budgetary burden of more than this agreed limit would have VAT payments reduced by that amount in the following year.

On agricultural spending, the British Government has consistently taken the view that the rate of growth of CAP expenditure should be markedly lower than the rate of growth of the Community's 'own resources'. To ensure this a strict financial guideline for the CAP is proposed. The Treasury document 'Future Financing and the Development of the Community: British Government ideas' published in October 1983 suggests that 'the rate of increase in Guarantee expenditure by the European Agricultural Guarantee and Guidance Fund (FEOGA) in any year, as compared with the corresponding provision in the original budget adopted for the preceeding year, cannot exceed a proportion (the given fraction) of the rate of increase in the Community's 'own resources' base between those two years. The size of the 'given fraction' would be for negotiation. Complementary to the 'safety net' proposal and the suggestion for a strict financial guideline for CAP expenditure, is a paper on the Future Development of the Community. This proposes other areas where the Community may develop and ia an elaboration to some extent of the ideas outlined in 'The Positive Approach' described above.

On the question of raising the 'own resources' threshold the Foreign Secretary stated in the House on 14th November 1983:

> 'we would be prepared to consider this (an increase in own resources) provided that two very important conditions were met: first, that agreement was reached on an effective control of the rate of increase of agricultural and other expenditure; and secondly, that it was accompanied by an arrangement to ensure a fair sharing of the financial burden.' (Hansard, col. 611).

3. The Positions of Other Governments

It is probable that all the other Member States favour an increase in the 1% VAT ceiling. However for some time West Germany has agreed with the United Kingdom that greater financial discipline in Community spending is required and was critical of the Commission's proposal to raise the VAT ceiling from 1 to 1.4%, tabled at Stuttgart. On 28th November at the penultimate Special Council session of Foreign and Finance Ministers, France agreed with the need for tighter control of spending. Ireland has maintained its opposition to the proposed super levy on surplus milk production, a substantial element of the Commission's proposals to control surpluses and farm spending. Denmark and possibly Italy would probably prefer an increase in the VAT ceiling to up to 2%.

4. History and Background

(a) General Characteristics of the Budget

The European Budget amounts to about 0.9% of the Community's Gross Domestic Product, or 2.6% of total public expenditure in the EEC. Its revenues are derived from the Community's 'own resources' whereby certain revenues, although collected by national authorities, belong to the Community from the time of their collection. The main components of 'own resources', and their approximate contribution to total revenue, are: customs duties (31%), levies on agricultural imports and sugar levies (10%) and revenue from notional rate of VAT calculated on a harmonised base up to a ceiling of 1% (59%). The Budget is determined each year through a lengthy process of negotiations between the Council of Ministers (who have the final word on 'obligatory' expenditure - chiefly agriculture) and the European Parliament (which within an overall ceiling has the final say on most non-agricultural spending).

(b) The Cause of the Budget Problem

Britain's budgetary problems arise first because of the United Kingdom's low level of receipts from the Community Budget. Britain only receives about 11% of the disbursements made under the Common Agricultural Policy Guarantee Fund (which accounts for almost two-thirds of total Community spending), while funding about 20% of the gross expenditure.

Secondly, Britain's contribution to the 'own resources' system is higher than our share of Community GDP because our level of trade with non-Community countries is proportionately higher than for other Member States, making Britain liable to pay more in customs duties. Also, due to our consumption patterns and low level of self-sufficiency, Britain has to pay 27% of the total levies collected on agricultural imports into the Community. A root cause of the problem is, however, that whereas nations ensure that their fiscal systems achieve a redistribution of resources from prosperous areas to disadvantaged ones the Community pays little regard to the distributive impact of its policies.

(c) The Conservative Government and the May 30th Agreement

In October 1979, the Prime Minister gave notice of her determination to achieve a substantial reduction in Britain's net contribution. Delivering the Winston Churchill Memorial Lecture she declared:

> 'Britain cannot accept the present situation. It is demonstrably unjust. It is politically indefensible ... the imbalance is not compatible with the spirit of the Community. Its continuation would undermine the sense of solidarity and common obligation which lies at the base of Community endeavour' (Luxembourg, 18th October 1979).

There followed seven months of concentrated negotiations which culminated in the May 30th 1980 Agreement under which our partners agreed to pay compensation for Britain's excessive contribution in respect of 1980 and 1981, with a possible extension for a third year should a long term solution not have been devised by then.

The 'refunds' paid for the first two years amonted to £1.7 billion and were used to help finance infrastructure projects primarily, although not exclusively, in the United Kingdom's Assisted Areas. The second element of the May 30th Agreement was to give the Commission a 'Mandate' to produce proposals on the restructuring of the Community's expenditure priorities without calling into question the basic principles of the 'own resources' system or the Common Agricultural Policy but with the objective of preventing the recurrence of an 'unacceptable situation' for any Member State.

The Commission produced its Mandate Report in June 1981 which contained proposals on containing agricultural expenditure, reducing the production of surpluses, the development of new Community policies and the completion of the internal market. In addition the Commission conceded that their gradualist approach to CAP reform together with the development of new expenditure policies would be unlikely to solve the UK Budget problem immediately. For example if all other factors were to remain as at present the European Regional Development Fund would need, with present quota allocations, to be increased by 50 billion ecus (approx. £28 billion) or over twice the size of the present Community Budget, to give Britain net receipts equivalent to our basic refund of 850m ecus for 1982. Accordingly, as the Mandate Report recognised that the root of the 'British problem' lay with the operation of the CAP, it suggested the initiation of a new mechanism to compare the United Kingdom's share of Community GNP with its share of agricultural receipts, with funds being made available to finance new projects of Community interest in Britain to make up part of any discrepancy.

Concentrated negotiations took place during the second half of the British Presidency on the basis of the Mandate Report. A breakthrough was made at the London meeting of the European Council when disagreement was narrowed to four heads: control of production in the milk sector; improved support arrangements for Mediterranean agriculture; the target for the growth of agricultural expenditure within the total resources available to the Community; and the initiation of a mechanism to prevent any Member State from having to make an inequitably large net contribution to the Budget. Unfortunately, however, the momentum of the negotiations was lost during the early months of the Belgian Presidency. In an effort to break the deadlock which was beginning to develop the Presidents of the Council and Commission, Mr. Leo Tindemans and M. Gaston Thorn, tabled various proposals which would have ensured that Britain received budgetary compensation over a 3-5 year period. However, the negotiations inevitably became entangled with the Annual Farm Price Review for 1982-3. An interim settlement for 1982, in accordance with the optional extension provided for by the May 30th Agreement, was promoted by the Presidency. Discussions on this were continuing when the Community was thrown into turmoil following the setting aside of the British veto on the Farm Price package. This repudiated the fundamental link between agricultural spending and the budget problem which had been unanimously recognised by Heads of Government at the European Council meeting in London.

(d) <u>The May 25th 1982 Agreement</u>

The crisis was temporarily defused the following week (May 24th - 25th) by an agreement on 'refunds' for the United Kingdom: a basic refund in respect of 1982 of £490 million, with provision for sharing the burden should the Commission's estimates of the UK net contribution either prove too conservative or too pessimistic. At the same time the Council expressed its intention to devise a long-term settlement to the Budget problem by the end of November 1982. The May 25th 1982 Agreement was, however, exceptional in releasing the Federal Republic of Germany, as a fellow net contributor, from the obligation of financing more than half her normal share of the British 'refunds'.

Unfortunately because of the difficulties (encouraged and amplified by the French delegation) over devising exactly how to finance the German relief (i.e. should the United Kingdom contribute to the FRG's compensation for having to pay 'refunds' to Britain for its excessive net contribution) and over whether Britain should have to compensate the Community for alleged over-payment of 'refunds' for 1980 and 1981, it was not possible for the UK 'refunds' to be entered in the 1983 draft Budget. An agreement on these practicalities was reached in Council on 26th October 1982 but this entailed the production of a special draft Supplementary Budget to give effect to the Agreement.

(e) Stuttgart Summit and beyond

At the Stuttgart Summit on 18th June 1983 it was agreed that 'in the course of the coming six months a major negotiation will take place to tackle the most pressing problems facing the Community so as to provide a solid basis for the further dynamic development of the Community over the remainder of the present decade.' Negotiations in seven special foreign and finance councils have been preparing the ground for the Athens Summit (4-6 December) mainly on the Budget problem.

Net Contributions to (−) and Receipts from (+) the allocated Budget, by Member States

million ecu

	1978	1979	1980	1981	1982 (provisional)
I. Net positions before UK refunds					
Belgium/Luxembourg	+337	+610	+439	+515	+510
Denmark	+381	+380	+327	+279	+294
Germany	−597	−1,430	−1,526	−1,684	−2,085
France	−371	−78	+431	+576	+14
Ireland	+326	+545	+650	+582	+721
Italy	−334	+534	+737	+788	+1,586
Netherlands	+41	+288	+454	+239	+302
United Kingdom	−228	−849	−1,512	−1,419	−2,040
II. Net positions before UK refunds per head					
Belgium/Luxembourg	+33	+60	+43	+50	+50
Denmark	+75	+74	+64	+55	+57
Germany	−10	−23	−25	−27	−34
Greece	—	—	—	+18	+71
France	−7	−2	+8	+11	+0·3
Ireland	+98	+162	+191	+169	+207
Italy	−6	+9	+13	+14	+28
Netherlands	+3	+21	+32	+17	+21
United Kingdom	−4	−15	−27	−25	−36
III. Net positions after UK refunds					
Belgium/Luxembourg	N/A	N/A	+377	+441	+447
Denmark	N/A	N/A	+294	+242	+262
Germany	N/A	N/A	−1,957	−2,185	−2,442
Greece	N/A	N/A	—	+161	+682
France	N/A	N/A	+81	+139	−366
Ireland	N/A	N/A	+639	+568	+708
Italy	N/A	N/A	+527	+549	+1,373
Netherlands	N/A	N/A	+376	+94	+245
United Kingdom	N/A	N/A	−337	−9	−883

Source: House of Commons Sixth Report from the Select Committee on European Legislation, Session 1983-84. Future Financing of the European Community

Summary Table of Principal Components in UK Payments & Receipts from EEC 1978–82

	1978	1979	1980	1981	1982
Community VAT Rate	—	·7889	·7322	·8667	·9248
PAYMENTS					
			(£m)		
VAT own resources/GNP-based financial contributions*	596	544	741	1,095	1,554
Sugar and isoglucose levies†	15	17	19	26	40
Agricultural levies†	227	229	241	192·2	267
Customs duties†	714	868	861	861	1,002
Article 131 compensation‡	−204	−352	−95	—	—
Total Gross payments	1,348	1,606	1,767	2,174	2,863
RECEIPTS					
EAGGF...	329	371	550	683	791
Regional Development Fund	35	71	173	145	111
Social Fund	62	87	95	107	152
Other receipts	100	130	145	149	184
Total receipts	526	659	963	1,084	1,238
Net payments before United Kingdom refunds§	822	947	804	1,090	1,625
Refunds§	—	—	98	693	1,019
Net payments after refunds§	822	947	706	397	606

*VAT own resources were first paid by the United Kingdom in 1979. In 1978 the United Kingdom made a GNP-based financial contribution.

†United Kingdom made payments on the basis of pre-determined financing shares during 1973–77. Therefore no accurate breakdown between categories of own resources is available.

‡Compensation to United Kingdom for contributing on basis of full resources system under Article 131 of Accession Treaty.

EAGGF = European Agriculture Guidance and Guarantee Fund.

§Refunds to United Kingdom payable under agreements of 30 May 1980, 25 May and 26 October 1982.

Sources: Official Report, 11 July 1983, cols 255–6 and 29 July 1983, cols 687–8.

Source: House of Commons Sixth Report from the Select Committee on European Legislation, Session 1983-84. Future Financing of the European Community.

①.

PRIME MINISTER

YOUR MEETING ON THE EC BUDGET: THURSDAY 1 DECEMBER

I should be grateful for your decision on one point about attendance.

We have invited the Foreign Secretary, the Chancellor of the Exchequer, the Minister for Agriculture, and, in Mr. Tebbit's absence, Mr. Channon to attend.

The Northern Ireland Secretary is very concerned about the implications for Northern Ireland of decisions at Athens on agricultural questions, particularly milk. I gather that the Welsh and Scottish Secretaries are also very interested in this matter. Mr. Prior recently expressed the wish that the three of them should be included in any pre-Athens Ministerial discussion.

We could, if you wish, ask all three to attend for discussion of the agricultural item. Do you wish to enlarge the meeting in this way?

A.J.C.

It seems a waste of their time - but we could deal with that point first

No action.

A.J.C. 1/12

30 November 1983

Qz.03464

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Special Council on 28 November at which he and the Chancellor of the Exchequer represented the United Kingdom. This was its final meeting before the European Council on 4-6 December. The Presidency's draft conclusions were examined in detail and will now be submitted in a revised form to the European Council.

2. On the budget inequity the Foreign and Commonwealth Secretary identified five points of consensus which were not contested: the acknowledgement that a real problem exists; the need for a lasting solution; implementation of the relief on the revenue side (ie by reducing the amount of VAT which we pay over to the Community); setting the limit which takes account of ability to pay (ie as a percentage of gross domestic product); and application in respect of 1984 and later years. He tabled draft conclusions on the safety net for the European Council. There is a fair prospect that other member states will now agree to relief related to the payments share/GDP (or VAT) share gap, ie in the United Kingdom's case compensation for the disproportionately small amount which we get from the Community budget. This is good but not good enough. They are not so far willing to agree to relief for our excess share of contributions of own resources to the Community budget. It was agreed that the question of any increase in own resources would have to be the last point in the negotiations. The French Finance Minister tabled proposals for a new budgetary system imposing discipline on all Community expenditure: the Council would fix a sum for total expenditure each year below the resources available from the VAT call-up; the Council would also fix a limit for agricultural expenditure on a three year moving average. The Chancellor welcomed the French proposals which certainly improve our chance of getting more effective control of agricultural and other spending.

/3.

3. On agriculture the Foreign and Commonwealth Secretary made clear the United Kingdom's preference for action on milk by price reductions and underlined the conditions (including accompanying price restraint) which would have to be met if the European Council were to opt for a super-levy. He also refused unilateral action on cereal substitutes but, supported by some member states, did not rule out further Community/US discussions on a voluntary system. The Franco/German disagreement on monetary compensatory amounts is not resolved and alternative texts will go to the European Council. A large number of less important agricultural items have been dropped from the texts which are likely to be submitted to the European Council.

4. On new policies there are a lot of words and a limited number of clear cut disagreements. This is not all to our disadvantage. In some cases (eg liberalising lorry transport, air fares, insurance etc) we want action and other member states are defending. On enlargement there was support for the United Kingdom's proposal that the European Council should give a positive signal to Spain and Portugal by setting a date for the conclusion of the negotiations. The Foreign and Commonwealth Secretary gave notice that the United Kingdom would raise the 1982 risk-sharing element in our budget refunds at the European Council.

5. The Foreign and Commonwealth Secretary will also report briefly on the Foreign Affairs Council on 29 November at which he and the Minister for Trade represented the United Kingdom. It reached a number of useful agreements. The mandate for negotiating steel voluntary restraint agreements and the generalised scheme of preferences for next year were agreed, as were a Japanese export restraint package and an increase in the duty on digital audio discs.

6. The Secretary of State for Trade and Industry may report separately the meeting of Steel Ministers which took place as part of the Foreign Affairs Council, where he and the Minister of State (Mr Lamont) represented the United Kingdom. Ministers accepted the Commission's idea of setting minimum prices, though

/there

there was concern about the level, but a generally favourable attitude towards deposits and monitoring revealed some legal and other problems. On the dispute between the Community and the United States on special steels the Ministers agreed that unless there was a real improvement in the United States' offer of compensation for its controls by 14 January the Community should take retaliatory action.

7. The Foreign and Commonwealth Secretary may further report that the Commission has now approved the regulations giving effect to the United Kingdom's 1983 budget refunds. These are expected to issue shortly before the next session of the European Parliament in December.

8. The Chancellor of the Exchequer may report on the Budget Council on 22 November, at which the United Kingdom was represented by the Economic Secretary. The European Parliament's attempt to put all the United Kingdom and German refunds into the reserve Chapter 100 was rejected and the refunds put back on to specific lines in the budget.

9. The Secretary of State for Trade and Industry may report on the productive Internal Market Council on 25 November at which the Minister for Trade represented the United Kingdom. The Council adopted a directive for easing arrangements at frontiers; accepted a package of 15 directives abolishing technical barriers to trade subject to French and Danish reserves (which will probably be lifted later); and reached a consensus of principle on the single administrative document for customs purposes and on the principles of Community policy for technical standards.

10. The Secretary of State for the Environment may report that the Environment Council on 28 November at which the United Kingdom was represented by the Parliamentary Under-Secretary of State (Mr Waldegrave) did not make significant progress.

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11. Other meetings during this period have included the informal meetings of Tourism Ministers on 20 November and of Culture Ministers on 28 November as well as the Standing Employment Committee on 22 November. None of these call for a report to Cabinet.

12. Immediately after Cabinet E(A) will meet to discuss the Chief Secretary's proposal that certain types of Community expenditure programmes should be paid for by spending Departments from their PESC allocations or matched by offsetting savings in their budgets. Later in the day you are holding a meeting to prepare for the European Council on 4-6 December. Over the next seven days, apart from the European Council itself, the Transport Council will meet on 1 December and the Labour and Social Affairs Council on 8 December.

DF Williamson

D F WILLIAMSON

30 November 1983

Mr Coles

Qz.03461

MR BONE, FCO

POST-STUTTGART NEGOTIATIONS: BILATERAL DISCUSSIONS WITH THE FRENCH

I have already reported briefly to the Foreign and Commonwealth Secretary on my discussions with Monsieur Morel in Brussels yesterday and today. This minute sets out the points more fully.

(i) The budget inequity. I made a strong effort to impress on M. Morel that he must brief President Mitterrand that a settlement can be reached but only on the basis

either of the safety net as we have proposed it

or of 2 mechanisms, ie relief related to payments share/ VAT share (it remained to be decided whether the top of the gap should be defined as the VAT share or the GDP share or the population share) and relief related to the disproportionate contribution of own resources to the Community budget (customs duties and levies). We recognised that the French did not like the Commission's original proposal for modulated VAT, which did not in any event respond directly to the problem. If so, I hoped that the French would look at a cleaned-up Dublin mechanism (ie relief related to own resources).

I again stressed our view that, in order to reach an agreement, an understanding between France, Germany and the United Kingdom that at the outset the French and United Kingdom net contributions might be at about the same level of 450 million ecu (1982 basis) and that a German limit would be established slightly above the level of their net contribution in the highest year, would make it more likely that a Community agreement on the necessary mechanisms could be reached.

/I

I am sure that President Mitterrand will be briefed in this sense. Monsieur Morel seemed to have already accepted that relief related to the payments gap would be conceded by President Mitterrand. He remained, however, very difficult about the second element and I think that the President will be briefed that this second element will be demanded by the United Kingdom but that it will be very difficult to sell it in France. The most that M. Morel would concede was that "At Athens the President will trade big parcels".

(ii) The overall structure of the Athens package. M. Morel said that President Mitterrand attached extreme importance to structuring the discussion at Athens so that it did not become a repeat of the Stuttgart discussion on the 1983 refund, ie an argument concentrated almost entirely on the level of the United Kingdom net contribution under the revised budget arrangements. He stated that it was on the President's instructions that M. Delors had stated in the Special Council yesterday that the question of the level of own resources could only be tackled when the major elements on new policies, control of budget expenditure, agriculture, etc had been settled. This was intended to make clear to all member states, not just the United Kingdom, that France must have the new policies and other elements in a reasonable form before the budgetary discussion could be completed. He described this as "enhancing the global structure of the Athens negotiation".

(iii) Own resources. Despite the attachment of the French government to the global package, M. Morel told me that President Mitterrand would be briefed on the specific level of increase in own resources which might be acceptable if other conditions were met. He ridiculed talk of 2% or figures of that kind but said that the President was likely to consider 1.2% too little.

/(iv)

(iv) Cereal substitutes. I said that in our earlier discussions I had detected a certain willingness on the French side to seek a solution which did not involve a commitment to set the GATT procedures in train. I suggested that it would be possible to arrive at a text in which the Commission was given a mandate to negotiate for the stabilisation of imports of cereal substitutes (maize gluten feed and citrus pellets) with the principal suppliers. The Commission should be invited to report back to the Council of Ministers the terms on which an agreement might be reached, with a view to a decision whether such an agreement could be adopted or if not whether the Community should set in train any procedures under the GATT. This formulation does, of course, leave open the decision for the Council at a later stage.

(v) Enlargement. M. Morel said that President Mitterrand's thinking on this had changed considerably in the last few weeks. He would very probably now be able to accept in the Athens communique a reference to a specific date for the conclusion of the negotiations. If so, the French position would come into line with the United Kingdom position.

2. I am sending a copy of this minute to John Coles (No. 10), John Kerr (H M Treasury), Sir Robert Armstrong and Sir John Fretwell (British Embassy, Paris).

D F Williamson

D F WILLIAMSON

29 November 1983

3.24

With DB

cc CST EST
FST MST
Mr Middleton
Mr Littler
Mr Unwin
Mr Anson
Mr Lovell
Mr Fitchew
Miss Court
Mr AJ Edwards
Mr Gray
Mr Bostock

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

28 November 1983

The Rt. Hon. Michael Jopling MP
Minister of Agriculture, Fisheries and Food

Dear Minister,

nb pm.
28/11

You sent me a copy of your letter of 3 November to the Prime Minister about the Community and Agriculture.

My only comment is to wonder whether there is anything to be gained by our floating the idea that a small group of 'wise men' should examine the CAP. The failings of Community agricultural policies, and the solutions, are clear enough. As you yourself said on 30 August, at the first of the present series of Special Councils, the problem is that high prices and other support arrangements have encouraged excess production, which cannot be consumed within the Community, or sold abroad at an economic price. What we must do, both in the present negotiation and in future price-fixing discussions, is to hold down the level of support so as to rein back excessive production. I fear that a study by 'wise men' would be used by some Member States as an exercise for avoiding such action.

Copies of this letter to go the Prime Minister, the Foreign and Commonwealth Secretary, and Sir Robert Armstrong.

Yours sincerely,

pp. NIGEL LAWSON

[Approved by the Chancellor, signed in his absence in Brussels]

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Budget
Pt 22

CONFIDENTIAL

Qz.03451

Prime Minister

MR BARCLAY

EUROPEAN COMMUNITY: POST-STUTTGART NEGOTIATIONS

I attach, for the Prime Minister's meeting at 5pm on 1 December:-

(1) a memorandum on the main questions for the European Council; and

(2) a memorandum on contingency plans.

I am sending copies to Mr Fall (FCO), Mr Kerr (H M Treasury), Mr McCarthy (DTI), Mr Llewelyn (MAFF) and to Sir Robert Armstrong.

Guy Stapleton
for

D F WILLIAMSON

28 November 1983

CONFIDENTIAL

John Coles
(top copy in
PM's box)

CONFIDENTIAL

Qz.03451

MR BARCLAY

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Guy Stapleton
for

D F WILLIAMSON

28 November 1983

CONFIDENTIAL

EUROPEAN COMMUNITY: THE MAIN QUESTIONS FOR THE EUROPEAN COUNCIL

Memorandum by the European Secretariat,
Cabinet Office

Introduction

1. There will be one more meeting of the Special Council on 28 November before the European Council in Athens on 4-6 December. In addition, on 29 November the Foreign Ministers, probably in a very restricted session, will discuss the preparations for the European Council. The Presidency has already circulated its conclusions on some aspects of the negotiation and we have proposed amendments. The conclusions are almost certain to be revised again.

2. Most member states want to come to a result (or, at the least, make significant progress towards a result) at Athens. It remains to be seen, however, whether a real basis for agreement will be found and whether the decisions sought will be specific or of a more general kind. It is also important to stress that even in a successful outcome there will not be a single set of decisions at Athens. An agreement on the main points may be possible. If so, the United Kingdom will continue to hold an important card, because the details and the implementing texts will need to be thrashed out over the following months and we shall not agree that a revised text should be submitted to our Parliament until we were entirely satisfied on the whole package.

3. In the light of the Prime Minister's meeting of 4 November and the results of the Special Council of 9-11 November, this memorandum sets out the decisions which will need to be taken before the European Council.

/4.

The budget inequity

4. Our objectives, which are fully met by our safety net solution, are clear. The revised budget arrangement must be durable; must be implemented on the contributions side; must properly measure the ability to pay; must properly measure the imbalance itself (ie give relief representing a large percentage of the net contribution); and must give the United Kingdom enough money. Provided that these objectives are met, a solution could also be reached by putting together the various "building blocks", some of which are already under discussion separately in the negotiation so far. This is explained more fully below.

5. The proposals made by the Commission and the Presidency at the last Special Council on the correction of the budget inequity were unacceptable. The Commission's proposal purported to reduce the United Kingdom's net contribution by removing or adjusting some elements of the calculation. The Presidency's proposal did not take account of the contributions side, ie that the United Kingdom contributes a disproportionate share of the Community's own resources as well as receiving too little from the Community budget. While we rejected these proposals, there was for the first time a wide measure of agreement that the solution must

- be implemented by adjustment of a member state's VAT contribution;
- be durable, forming part of the revised Own Resources Decision;
- properly measure a member state's ability to pay, as the United Kingdom has proposed. The limit should be expressed as a percentage of a member state's GDP (about 0.1% for the United Kingdom under our proposal).

It is helpful that the amount of money which could be available to the United Kingdom under these successive proposals of the Commission, Presidency and other member states has been steadily increasing. We have made progress in convincing member states that the relief must adequately cover that part

 /of

of the budget problem which results from the fact that the United Kingdom receives too little from the Community budget (the so-called "payments gap"). We have made much less progress in seeking to cover the other part of the problem, ie the disproportionate contribution of customs duties and levies to the Community budget. We are working now to maximise the chances of the inclusion in their revised proposals of as many as possible of our requirements. This will make it difficult for them to go back at Athens on these elements and on the amount of money on offer.

6. The main points which need to be examined by Ministers immediately before the European Council are likely to be:

(i) <u>the safety net</u>. It is possible that we shall come to the European Council with more than one form of safety net on the table, in particular, the version set out in our own document of 25 July and an improved version of the Presidency proposal. It is recalled that the main figures relating to our proposal, if applied to 1982 and using the GDP per head of an enlarged Community, are -

	million ecu
UK's uncorrected net contribution	2036
UK's actual corrected net contribution after refunds	910
UK's corrected net contribution if we received a relief equivalent to two-thirds of our uncorrected net contribution	679
UK's corrected net contribution under the safety net scheme	437

Faced with our opposition the Presidency and other member states may adapt their proposals in two ways which would move towards the United Kingdom's position. First, they may propose that there should be relief representing the major part of the difference between a member state's share of payments from the Community budget (UK, about 13%) and its share of the VAT

/contribution

contribution (UK, about 20 - 21%). This form of measurement of the so-called "payments gap" is gaining ground within the Community. It does deal directly with the insufficient amount which we receive from the Community budget. Even if we get a good form of measurement, there will still be an argument about the extent of the correction. In order to illustrate the order of magnitude, however, if the whole of this gap were compensated according to the safety net limits formula, the United Kingdom would have received relief on average in 1981 and 1982 of about 1100 million ecu and the United Kingdom's average corrected net contribution in these two years would have been about 628 million ecu. The relief would have been equivalent to about 63.6% of our uncorrected net contribution in those years. Other ways of measuring the "payments gap" (eg the difference between the share of payments and the share of the Community's GDP and the difference between the share of payments and the share of the Community's population) are still being discussed.

Secondly, they may include the Commission's original proposal of 6 May or some other form of modulated VAT. Since there is strong opposition from some member states to the basis on which the Commission constructed its original proposal, they may put forward another version. This approach does not deal directly with the disproportionate amount of own resources which we pay into the Community budget but its financial effect could be significant (the original proposal would have given the United Kingdom average relief in 1981 and 1982 of about 428 million ecu).

Thus, on the same basis as the figures in paragraph 5(i) and on the conditions set out above, a Presidency proposal amended in one or more of these ways would give the following results:-

	million ecu, average of 1981 and 1982 (the figure in brackets is the % of the UK's uncorrected net contribution)	
UK's corrected net contribution under Presidency proposal amended so that it relates to		
(a) the gap between payments share and VAT share (the payments share/VAT share formula with full compensation)	628	(36.4%)
(b) the Commission's original proposal for modulated VAT <u>and</u> the relief at point (a) (modulated VAT <u>and</u> the payments share/VAT share formula with full compensation)	200	(11.6%)
(note: for 1982 this is more favourable than our safety net proposal)		

It will be necessary to decide in principle before the European Council whether and with what amendments solutions based on these elements would be acceptable if all other conditions were met. The schemes are capable of adaptation so that at the outset the UK and French contributions are broadly the same.

(ii) <u>own resources</u>. The question of the Community's requirements in terms of own resources does not arise unless the United Kingdom is satisfied on the conditions laid down by the Prime Minister at Stuttgart. If we were satisfied, we would need to be able to take a position on the size of the Community's own resources. The elements of this judgement are the effect on the VAT ceiling of the financing by other member states of the budget relief for the United Kingdom; the costs of enlargement; some possible growth in new policies; and the potential savings, particularly from agriculture. An increase in the ceiling requires ratification by the Parliaments of all member states of amendment of the 1970 Own Resources Decision - the same Decision which will need to be amended in order to include the arrangements for the budget relief.

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The financing of reliefs can be done in three ways and the effects on the own resources ceiling would be slightly different -

(a) outside the VAT ceiling.

(b) financed net within the VAT ceiling (ie the total payments made to finance the reliefs equals the cost of the reliefs). This would require a VAT ceiling of about 1.1%.

(c) financed gross within the VAT ceiling (ie as under the current refund arrangements - member states contribute towards the costs of their own reliefs). This would require a VAT ceiling of about 1.2%.

Any increase in the ceiling requiring ratification by national Parliaments should not be a short term decision. The technical judgement of officials is that, allowing for enlargement, a diminishing proportion of Community expenditure on agriculture and growth in real terms of other Community expenditure, an increase in the VAT ceiling to 1.2% should be sufficient to finance the Community budget at least into the 1990s. This does not take account of the possible 0.1% or 0.2% which might be needed to permit the financing of the United Kingdom's budget relief by other member states.

Within the Community some member states are thinking in terms of unrealistic figures such as a 2% VAT limit (Commission proposal 1.8% by two new slices of 0.4%). The Germans - and probably most member states in the end - are likely to opt for a single increase of 0.4%. This would be a once-for-all increase in the total own resources of the enlarged Community of about 23%. There has been some suggestion that, within any new maximum approved by Parliaments, any increase in the

/VAT

VAT ceiling should be released in tranches. This would have advantages for expenditure control. It would be difficult to obtain agreement to this within a ceiling of 1.2% but it might be possible within a ceiling of 1.4%.

The United Kingdom's corrected net contribution will of course be equivalent to a VAT rate substantially below the Community maximum. If we assume, first, that the correction of the budget inequity would be made by reducing the VAT contribution of those member states receiving relief and passing the cost on to other member states according to a normal VAT key and, secondly, that the United Kingdom receives the amount of relief under our own safety net proposal, the situation on the same basis as the figures in paragraph 5(i) would be that the UK's corrected net contribution would be equivalent to a VAT rate for the United Kingdom of about 0.4%. Even if the increase in the ceiling were to 1.4% the United Kingdom's VAT contribution after reliefs would be equivalent to less than 1% provided that the relief gave more than about 950 million ecu net.

The timing of any increase in the limit on own resources is very important for the United Kingdom. In a final package we must ensure that the new system comes into effect (after ratification) in 1985, so that the relief for the budget inequity in 1984 can be included in an amended 1985 budget. Failing this, we must have a cast iron undertaking that relief equivalent to that available to us under the revised system will be given in respect of 1984 and later years.

(iii) control of agricultural and other expenditure. The French have now floated ideas for a more rigorous control of all expenditure, which could be helpful to us. It is doubtful whether they will be fully developed by Athens but we would like to see some reference to these ideas in the communique, as a basis on which we could build in the period immediately following the European Council. They are additional to, and not a substitute for, obtaining at Athens the best possible result on control of agricultural spending.

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The negotiations on the strict financial guideline for agricultural expenditure have not disclosed any willingness among eight member states to support the British/Dutch demand for a legally binding arrangement. Two conclusions can be drawn: first, we must carry our proposal unchanged into the European Council since the issue will in any event be a major component of the discussions there. Secondly, a strict and legally binding guideline does not appear to be negotiable at Athens; the only arrangement on which agreement could be obtained is a guideline embodied in political commitments by the European Council and the Commission and based broadly on the Commission's ideas (though perhaps strengthened by suggestions from the Germans and Dutch). We shall have to judge whether our requirement of effective control of agricultural and other expenditure can be met by the European Council's endorsement of the French ideas for a guideline for all Community expenditure; by specific adoption of the Commission's revised proposal (as strengthened by the Germans and Dutch) for the guideline on agricultural spending; and a commitment by the Commission that it will not make proposals in breach of the guideline.

(iv) agriculture. The revised Presidency text takes partial account of the amendments which we have been pressing. On a cautious and, where necessary, restrictive price policy and on the application to more products of limits on the guarantees ("guarantee thresholds") the text is broadly on the right lines but needs to be tightened up. There remain a number of lesser questions which we are trying, probably successfully, to keep out of the discussion in the European Council and three principal points - milk, cereals (including cereal substitutes) and monetary compensatory amounts.

On milk, we need to set out more clearly the amount of milk which would receive the full guarantee in the Community and the methods to be taken to bring production back within those limits. Our favoured solution is to do this through price alone or, failing this, through price combined with a quota/super levy system. In the second case we should accept

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the quota/super levy proposal, provided that the reference year is satisfactory (it should not be based on 1981 but on 1983 production less an agreed percentage) and that we are satisfied that the scheme will be effective, non-discriminatory and capable of satisfactory administration. We should aim for a price freeze, since it would be absurd to offset the effects of a quota/super levy system by a lax price policy. It would not be appropriate for decisions to be taken at Athens on other specific milk proposals in the Presidency paper, in particular the application of a tax on so-called intensive holdings (which we oppose); the suspension of intervention for skimmed milk powder (which needs further consideration); and the suspension of the butter subsidy (which is of benefit to the United Kingdom and is an aid to consumption which it would be quite wrong to abolish while the Community has excessive stocks of butter).

On cereals we need the strongest possible reference to our intention to bring Community support prices more nearly in line with those in other major producing countries, principally the United States. On imports of cereal substitutes there will be disagreement: we should not accept any commitment to deconsolidate the tariffs but should aim for further discussions between the Commission and the United States at which the Commission should seek to make the most of the Community's restrictive intentions on its own support prices for cereals.

Monetary compensatory amounts are a Franco/German battleground. We must be satisfied on the arrangements applicable to variable mcas such as we have in the United Kingdom. We should continue to oppose the German suggestion that in future currency realignments agricultural prices should be set in terms of the strongest currency. If at Athens in an otherwise satisfactory package it were thought right to accept this suggestion, we would need strict arrangements restraining the phasing out of the negative mcas.

The oils and fats tax must be rejected.

/(v)

(v) <u>other policies</u>. Our principal objectives are to direct attention to, and to obtain progress on, those areas of policy which will be beneficial to the United Kingdom and do not add significantly to expenditure. For this reason we are pressing for progress on the completion of the common market both in good and services (single administrative document, lorry quotas, air services, insurance, standards) and other action of particular benefit to us (solid fuels policy, lead in petrol). It is clear that, for a balanced package as seen by other member states, the Athens communique will need also to refer to improving the environment for cooperation between industrial enterprises in the Community (insofar as this relates to the removal of obstructions to such cooperation while leaving the commercial decisions to the enterprises themselves, we can support it); to new technologies in areas such as telecommunications; and to certain specific decisions on proposals already made.

We should oppose the proposed doubling of finance for the structural funds (Regional Fund, Social Fund etc) and will be supported on this. We should refuse to take decisions on the very costly integrated Mediterranean programmes. We should be able to avoid a decision on the financing of the research and development programme. There will be a need to decide what financing we can accept for the information technology programme ESPRIT.

The Presidency's revised text includes most of the points on our short list, although we have proposed further strengthening and correction. The French are unlikely to be satisfied with the references to industrial cooperation and will have to fight for any text which they may put forward. There will probably, however, be common ground which will make it possible for us to establish sensible references to improving the environment for cooperation between industrial enterprises.

/7.

Contingency plans for a deadlock at Athens

7. Before the Athens European Council we need to be clear what line the Prime Minister should take at the conclusion of the Council if there is a deadlock and, in particular, whether we should move straightaway to block the transfer of the Community's own resources. An updated separate paper on the options and contingency plans is being circulated.

8. On the basis of the Special Council discussions we believe that, although an agreement may not be reached in the European Council, it is unlikely that the discussion will break down through a complete failure of other member states to comprehend our requirements. It is probable that their proposals will be substantial, although it remains to be seen whether they are sufficient. It is unlikely that an inconclusive or disagreed result of the European Council will lead other member states to try to block the United Kingdom's 1983 refunds agreed at Stuttgart.

9. In these circumstances it is more likely that a problem will arise with the European Parliament later in December. The European Parliament might put the United Kingdom's 1983 refunds in the reserve chapter with specific conditions restraining transfer to budget lines.

10. It is recommended that our line should be -

(i) in the event of a successful conclusion at Athens, we would expect that our 1983 refunds in the 1984 draft budget will run through and that the new agreement itself covers the situation in relation to 1984 and later years;

(ii) if, contrary to our expectations, other member states were to make clear that they intended to block on a continuing basis the regulations necessary for the payment of our 1983 refunds, the United Kingdom Cabinet would be invited to agree that we should block the transfer of the Community's own resources;

/(iii)

(iii) if the European Parliament were to block the payment of our 1983 refunds, we should demand that the Commission and the Council of Ministers should honour the Stuttgart declaration by taking the necessary budgetary action in time to enable the bulk of the refunds to be paid by 31 March 1984. We would set a deadline, eg the end of the United Kingdom's financial year, with a more or less explicit threat to block the transfer of Community funds if the deadline were not met.

Conclusions

11. Before the European Council of 4-6 December it will be necessary for Ministers to decide:-

(i) whether and under what conditions the possible approaches to the solution of the problem of budget inequity set out in paragraph 5(i) could meet our requirements;

(ii) to take stock of the latest situation on the strict financial guideline for agriculture (and other) spending; and to decide whether the combined elements could represent the effective control of spending which is required (para 5(iii)

(iii) to endorse the main negotiating objectives for agriculture set out in para 5(iv)

(iv) to endorse the United Kingdom's existing approach on other policies, as set out in para 5(v);

(v) their approach to the question of own resources, if all other conditions were met (para 5(ii));

(vi) to decide in principle whether the response to an unsuccessful conclusion at Athens should be as in para 10.

Cabinet Office

25 November 1983

EUROPEAN COMMUNITY BUDGET NEGOTIATIONS: CONTINGENCY PLANS

Memorandum by the European Secretariat

Cabinet Office

1. It is not possible now to know whether the European Council in Athens on 4-6 December will come to a successful conclusion, a partial success or a deadlock. It is necessary, therefore, not only to conduct our strategy with a view to a success at Athens but also to be prepared for a worse result and in that event to be prepared to protect our position on our 1983 refund (750 million ecu net) and on the amount which we insist that we are owed under the 1982 risk sharing arrangement (75 million ecu net).

The 1983 Refund

2. The conclusions of the European Council at Stuttgart provide that a refund of 750 million ecu net should be incorporated in the 1984 draft budget. The Budget Council in July respected this decision: it made full provision in the 1984 draft budget and allocated the amount to budget lines, not to the reserve chapter. Implicitly, therefore, the Council rejected, as we do, any argument that these refunds were conditional on decisions on future financing.

3. The Stuttgart conclusions do not specify when during 1984 the refunds are to be paid. As in the case of previous refunds, we want the payment to be made before 31 March 1984. Before the refunds can be paid, two further stages are required:

(i) the European Parliament must adopt the 1984 budget, including provision for these payments. If provision is made on budget lines, there is no problem. If provision is made in the reserve Chapter 100, a further step is required to transfer the provision to budget lines;

(ii) the Council must adopt the necessary implementing regulations which provide the legal basis for making payments out of the Community budget.

Budgetary Provision

4. At its plenary session on 24-28 October the European Parliament put the United Kingdom's 1983 refunds (and 825 million ecu of agricultural guarantee money) into the reserve Chapter 100 of the draft budget, adding that payment of

/the refunds

refunds was conditional on "the opinion it forms of the outcome of the European Council in Athens". On 22 November the Budget Council decided to reject the proposals made by the European Parliament and reinserted the original provision on budget lines. The Council has the last word on the part of our refunds classified as obligatory (736 million ecu gross) but the European Parliament at its second plenary session on 12-16 December has the last word on the part classified as non-obligatory (255 million ecu gross). If the Parliament respects the Council's classification between obligatory and non-obligatory expenditure, they would only legally be able to place the non-obligatory expenditure in Chapter 100. The Parliament, however, may dispute the classification and declare the budget adopted with all our refunds in Chapter 100. If all or some of the refunds remain in Chapter 100, a further decision by the Council and the European Parliament will be required before the money can be paid.

5. The European Parliament also has the right at its December plenary session to reject the draft budget in its entirety. This would create, however, an entirely new situation going well beyond the payment of our 1983 refund.

Regulations

6. The regulations have to be adopted unanimously by the Council of Ministers. An Opinion from the European Parliament is also required. If the European Parliament's Opinion differs from the Council's, it may demand conciliation with the Council before the regulations are adopted. The Commission is about to table the regulations. They have yet to be considered either by the Council or by the European Parliament.

Cash Flow Problems

7. Even if the regulations have been passed and the necessary provision has been made within the 1984 Budget, there will still be an additional obstacle to be cleared to ensure that the bulk of our refunds reach us, as in previous years, by 31 March. In previous years the Commission has been able to meet this deadline without any difficulty, because it has had surplus cash in its bank accounts carried over from the previous year. At the beginning of 1984, however, it will be very short of cash. One way round this difficulty would be for the Commission to have recourse to advances of own resources and, if necessary, their overdraft facility. There will, however, be pressure from both the Commission and other member states that our refunds should be paid over a longer period of 1984.

/The Political

Political Obstacles

8. Despite the results of the European Council in Stuttgart and the decisions of the Budget Council in July, there is a risk that, if there is little or no progress at the Athens European Council, France or some other member states would block the implementing regulations under which the 1983 refunds would be paid to us in 1984. The conclusions of the Stuttgart European Council bear out our interpretation that no conditions were attached to the 1983 refund. The Prime Minister has since set out our understanding in a letter to Chancellor Kohl, copied to President Mitterrand, on which there has been no come-back. Chancellor Kohl's statement to the European Parliament on the outcome of the Stuttgart European Council made no mention of any conditionality. Nonetheless, the question of our 1983 refunds is a lever which some member states may yet try to use in the present negotiations.

9. Thus if in the opinion either of the European Parliament or of one or more member state there is insufficient progress at the Athens European Council in resolving the main issues including new own resources raised in the post-Stuttgart negotiation, the payment of our 1983 refunds could be blocked. The situation would almost certainly not be clearcut. We could find that provision for our refund was incorporated in the 1984 budget but that all or part of it had been transferred to Chapter 100. Equally, there could be delay over the adoption of implementing regulations caused either by other member states' desire to continue to exercise leverage over us in the context of the wider negotiations or by the need for conciliation with the Parliament. The situation might be sufficiently confused to make it difficult for us to point clearly to a single, politically motivated cause for delay.

10. If payment of both our 1983 refunds and the outstanding risk-sharing element of 1982 refunds were made in line with the timetable followed in recent years, we would expect the bulk (£510 million gross) to be paid by the end of our 1983/84 financial year, with the balance (£115 million gross) paid in the Summer of 1984. In 1984 our net contributions to the Community are estimated to be about £100 million a month. If, therefore, we were to begin blocking from 1 January 1984 the transfer across the exchanges of the Community's own resources, we could expect by 31 March to have withheld about three fifths of the amounts which we should have been paid by then.

/11.

··ions on the 1983 Refunds

11. It is not very probable that a direct threat to our 1983 refunds will appear at the conclusion of the European Council on 4-6 December. It is more likely that there will be difficulties when the European Parliament decides on the 1984 budget on or about 16 December. If following the European Council in Athens and the December plenary session of the European Parliament the obstacles to the payment of our 1983 refunds have not been overcome, the following are the principal options:-

Option 1. In the event of an overt challenge by member states (eg a deliberate and continuing refusal to agree to the implementing regulations) we could block the transfer of an equivalent amount of the Community's own resources. Contingency plans have been updated. This would require a formal decision of United Kingdom Ministers. Ministers would also need to decide a number of important issues, as set out in OD(83)9, such as the form and extent of the blocking of Community funds, whether legislation were required and, if so, its timing and content, and whether to publish a White Paper (the draft circulated as OD(83)8 is being updated). Action would create a new crisis in the Community and would have a major impact on the course of the post-Stuttgart negotiations.

Option 2. If the European Parliament, and not a member state, was the cause of the difficulty, we could seek a unanimous declaration by the Council of Ministers of its determination to honour the Stuttgart agreement on 1983 refunds. We would follow this up by demanding that the Commission and the Council honour this declaration by taking the necessary budgetary action in time to enable refunds to be paid by 31 March 1984. The European Parliament's agreement to this - their March Plenary Session 12/16 March - would depend on progress in the post-Stuttgart negotiation up to and at the March European Council (19/20 March). We could set a deadline for payment of the refund, eg the end of the United Kingdom's financial year which would be after the March European Council. We could couple this with a more or less explicit threat to block the transfer of Community funds if the deadline was not met.

Options on the Risk-Sharing element of the 1982 Refunds

12. Although the United Kingdom has drawn attention to the failure of the Community to honour its obligations under the risk-sharing arrangements at successive meetings of the Foreign Affairs Council and the Special Council and has asked for action to put the matter right, we have received no support from

/other

her member states who have refused to admit any further liability. It is necessary to decide how to handle the issue at Athens. If we do not waive or trade off our claim in the course of the discussions at Athens, the following appear to be the principal options:-

Option 1: We might seek to make the early payment of the 75 million ecu net an extra condition to our final agreement to an otherwise satisfactory package on the Community's future financing arrangements.

Option 2: We could continue to press our claim, if necessary by taking our case to the European Court. The advice of the Law Officers will be available by 1 December. Departmental legal advisers consider that the prospects of success are slight. Nevertheless, we should probably be following a fully defensible line of action and could try this course if other ways were blocked.

Option 3: If, as a result of failure either at Athens or later, we were blocking transfers of own resources to the Community in order to secure our 1983 refunds, the 75 million ecu net could be added to the amounts withheld.

Conclusion

13. Our strategy is to achieve a successful result at the Athens European Council. Contingency plans in the event of a deadlock are prepared. The options in relation to the 1983 refunds are set out in paragraph 11 and those in relation to the risk-sharing element of the 1982 refunds in paragraph 12.

European Secretariat
Cabinet Office
25 November 1983

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

23 November 1983

D F Williamson Esq
Cabinet Office
70 Whitehall
LONDON SW1

AR 30/11
p.a.
AJC: to see o.v.
DMB 23/11

Dear David,

EUROPEAN COMMUNITY: POST-STUGGART NEGOTIATIONS

with AJC

The Chancellor has read with interest your minute of 18 November about your discussions with Lautenschlager and Tietmeyer.

He agrees that, if the three options mentioned in your paragraph 8 were on the table at Athens, that would provide as good a point of departure as we could reasonably expect. He therefore fully supports the general approach which you have taken.

As between the three options, the Chancellor has no doubt that options i. and iii. would be preferable to option ii. Options i. and iii. would address the net contribution problem directly, including the levies and duties element (though with considerable camouflage in the case of option iii.) and could be relied on to solve it on a lasting basis.

Option ii., which would combine the Commission's modulated VAT with compensation for the gap between our expenditure and VAT shares, might quite possibly provide us in practice with a similar amount of relief. But it would not deal directly with the levies and duties element in our net contribution (the excess of our levies and duties share over our VAT share has been as much as 350 million ecus a year on average over the past four years). So although this hybrid approach could be so constructed that it would be likely to provide enough compensation to cover the levies and duties element, it would do so by accident, rather than by design. We could not be sure that it would provide an acceptable result over time in terms of our net contribution. There are several things which could go wrong. Our levies and duties could increase rather than decrease, for example, in an environment of higher world trade and UK import volumes; while our gains from modulated VAT could diminish considerably if the Community's non-agricultural expenditure were to rise faster than agricultural expenditure (as is very possible) or our share of the Community's agricultural production or net operating surplus were to rise. And the pain if things went wrong would exceed the pleasure if they went right. The Chancellor believes, moreover, that the task of persuading the House of Commons to go along with a deal which included an increase in own resources would be considerably more difficult if the imbalances mechanism could be seen to be one which might go wrong.

A further consideration is that, paradoxically, the fact that option ii. could have given us an unusually favourable outcome for 1982, because of our high VAT share for that year, is a disadvantage for the UK. This favourable result for 1982 would doubtless lead other member states to drive an even harder bargain than otherwise on the formula for limiting our VAT/expenditure shares gap.

Copies of this letter go to John Coles (No 10), Roger Bone (FCO), and Richard Hatfield in Sir Robert Armstrong's office.

Yours ever,

John Kerr.

J O KERR

EVRo Por
Budget
Px22

010

CONFIDENTIAL

Qz.03436

MR COLES : to see o.v.

cc: Sir Robert Armstrong

EUROPEAN COMMUNITY, POST-STUTTGART NEGOTIATIONS: CONFIDENTIAL BILATERAL DISCUSSIONS WITH FRANCE AND GERMANY

I am still hammering away at these bilateral discussions, with the objective of improving the offers which will be on the table at Athens on the budget inequity and reducing the amount of disagreement on other issues. We have certainly not gone backwards and may have made some modest progress, but we shall not see this more clearly until after the Special Council (and meetings in the margins) on 28 November.

--- I have set out more fully in the attached minutes the results of my discussions with Herr Lautenschlager and Herr Tietmeyer and with Monsieur Morel.

D F Williamson

D F WILLIAMSON

22 November 1983

CONFIDENTIAL

Qz.03435

MR BONE, FCO

EUROPEAN COMMUNITY: POST-STUTTGART NEGOTIATIONS

Following my discussion with Herr Lautenschlager and Herr Tietmeyer, recorded in my minute of 18 November, I had a long meeting with Monsieur Morel of the Elysee yesterday. The discussion was held in a very good atmosphere but I do not judge that we made any significant progress on the key issue of the budget. The main points were:-

(i) Financing and the budget inequity. I pressed on Monsieur Morel our view that, if there were an understanding between France, Germany and the United Kingdom that the revised system should at the outset give results which were fairly similar for France and the United Kingdom and not too far from the level of net contributions implied by the Germans' own paper, this should be negotiable with the other member states. It is, of course, understood between us that the higher we can push up the German figure at the beginning, while retaining German agreement, the easier will be the negotiation as a whole; a higher German figure at the beginning could be more acceptable if their exposure to higher net contributions in the medium term were somewhat lower. I found that Monsieur Morel continued to be interested in results of this kind and he placed less stress than the Germans on the difficulties of negotiation with other member states. His reaction, however, was more coloured than in the past by the difficulty of selling in France an arrangement which was apparently very favourable to the United Kingdom.

We discussed the United Kingdom's safety net scheme and the main elements of the proposals put forward by others. He reiterated the French objections to

/modulated VAT

modulated VAT, without explaining them further, and concentrated his attention on various forms of the payments share/GDP share gap. I said that it seemed to us that, apart from our own safety net, the most likely solutions to be on the table at Athens were the combination of modulated VAT and relief related to the payments share/VAT share or some other method of dealing with the excess contribution combined with the relief related to the payments share/VAT share. I said that if the French did not like modulated VAT, they should be thinking what other element should replace it in the sort of scheme put forward by the Germans. In my opinion Monsieur Morel has swallowed the payments share/VAT share relief but he was extremely conscious of the difficulty for President Mitterrand in trying to explain that in addition to this relief (which the French Government saw as a permanent system) there would be another element of relief directly related to the problem of the United Kingdom's high contribution of own resources. He baulked at this prospect.

We also discussed the special financing keys and I explained briefly the possible arrangement based on "headroom" (ie the difference between actual budgetary positions and safety net limits, subject to a limit, in the case of the less prosperous countries, to their share in the VAT base of all countries contributing to the reliefs).

On this part of the discussion I conclude that we have made the French think about an element additional to relief related to the payments share/VAT share but that their opposition to going beyond this relief is still strong.

/(ii) Agriculture.

(ii) Agriculture. Monsieur Morel repeated the point made by Monsieur Cheysson at the recent bilateral meeting, namely that agriculture was the centre of the negotiation for France and that within agriculture the monetary compensatory amounts were the critical point. He had had further discussions on this point with Dr Grimm of the Bundeskanzleramt before coming to London yesterday and there would be more negotiations during the Franco/German summit this week. On the existing positive monetary compensatory amounts he said that an agreement between France and Germany seemed possible; in response to my question about the reference in the Presidency's document to degressive aids partially financed by the Community, he said that for the present the French negotiators were keeping this option on the table because they had not ruled out the possibility that the Germans might make a first small step to dismantle their positive monetary compensatory amounts before the next annual price fixing, eg on 1 January, and that in that event the aid might be needed. On future monetary compensatory amounts he expressed - but not strongly - the French non-agricultural view of the disadvantages of tying the system to the strongest currency, ie the inflationary effect and the political unattractiveness of a special role for the deutschmark. He suggested tentatively that the system of a link with the strongest currency in order to avoid the creation of new positive monetary compensatory amounts might be adopted only for the period during which the existing stock of German positive monetary compensatory amounts remained. On the Commission's proposals for some changes in the method of calculation of monetary compensatory amounts he said that France now took the view that these would never be obtained if they did not get them in a European Council package. They were therefore pressing for this. I

/reiterated

reiterated our existing position on a link with the strongest currency, our opposition to the proposals on adjusting the method of calculation and, in a low key, the need for workable arrangements for variable monetary compensatory amounts.

On milk, Monsieur Morel said that the quota/super levy system seemed to be the only way forward. It was clear from his other comments that the French were still casting around for ways of sweetening the pill (eg new methods of reducing the Community's stocks, in order to show that the new arrangements were not solely directed at milk producers). I stressed our views on price policy, price increases being an unacceptable and counter-productive way of sweetening the pill, but did not discourage his anxieties about the Community's stock levels, since this could make it easier for us to defend the general butter subsidy.

On cereal substitutes, I detected a slight weakening of the French position that we should simply press ahead with the GATT procedures. Monsieur Morel did not entirely rule out the idea that the European Council might ask the Commission to re-open discussions with suppliers of maize gluten feed and citrus pulp and to report back to the Council with a view to decisions. No doubt the French, if they follow this line in the end, will try to bind the Council more tightly. Nonetheless, the French position did seem slightly more open. Monsieur Morel said rather sadly that, if France had a settlement with no oils and fats tax and a rather weak formula on cereal substitutes, this would be difficult to present as an element for offsetting the strong medicine on milk.

On the strict financial guideline for agricultural expenditure, I said that the conditions laid down at Stuttgart were very clear. Monsieur Morel said that

/France

France could probably accept the Commission's formulation but would wish the European Council also to apply a guideline or "code of good conduct" to non-agricultural expenditure. He confirmed the present state of disagreement in Paris about the amendment of budgetary procedures in order to set an annual VAT rate limiting the room for manoeuvre on the budget as a whole. He was concerned, however, that the bilateral talks (already under way between the Treasury and the Tresor) should continue, as the French position was not yet finally determined. I expressed our considerable interest in the French ideas on budgetary control and that, even if the French Government decided not to go the whole way now, it would be advantageous to include some reference to their ideas for wider reform in the Athens communique, if only as a first step.

(iii) Other policies. I said that we had studied the Presidency's revised document carefully and still had a number of important objections. We also recognised that the document probably did not go far enough to cover some of the French ideas on industrial cooperation. If the French Government was intending to propose any amendments in this sense, we would be very glad to consider them beforehand in order to decide whether or not we could support them. I repeated the importance which we attach to certain specific decisions in this package, on the lines which we had already set out in the Special Council. Monsieur Morel made three points:-

(1) it was now the French expectation that the commercial policy instrument would be included in this package and he implied that they were prepared to tone down some of their other views on external policy if this were the result;

(2) he stressed the personal interest of President Mitterrand in further initiatives to make the internal market more effective and to encourage Community initiatives on new technologies. The President was looking to take the first steps towards a greater realisation within the Community of the need for this action and he did not want to be diverted into specific arguments, such as he had had with Signor Craxi about the Tritium Laboratory;

(3) whatever was said in the Athens communique, it was essential that we should continue to build on our bilateral progress in public procurement, as now seemed possible in relation to Plessey in France and CIT/Alcatel in the United Kingdom. We needed greater Community competition in monopoly areas, such as some parts of the telecommunications field but "it would be madness to open up our public markets to Ma Bell's grand-children".

I do not think that we are too far from an agreement on an Athens communique on other policies which would include our specific points and a language on the French ideas which we could accept.

(iv) Social questions. Monsieur Morel gave notice that the French were becoming concerned that there had been no reference at all in the post-Stuttgart negotiations to social questions, although President Mitterrand had insisted that this should be one element at Stuttgart. For this reason, the French were making a statement in the single Preparatory Group today (I have told Sir Michael Butler) which would stress the importance of the "social dimension", suggest that at the European Council in Athens the Commission should be invited to provide a medium term programme on social affairs and ask that we should reiterate at Athens the need for taking action to aid youth employment. I said that my first reaction was that we would have no difficulty with this, provided that it did not imply legislation in those areas where we did not consider the best way forward was through legislation.

I have arranged to have further discussions with the French and the Germans in the margins of the next Special Council. I recommend that we should continue on the track which we have begun. We must use all means to maximise the possibility that at Athens we have on the table both the safety net and other methods of correcting the budget imbalance which are significant. We shall, of course, report more fully on our own preparations to the Foreign and Commonwealth Secretary on 25 November.

I am sending copies of this minute to John Kerr (Treasury) and Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

22 November 1983

CONFIDENTIAL

Qz.03425

MR BONE, FCO

EUROPEAN COMMUNITY: POST-STUTTGART NEGOTIATIONS

I had a long discussion yesterday with Herr Lautenschlager and Herr Tietmeyer, most of the time being spent on the central budget problem. I had set myself two objectives:-

(i) to persuade the Germans that the difficulty for other member states in financing the United Kingdom's relief was not as great as they believe and, in particular, that an understanding between Germany, France and the United Kingdom (under which the net contributions of France and the United Kingdom at the outset would be similar) would make a Community agreement more probable. The underlying objective is, of course, to reduce the incentive for the Germans to argue for a higher United Kingdom net contribution, which they will otherwise do so long as they believe that the figures resulting from our proposal are not negotiable with other member states;

(ii) while maintaining our own position unchanged, to improve to the maximum extent possible the various elements which are included in the proposals already made by others or which might be included in a revised German (or Presidency) proposal.

2. On point (i) I found, as I expected, Herr Lautenschlager and, to a considerable degree also, Herr Tietmeyer greatly concerned with what will, in their view, be negotiable. Using our own safety net scheme I stressed that, if at the outset the French and British net contributions were at about the same level (ie the level which results from our own document) and even assuming a German net contribution at or about the level which they themselves have implied in their paper, the resulting figures for the remaining member states are not in the least unreasonable. Of course, our relief has to be financed from somewhere but, applying this

system to the 1982 situation, all the other member states would remain net beneficiaries and the changes for the less prosperous are very modest. This special financing key is based on "headroom"; member states would finance reliefs in accordance with the "headroom" inside their limits, ie the differences between their actual net positions and their limits, but less prosperous countries would not have to pay more than their VAT shares after excluding beneficiary countries. The United Kingdom does not contribute to its own reliefs.

3. In the last resort the key under which the other member states finance the reliefs for the United Kingdom (and Germany) is not of great moment to us. The more acceptable, however, the distribution of the burden among other member states, the less the pressure against large relief to the United Kingdom. You will recall that many member states think in terms not of the effect of the new settlement on their net benefits, but in terms of their percentage contribution to the United Kingdom relief. Herr Tietmeyer noted very carefully what percentage each member state would contribute under the "headroom" special key and compared it with the special key proposed by the French. I hope that we have made at least some modest progress in persuading the Germans that the financing of reliefs on the scale we expect can be negotiated.

4. On point (ii), I discussed only on the basis that this was not the British but someone else's proposal. There are two conclusions to be drawn. First, the Germans are getting cold feet about modulated VAT (Commission's original proposal of 6 May). Although the Germans state that they themselves could see it in a final package, the French have been telling them that it is not acceptable. I said that we were well aware of the views of other member states now opposed to the Commission's modulated VAT proposal, but that we had not concluded that it was un-negotiable; this remained to be seen and the proposal should remain on the table.

/5.

5. Secondly, and more importantly, Herr Tietmeyer advanced his personal idea for a solution based on the hypothesis that the (un-negotiable) modulated VAT would have to be replaced by something else for the United Kingdom. He suggested that the relief related to the payments gap should now relate to the difference between a member state's share of payments from the Community budget and its share of VAT (the payments/VAT share gap). This is more favourable for the United Kingdom than the earlier proposals. He also proposed that the safety net related to this gap should be established on the basis of German variant 1, ie the United Kingdom basis, as a percentage of GDP and that the system could be made more favourable to the United Kingdom and Germany by taking 0.006 rather than 0.007 in our limits formula. He estimated that the gap to which the United Kingdom's relief would relate would be about 1385 million ecu (1982 basis). I said that, irrespective of other points, this was not enough money. In my view the value of Herr Tietmeyer's personal suggestion is that, with each day that goes by, it becomes more probable that one element in the proposal to which other member states are laboriously moving, will be the payments/VAT share gap.

6. At this point, another element entered into Herr Tietmeyer's analysis: the German wish to defer the actual provision of more own resources until at least 1986. He suggested that, although relief related to the payments/VAT share gap should be the permanent system, two problems remained. The United Kingdom would have obtained substantial relief but not relief related to the whole of the net contribution and, in any event, something was needed in relation to 1984 and 1985. Furthermore, he argued that the burden falling on the United Kingdom from our high contribution of levies and customs duties would fall away as the unit rate of levies and duties fell. An interim solution was therefore necessary which would be based on relief related directly to the net contribution. This would be phased out and replaced by the permanent system based on the payments/VAT share gap. My advice is that this is quite unacceptable. We are not in the business of accepting a long term arrangement which is not good enough, with a short term supplement.

 /7.

7. After the meeting, however, I have reflected on a way in which we might be able to turn this to a significant advantage. If we called the German bluff about the alleged disappearance in the future of our excess contribution of levies and duties, it would be possible to have the following solution:

- <u>element 1</u>. Relief based on the difference between the share of payments from the Community budget and the share of VAT, as now suggested informally by the Germans. This takes care of our lack of adequate receipts from the Community.

- <u>element 2</u>. Relief based on the difference between own resources share and VAT share, this relief to last as long as a member state is contributing an excess amount of own resources (ie from levies and customs duties). In effect we should be saying to the Germans "you say that our problem of excess contributions of levies and duties will fade away. Alright, we shall have the relief until that happens". It is easy to add a condition ensuring that, although the scheme would be a Community scheme, only the United Kingdom would get relief on this element.

- elements 1 and 2 add up to relief on the net contribution.

8. To conclude, we might be able to manoeuvre towards the following menu:-

(i) The United Kingdom's safety net scheme.

(ii) Relief related to (a) the payments/VAT share gap and (b) the Commission's original proposal (with some amendments) for modulated VAT. This could give adequate relief to the United Kingdom (on the assumptions which we have taken in our own working document it would have resulted in a United Kingdom net contribution of 294 million ecu in 1981 and 266 million ecu in 1982). Strictly speaking, the modulated VAT, although it is likely to be a useful

/relief,

relief, does not deal directly with the question of our excess contribution of levies and duties.

(iii) Relief related to (a) the payments/VAT share gap and (b) the own resources/VAT share gap, element (b) being allegedly transitional, ie to remain in effect so long as the gap remains. This is the safety net related to net contributions in a different presentation. It could, however, have a different negotiating impact if we arrive at it by the German route rather than by repetition of our own position.

9. The atmosphere in my discussions was very good but I should indicate that in my view the German side was disappointed that I did not come with specific concessions or an indication of our willingness to agree to a higher net contribution than is implied in our safety net scheme. They will have to live with that disappointment.

10. I am sending copies of this minute to John Kerr (Treasury) and Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

18 November 1983

Cabinet Office

MR COLES

cc Mr ~~Flesher~~

[handwritten initials] 24/11

EUROPEAN COMMUNITY

David Hannay asked me some time ago to chair a meeting of interested Departments on the presentation of our case on budget reform. We had a short gathering this week to review the situation before we go off to CHOGM.

One idea that came up was for the Prime Minister to place clearly on record her approach to Athens immediately before she goes there. An opportunity would arise by means of an Oral Question at Prime Minister's Question Time on December 1.

If you think this idea has merit - and since she may well be asked questions in advance of Athens there is a lot to be said for our trying to control the exercise - no doubt you will be able to arrange to have a question put through Mr Alison.

[signature]

B. INGHAM
18 November 1983

CONFIDENTIAL

Eur. Pol

AJC

PG VC

10 DOWNING STREET

From the Private Secretary

17 November 1983

European Community

The Prime Minister has seen Mr. Jopling's minute of 3 November and the minute of 16 November by the Foreign and Commonwealth Secretary about enlargement and the CAP.

While Mrs Thatcher has considerable sympathy with the points made by Mr. Jopling, she is inclined to agree with the Foreign and Commonwealth Secretary's views as set out in his minute under reference.

I am copying this letter to Roger Bone (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

A. J. COLES

Robert Lowson, Esq.,
Ministry of Agriculture, Fisheries and Food.

CONFIDENTIAL

Ref. A083/3274

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Special Council on 9-11 November which discussed the full range of issues for decision at the Athens European Council on 5 and 6 December. The Minister of Agriculture, Fisheries and Food and the Economic Secretary, Treasury, also took part in the meeting. After the United Kingdom had strongly criticised the Commission's latest proposal to replace the present method of calculation by an arbitrary measure of expenditure, the discussion of the budget inequity moved away from that proposal. After long discussion the Greek Presidency tabled a new proposal measuring the gap to be corrected as that between GDP and Community expenditure shares. Some elements were helpful to the United Kingdom: the arrangement would last as long as a new decision on own resources; the corrective arrangement would be made on the revenue side; and it did not follow the Commission's attempted redefinition of expenditure. But it did not fully measure the problem and did not incorporate the original Commission proposal for modulated VAT. It is now to be discussed further in the Preparatory Group of Officials. The Presidency proposal may be capable of improvement so that it has an effect similar to our safety net. If so, the negotiating situation at Athens, with both our safety net and the improved Presidency proposal on the table, would be much better. In the Special Council the Chairman insisted on discussing the question of an increase in own resources, but a number of member states, including the United Kingdom and Germany, declined to take up a position; those which expressed a view wanted a VAT rate ranging from 1.4 per cent through the Commission's 1.8 per cent to 2 per cent. There were no significant changes in position on the strict financial guideline which is to be discussed further in the Preparatory Group of Officials.

2. A separate meeting of Agriculture Ministers during the Council discussed the Presidency's package solution on agricultural issues for the European Council. This identified the main issues for the negotiation on milk. The quota/super levy appears to be the only negotiable means of restraining rising milk production but the details are controversial. There was a general restatement of positions on cereals, monetary compensatory amounts and the oils and fats tax. There was some pressure to bring other products into the package, including beef and sheepmeat. Agriculture Ministers examined on 15 November a revised Presidency paper. In a brief discussion of other policies, France complained that the Presidency paper omitted their ideas on facilitating co-operation between enterprises in Europe. It was satisfactory that no member state, apart from Italy and Greece, was willing to consider the integrated Mediterranean programmes for decision at this stage. The United Kingdom also raised the problem of our 1982 risk-sharing and emphasised that if the matter were not settled at the next meeting of the Special Council it would have to be raised at the Athens European Council. The Special Council is to meet again on 28 November, and the Foreign Affairs Council on 29 November will take preparation for the European Council as its first item.

3. The Minister of Agriculture, Fisheries and Food may report on the low key Agriculture Council on 14-15 November at which he and the Minister of State (Mr MacGregor) represented the United Kingdom. This agreed the common agricultural research programme 1984-88 but a decision on the 1984 import quota for New Zealand butter was deferred until the December Council, France linking this with the review of the sheepmeat regime. Political opposition again prevented agreement to the United Kingdom's proposed extension of our less favoured areas.

4. The Minister of Agriculture, Fisheries and Food may also report on his visit to Washington on 3-8 November, when he discussed agricultural trade policy with members of the Administration and Congress, and sounded out United States opinion on the Commission's common agricultural policy reform proposals.

Mr Jopling made clear the United Kingdom's opposition to an oils and fats tax and the deconsolidation of the tariffs on cereal substitutes. He also emphasised that a trade war would not be in the interests of either the United States or the Community.

5. There was also a Development Council on 15 November, at which the Minister for Overseas Development represented the United Kingdom, which discussed the Community's future policy on food aid.

6. Immediately before Cabinet OD(E) will have met to consider the United Kingdom's position on the funding of the programme for information technology (ESPRIT). There will be an informal meeting of Tourism Ministers on 20 November and a Ministerial political co-operation meeting on 22 November; the Budget Council will also meet on 22 November, as will the Standing Employment Committee of Community Employment Ministers, Commission, industry and trade unions; there will be a meeting of the Internal Market Council on 25 November.

RP

Approved by
ROBERT ARMSTRONG
and signed in his absence.

16 November 1983

PRIME MINISTER

European Community

On 3 November Michael Jopling wrote to you to say:

(a) that he was worried about the cost of enlargement and that we ought to look at alternatives;

(b) that the EC should set up a small group of wise men to provide an analysis of future trends in European agriculture and pointers to the policy implications.

In the attached minute Sir Geoffrey Howe argues that:

(a) it would not be wise now to put obstacles in the way of enlargement - and that we will be protected against the costs if we reform the Community Budget and the CAP in the way we intend to; And if we don't?

(b) that a group of wise men is not likely to add to all the analyses which we already have of the CAP.

Would you like me to say that you are inclined to agree with the Foreign and Commonwealth Secretary?

although I have great sympathy with his points. But we are all groping for a solution Yes and.

A.J.C.

16 November 1983

PM/83/90

PRIME MINISTER

Europe

1. I have seen a copy of Michael Jopling's letter to you of 3 November about the developments in the Community.

2. I have considerable sympathy with some of Michael's thoughts. I agree that we may well emerge from the post-Stuttgart negotiation with our relations with other EC members in a battered state, and that it is therefore important to look for ways of emphasising our positive attitude to the development of the Community generally. Hence the particular importance of the paper on new policies which we have tabled in the Special Council. It has been widely welcomed - not least as a signal of our will to press for the necessary decisions at the Athens Summit.

3. On enlargement, I too have no illusions about the difficulties ahead. But I doubt whether it would be right to rethink our attitude to Spanish and Portuguese accession. To do so would bring us into immediate collision, not only with Spain and Portugal, but with more or less all of our partners (except perhaps the French who would be delighted at the prospect of shifting the odium attracted by their own equivocal position on to us). The case for Spanish membership is, as Michael Jopling says, above all a political one and it has not lost any of its force. If anything, the effect of the EC membership issue on the outcome of the expected

/Spanish

Spanish referendum in 1985 on NATO membership, and the real possibility of getting the Gibraltar frontier fully opened with the help of the lever which Spanish obligations as a Community member create, make it even more compelling than in the past.

4. We have always accepted that there would be budgetary costs arising from Spanish accession (as opposed to Portuguese accession, which will cost relatively little). Our concern has been to ensure that they are not excessive, and that we do not bear a disproportionate share of them. The figure of 1820 mecu (not billion ecu) for the CAP costs of enlargement which Michael Jopling mentions needs to be treated with caution; it represents the long term cost of applying to Spain and Portugal an unreformed CAP, and in particular the olive oil regime (which on its own accounts for nearly half the forecast increase in FEOGA guaranteed expenditure arising from enlargement). There is no question of our continuing to apply these same regimes without improvements in financial control. As regards the olive oil regime, we are quite clear that the inclusion of Spain in the present arrangements as they stand would not be acceptable. As to the UK share of the burden, we are of course determined that we should pay no more than an equitable share of any future increase in Community spending, whether from enlargement or from any other source. Our safety net proposal would protect us here.

5. Having two new members in the Community with distinct interests of their own is certainly not going to make things easier. But I doubt whether Spain - still less Portugal - will be as prickly and difficult a partner as Greece has proved to be. An increase from 10 to 12 members may well make decision taking a little more complex, but I am disinclined to regard that as an over-riding point. What would worry me would be the possibility of serious consequences for our

/wider

wider interests which might result from slamming the door in the face of these two fragile democracies.

6. The suggestion for a group of 'wise men' to provide the Community with an assessment of supply and demand trends in agriculture and pointers to the political implications is an interesting one. Economists have of course been denouncing the CAP in increasingly strong terms for years: and not just in Britain - see for example the enclosed article in the 'Financial Times' on 1 November by the German Minister Stefan Tangermann. There is no shortage of analysis of what is wrong with the CAP and indeed much agreement on it. Another example is to be found in the European parliament's endorsement of Sir Fred Catherwood's recent report. But however weighty the criticisms, they are not as weighty as political imperatives which make it so difficult to break away from existing arrangements. I am therefore a bit doubtful whether a group of 'wise men' would get us very far. Indeed, I think there might be some risk of such a device distracting attention from the hard decisions we want the Community to take in the months and years ahead. But perhaps we should look at the idea again next year in the light of the outcome of the immediate discussion in the Council about overall control of agricultural expenditure.

7. I am copying this minute to Michael Jopling and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

16 November 1983

Common Agricultural Policy

Europe and the road to serfdom

By Stefan Tangermann

WHEN Nobel prize winner F. A. von Hayek wrote his famous book "The Road to Serfdom" in 1944, he could not foresee that a European Economic Community would come into existence, that this Community would have a Common Agricultural Policy and that this policy would finally end in impasse.

Yet today his book reads like the secret script for the CAP.

One element of von Hayek's theme is the inevitable tendency of government intervention to spread. If the state starts thwarting market forces heavily at one end of the economy, this creates difficulties at another end. Governments feel pressed to do something about these secondary problems, and as they implement new measures the trouble is multiplied. Bureaucratic regulations cover more and more activities, and in the process the economy (and, indeed, the society) comes increasingly under the scourge of state control. What started in liberty ends up in serfdom.

The development of the CAP over the last few years is a faithful representation of this theme. But, it seems, the bitter end is still to come.

The CAP has run out of money. The Stuttgart summit requested the Commission to submit proposals for reform and instructed the Council to adopt solutions to the problem.

A naive observer might think that the obvious and immediate reaction is to avoid the mistakes of the past, ie, to redress farm price support and market intervention. Quite wrong! As if they had to follow von Hayek's dismal vision, like puppets hanging on invisible strings, EEC farm policy makers are

Anxious to stop gaps rather than cure the cause of the problem

anxious to stop gaps rather than to cure the cause of the problem.

To be fair, one has to admit that the Commission has included a gradual reduction of the level of farm price support as one element in its reform proposals. However, if other elements of the Commission's proposals find acceptance, it is politically rather unlikely that CAP price support will be redressed. These other elements include, amongst others, restrictions on imports of grain substitutes, quotas for milk production, and a fat tax. These measures are quite representative examples of the CAP's inherent tendency to take the road to serfdom.

The proposed fat tax has a double purpose. It is supposed to raise the price of fats competing with butter for consumer expenditure, thereby increasing demand for butter and helping to solve the milk surplus problem.

At the same time, it is seen as a source of income for the Community's budget. But it does nothing to solve the underlying problems, as it neither reduces excessive milk production in the EEC nor reduces unnecessary spending from the Brussels budget.

The fat tax is nothing more than a cheap optical illusion as it merely shifts the burden from the Community's budget to the shoulders of the consumers. Should it be adopted, it would mean expanded government intervention in EEC food markets without any economic improvement.

Restrictions on imports of grain substitutes are also a double purpose policy. Imports of feedstuffs which can be substituted for grain (such as manioc or corn gluten feed) have increasingly displaced cereals in EEC compound feeds, as the CAP has made grain more and more expensive in the Community while grain substitutes could be imported rather liberally.

Restricting substitute imports would channel grain back into feeding rations and reduce the Community's grain surplus problem. At the same time it would inflate feed costs and thereby decrease the EEC surplus output of livestock products. However, although this may appear to be an elegant way of killing two birds with one stone, it is of little use if the birds turn out to be the wrong ones.

The EEC's surplus production of grains and livestock is obviously due to excessively high support prices. Yet only a child would be so naive as to assume that a direct solution, the reduction of price support, is on the cards. EEC farm policy makers do not like direct solutions. They would rather adopt additional new measures if the existing ones turn out to have undesired side-effects.

The decisive issue in the current debate about CAP reform, however, is that of milk quotas.

Again, it appears plausible that restricting price guarantees to a given quota of milk production per farm is the "reasonable" policy reaction when the EEC has unbearable milk surpluses. Of course, milk quotas may help to restrict expenditure from the EEC budget, though not to the extent which politicians would like us to believe. It is highly unlikely that EEC farm ministers would agree to an aggregate volume of quotas significantly below current EEC milk production, as proposed by the Commission. Should they adopt the quota solution, the usual adding-up of national interests will, rather, result in a relatively high level of quotas.

But even if quotas help to restrict Community budget expenditure, this is an optical illusion even greater than in the case of the fat tax.

Farm ministers will support dairy farmers' incomes, which can no longer grow through an expansion of output because of quotas, by stepping up milk prices. This means that visible Community budget expenditure is replaced by a hidden burden on EEC consumers of milk and dairy products. And as this consumer burden is hidden there will be a tendency to increase it more and more. Experience in countries which have milk quotas demonstrates this point forcefully.

Some farm policy makers argue that problems like these are negligible as quotas will be established as an interim solution only, until difficulties in the EEC milk market are solved.

These politicians are either naive or cynical. Under the umbrella of quotas, milk prices will be raised to such an extent that it will soon be impossible to remove quotas without a massive boom in milk production or a drastic cut in milk prices, both of which will prove politically unacceptable.

Shifting the burden from the Budget to the consumer

Quotas are here to remain. Again, the history of other countries contains lessons for anyone willing to listen.

A decision to introduce milk quotas in the EEC would, therefore, be a fundamental and irrevocable change of the CAP. It would add a decisive new element of heavy government intervention to the Community's farm policy, instead of decreasing interference with market forces in the light of our unhappy experiences with the CAP.

Milk quotas would lead the CAP on the road to serfdom, on a road which would turn out to be a cul-de-sac, with no turning point at the end. Save the CAP before it is too late!

Stefan Tangermann is Professor of Agricultural Economics at the University of Göttingen.

EURO POL: Budget: Pt 22

16 NOV 1983

Euro Pol
Budget
Pt 23

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Ref. A083/3189

PRIME MINISTER

Cabinet: Community Affairs: Commission Paper on Budgetary Imbalances

You may like to have this further note on the paper on budgetary imbalances tabled by the Commission at the current meeting of the Special Council, which proposes a new method allocating expenditure in the Community budget. This would be combined with their existing proposal for modulated VAT.

2. For the last four years the Commission has used a method of calculating net contributions which has been accepted as the basis for the budget refunds to the United Kingdom and Germany. This has essentially represented the difference between what a member state pays into the Community budget and what it receives. The Commission now propose:

(i) To allocate most of the European Agriculture Guidance and Guarantee Fund (FEOGA) guarantee expenditure in accordance with production shares. They justify this by arguing that payments are not necessarily made in the country of origin and that all member states benefit from the stability which the payments create. In fact, production shares are not relevant to the measurement of transfers throughout the budget from one member state to another across the balance of payments.

(ii) To exclude from the Common Agricultural Policy (CAP) expenditure on food aid restitutions and that arising from the import of African, Caribbean and Pacific sugar. In fact, both proposals have previously been rejected more than once. The costs arise from the difference between world and Community prices and are therefore attributable to the operation of the CAP.

(iii) To allocate a proportion of administrative expenditure to the host countries of the Community institutions and to exclude the remainder. In fact, Belgium and

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Luxembourg receive financial benefits for the siting of Community institutions in their countries many times greater than the direct expenditure.

3. These proposals would have reduced the United Kingdom's "expenditure gap" in 1982 from 1350 MECU (£770 million) to under 1000 MECU (£570 million), representing an apparent share of Community farm spending of 16 per cent, as compared to the actual 11 per cent and our contribution rate of 21 per cent. The proposals would also have effects on other member states: Belgium, the Netherlands and Italy could become net contributors with Britain and Germany, while other member states except France would become smaller net beneficiaries. The reduction in the United Kingdom's contribution would come from a combination of these proposals and their modulated VAT proposal which would yield some 500 MECU (£275 million). Under the new proposals member states would receive an abatement if their expenditure gap exceeded some unspecified percentage of Gross Domestic Product (GDP). This percentage would rise according to relative prosperity. Since the percentages are not specified it is not possible to say what abatement the United Kingdom would receive, but if it was accepted that the United Kingdom percentage should be 0.1 per cent of GDP (as in our safety net proposal) the United Kingdom's abatement would be at most some 500 MECU (£275 million), making up to about 1000 MECU (about £570 million) in total.

4. The proposals are reportedly the result of an initiative by Mr Thorn, who believes that other member states will not be prepared to reach a permanent settlement on the basis of the present scale of the United Kingdom's net contribution. Only Commissioner Tugendhat opposed them, Commissioner Richard being unavoidably absent at a meeting of Social Security Ministers. Because the proposals reduce the apparent size of the burden borne by net contributors, they are likely to attract other member states as offering a cheaper solution to the British budget problem. The United Kingdom has already made it clear that we reject this attempt to manipulate the figures, which cannot provide the basis for a solution.

ROBERT ARMSTRONG
Approved by

9 November 1983

Ref. A083/3182

PRIME MINISTER

Cabinet: Community Affairs

Unless already covered under Foreign Affairs, you may like to tell Cabinet about the Community aspects of your talks with the Greek Prime Minister on 4 November, the Irish Prime Minister on 7 November and the German Federal Chancellor on 8-9 November, particularly in relation to the prospects for the December European Council.

2. The Minister of State, Foreign and Commonwealth Office (Mr Rifkind), may refer to the Special Council carrying on the post-Stuttgart negotiations which is meeting until 12 November. In particular he may refer to the cynical and prejudicial proposal to redefine expenditure which the Commission have tabled in order to make the United Kingdom's budgetary imbalance appear half its actual size. The United Kingdom has already made it clear that this transparent device is quite unacceptable.

3. The Minister of State, Department of Energy (Mr Buchanan-Smith), may report on the Energy Council on 4 November which he attended, when there was helpful recognition that solid fuels, the associated social measures, coking coal and demonstration projects should be treated as a package to be put to a December Energy Council following the European Council if the Presidency consider that sufficient scope for progress then exists.

4. The Secretary of State for Trade and Industry may report on the Industry Council on 4 November, at which the Parliamentary Under Secretary of State (Mr Fletcher) represented the United Kingdom. The Council welcomed Commission proposals for urgent action on telecommunications and agreed that an expert group should work up concrete proposals before the end of the year. There was also a favourable response to the Commission's ideas on biotechnology, and it was agreed that the Presidency should prepare a report to the Special Council after the subject had been discussed

in the Research Council. A Greek memorandum on industrial policy and the Commission's ideas on improving the climate for industrial co-operation were referred to the ad hoc group considering new policies in the context of the post-Stuttgart negotiations.

5. The Secretary of State for Trade and Industry may also refer to the Research Council on 5 November, at which the Deputy Permanent Representative (Mr Elliott) represented the United Kingdom. This made substantial progress on the programme for Information Technology (ESPRIT). The United Kingdom and Germany reserved their position on the funding of the programme. Your meeting of 4 November on the post-Stuttgart negotiations agreed that Ministers would need to look again at this point in the light of the Research Council discussion.

6. During the next seven days the Finance Council will meet on 14 November, the Agriculture Council on 14-15 November and the Development Council on 15 November. Immediately before next week's Cabinet there will be a meeting of OD(E) to consider ESPRIT, and the attribution of Community expenditure to departmental budgets.

RtA

ROBERT ARMSTRONG

9 November 1983

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Qz.03415

MR COLES

EUROPEAN COMMUNITY: POST-STUTTGART NEGOTIATIONS

I attach a draft record of the meeting which the Prime Minister held on 4 November. I assume that, following recent precedent, you will distribute this over your signature. If you do not agree, perhaps you could let me know as soon as possible and I shall distribute it, subject to any comments which you may make.

D F Williamson

D F WILLIAMSON

7 November 1983

CONFIDENTIAL

Letter to Roger Bone from A.J.C.

EUROPEAN COMMUNITY: POST-STUTTGART NEGOTIATIONS

4. The Prime Minister held a meeting on 4 November with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Economic Secretary, Treasury, the Minister of State, Department of Trade and Industry (Mr Lamont) and the Minister of State, Ministry of Agriculture, Fisheries and Food (Mr MacGregor) in order to review the progress on the post-Stuttgart negotiations and the United Kingdom's strategy in the run-up to the Athens European Council on 4-6 December. Sir Robert Armstrong, Sir Michael Butler and Mr D F Williamson were also present. The European Secretariat of the Cabinet Office, after discussion with officials, had submitted a memorandum of 28 October on the main elements of the negotiation and a memorandum of 2 November on contingency plans.

2. On future financing and the correction of the budget inequity the Foreign and Commonwealth Secretary said that this would be a principal issue for the European Council in December. It was essential that the budget inequity was properly and fully measured and that the alternative approaches were presented to the European Council. The large majority of member states would not accept that the correction should be based in specific terms on the "net contribution". This did not rule out, however, a solution which did actually deal with the net contribution but ~~would be~~ which was differently presented. It was important that the message which the Prime Minister

/gave

gave to Mr Papandreou at the meeting on 4 November should be ~~a message~~ one of continued United Kingdom insistence on the proper measurement of the problem through the net contribution. Premature attempts by the Greek Presidency to propose compromises between the position of the eight net beneficiaries and the two net contributors would not help the negotiation forward. The Chancellor of the Exchequer said that the United Kingdom must remain firmly of the view that the net contribution was the substance of the problem and that the remedy should deal with it. The Prime Minister said that she would make these points in her discussion with Mr Papandreou. We could not agree to a solution which did not correspond to the proper measurement of the budget inequity.

3a In discussion it was pointed out that despite difficulties there had been some progress in the negotiations. Three other member states had moved, although not sufficiently, towards the United Kingdom position, while the United Kingdom had not moved one inch. Some member states, however, particularly Germany, considered that if the United Kingdom had an absolute limit on its net contribution we would have no interest at all in restraining new Community expenditure. This opinion was strongly felt and it might be necessary to agree that the United Kingdom should bear a very small part of its net contribution above the limit. In discussion it was explained that, if the United Kingdom safety net had been applied to 1982 and ~~the United Kingdom~~ we had borne 5% of ~~its~~ our net contribution above the limit, ~~the United Kingdom~~ we

 /would

would have contributed about 520 million ecu, ie 80 million ecu more than under the safety net scheme alone.

4. The Prime Minister said that such a course had the negotiating risk that there would be pressure to increase the contribution still further. Our reaction must depend therefore on the figures which would result.

5. On agriculture the Foreign and Commonwealth Secretary said that there had been little progress on the strict financial guideline. Only the United Kingdom and the Netherlands were in favour of a legally binding guideline to be included in the Community's budgetary procedures. The French, however, had now given notice that they might propose an amendment of the budget procedure in order to set a maximum figure for total Community spending before the budget decisions were taken. The prime objective of the French would be to prevent the European Parliament and other member states pushing up expenditure in sectors such as the Regional Fund and Mediterranean infrastructure but a French initiative would still strengthen our negotiating hand. In bilateral discussions the Italians had also suggested predetermined budgetary limits for certain agricultural sectors (but not for Mediterranean produce). The Chancellor of the Exchequer said that a strict and legally binding guideline was the effective means of restraining expenditure. We must continue to press for it, despite the negotiating difficulties.

/6.

6. In discussion it was pointed out that the strict financial guideline raised major political problems for most member states. It was very hard for them to accept that a ceiling should be put on this expenditure.

7. The Prime Minister said that we had laid down, as a condition of even considering an increase in own resources, the correction of the budget inequity and effective control of the rate of increase of agricultural and other spending. We had to be satisfied on both points.

8. On specific proposals for agricultural products, the Minister of State, Ministry of Agriculture, Fisheries and Food said that there was some risk that the package would not be balanced. First, it ought to have a fair balance between products mainly of interest to the Northern member states and products mainly of interest to Mediterranean member states. Secondly, there were specific United Kingdom interests to protect. On the proposed super levy for milk, in particular, there were practical difficulties. 1981 was a bad base year for the United Kingdom and there would be distortion because producers who sold their output directly to the consumer would not pay the levy.

9. In discussion it was argued that the European Council on 4-6 December would not be manageable unless there were a package of agricultural measures which had been provisionally

/settled

settled beforehand. It was clear that the United Kingdom could not obtain agreement to the scale of price decreases for milk (up to -12%) which would correspond to the problem. We must therefore go for the price restraint which was obtainable and be prepared to look at the super levy.

9. The Prime Minister said that it would certainly be helpful if progress on these agricultural issues had been made before the December meeting of the European Council.

10. On new policies the Foreign and Commonwealth Secretary said that the negotiation was developing satisfactorily on the basis of the papers from a number of member states including the United Kingdom. It was clear that the post-Stuttgart package would not be concluded without some statements on new policies. For this reason he was concerned that the United Kingdom should take up a reasonable position on the programme for information technology (ESPRIT). We should support the programme at or about the level proposed (5 year programme totalling 750 million ecu from Community funds matched by a similar sum from industry) but ensure that there was a review of expenditure during the period.

11. In discussion it was argued, on the one hand, that the ESPRIT programme was too large and, on the other hand, that both industry itself and the Chief Scientist (Dr Nicholson) had argued that it would be a good programme. The question would need to be looked at again following the meeting of the Council of Ministers (Research) on 5 November.

13. The Prime Minister, summing up the discussion on the main elements of the post-Stuttgart negotiations in the run-up to the Athens December Council, said that subject to points made in discussion the United Kingdom should continue to be guided by the line set out in paragraph 12 of the memorandum.

14. On <u>contingency plans</u> the Prime Minister, summing up a brief discussion, said that the meeting had taken note of the memorandum of 2 November. It was necessary, however, that, before the meeting of the European Council of 4-6 December, the United Kingdom ~~had~~ should have decided on its response to a breakdown at Athens.

15 I am copying this letter to the private secretaries of those ~~of~~ Ministers who were present and to Richard Hatfield.

AJC 7/11.

JD

CONFIDENTIAL

cc MASTER SET

c. HMT.
ES, HMT.
MR DTI.
MS MAFF
CO.

10 DOWNING STREET

From the Private Secretary

7 November, 1983.

European Community: Post-Stuttgart Negotiations

The Prime Minister held a meeting on 4 November with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Economic Secretary, Treasury, the Minister of State, Department of Trade and Industry (Mr. Lamont), and the Minister of State, Ministry of Agriculture, Fisheries and Food (Mr. MacGregor) in order to review the progress on the post-Stuttgart negotiations and the United Kingdom's strategy in the run-up to the Athens European Council on 4-6 December. Sir Robert Armstrong, Sir Michael Butler and Mr. D.F. Williamson were also present. The European Secretariat of the Cabinet Office, after discussion with officials, had submitted a memorandum of 28 October on the main elements of the negotiations and a memorandum of 2 November on contingency plans.

On future financing and the correction of the budget inequity the Foreign and Commonwealth Secretary said that this would be a principal issue for the European Council in December. It was essential that the budget inequity was properly and fully measured and that the alternative approaches were presented to the European Council. The large majority of member states would not accept that the correction should be based in specific terms on the "net contribution". This did not rule out, however, a solution which did actually deal with the net contribution but which was differently presented. It was important that the message which the Prime Minister gave to Mr. Papandreou at the meeting on 4 November should be one of continued United Kingdom insistence on the proper measurement of the problem through the net contribution. Premature attempts by the Greek Presidency to propose compromises between the position of the eight net beneficiaries and the two net contributors would not help the negotiation forward. The Chancellor of the Exchequer said that the United Kingdom must remain firmly of the view that the net contribution was the substance of the problem and that the remedy should deal with it. The Prime Minister said that she would make these points in her discussion with Mr. Papandreou. We could not agree to a solution which did not correspond to the proper measurement of the budget inequity.

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In discussion it was pointed out that despite difficulties there had been some progress in the negotiations. Three other member states had moved, although not sufficiently, towards the United Kingdom position, while the United Kingdom had not moved one inch. Some member states, however, particularly Germany, considered that if the United Kingdom had an absolute limit on its net contribution we would have no interest at all in restraining new Community expenditure. This opinion was strongly felt and it might be necessary to agree that the United Kingdom should bear a very small part of its net contribution above the limit. In discussion it was explained that, if the United Kingdom safety net had been applied to 1982 and we had borne 5% of our net contribution above the limit, we would have contributed about 520 million ecu, i.e., 80 million ecu more than under the safety net scheme alone.

The Prime Minister said that such a course had the negotiating risk that there would be pressure to increase the contribution still further. Our reaction must depend therefore on the figures which would result.

On agriculture, the Foreign and Commonwealth Secretary said that there had been little progress on the strict financial guideline. Only the United Kingdom and the Netherlands were in favour of a legally binding guideline to be included in the Community's budgetary procedures. The French, however, had now given notice that they might propose an amendment of the budget procedure in order to set a maximum figure for total Community spending before the budget decisions were taken. The prime objective of the French would be to prevent the European Parliament and other member states pushing up expenditure in sectors such as the Regional Fund and Mediterranean infrastructure but a French initiative would still strengthen our negotiating hand. In bilateral discussions the Italians had also suggested predetermined budgetary limits for certain agricultural sectors (but not for Mediterranean produce). The Chancellor of the Exchequer said that a strict and legally binding guideline was the effective means of restraining expenditure. We must continue to press for it, despite the negotiating difficulties.

In discussion it was pointed out that the strict financial guideline raised major political problems for most member states. It was very hard for them to accept that a ceiling should be put on this expenditure.

The Prime Minister said that we had laid down, as a condition of even considering an increase in own resources, the correction of the budget inequity and effective control of the rate of increase of agricultural and other spending. We had to be satisfied on both points.

On specific proposals for agricultural products, the Minister of State, Ministry of Agriculture, Fisheries and Food said that there was some risk that the package would not be balanced. First, it ought to have a fair balance between products mainly of interest to the Northern member states and products mainly of interest to Mediterranean member states. Secondly, there were specific United Kingdom interests to protect. On the proposed super levy for milk, in particular, there were practical difficulties. 1981 was a bad base year for the United Kingdom and there would be distortion because producers who sold their output directly to the consumer would not pay the levy.

In discussion it was argued that the European Council on 4-6 December would not be manageable unless there were a package of agricultural measures which had been provisionally settled beforehand. It was clear that the United Kingdom could not obtain agreement to the scale of price decreases for milk (up to -12%) which would correspond to the problem. We must therefore go for the price restraint which was obtainable and be prepared to look at the super levy.

The Prime Minister said that it would certainly be helpful if progress on these agricultural issues had been made before the December meeting of the European Council.

On new policies the Foreign and Commonwealth Secretary said that the negotiation was developing satisfactorily on the basis of the papers from a number of member states including the United Kingdom. It was clear that the post-Stuttgart package would not be concluded without some statements on new policies. For this reason he was concerned that the United Kingdom should take up a reasonable position on the programme for information technology (ESPRIT). We should support the programme at or about the level proposed (5 year programme totalling 750 million ecu from Community funds matched by a similar sum from industry) but ensure that there was a review of expenditure during the period.

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The Prime Minister, summing up the discussion on the main elements of the post-Stuttgart negotiations in the run-up to the Athens December Council, said that subject to points made in discussion the United Kingdom should continue to be guided by the line set out in paragraph 12 of the memorandum.

On contingency plans the Prime Minister, summing up a brief discussion, said that the meeting had taken note of the memorandum of 2 November. It was necessary, however, that, before the meeting of the European Council of 4-6 December, the United Kingdom should have decided on its response to a breakdown at Athens.

I am copying this letter to the Private Secretaries of those Ministers who were present and to Richard Hatfield (Cabinet Office).

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

Top Copy on Econ Pol, Budget,

AJC

Prime Minister

Agree Option 2?

AT 7/11

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

May we discuss - this year figure turned out to be very embarrassing & I would rather put in uncorrected net contribution with a footnote MT

PRIME MINISTER

NET PAYMENTS TO EUROPEAN COMMUNITY INSTITUTIONS: AUTUMN STATEMENT AND PUBLIC EXPENDITURE WHITE PAPER

I promised at your meeting this morning to let you know what I plan to show in the Autumn Statement and Public Expenditure White Paper for net payments to European Community institutions in 1984-85. While I hope that the Autumn Statement will be published on 17 November, the White Paper will not come out until February or March.

2. In all recent Public Expenditure White Papers and Autumn Statements, we have assumed that the 1 per cent VAT ceiling will be maintained and that we shall receive refunds of 66 per cent of our uncorrected net contribution to the allocated budget for the previous year. The White Papers have been careful to describe the latter as a 'stylised assumption'.

3. The latest projections prepared by officials are based on the same assumptions, and are as follows:

NET PAYMENTS TO EUROPEAN COMMUNITY INSTITUTIONS
(excluding overseas aid)

£ million

	1983-84	1984-85	1985-86	1986-87
Latest figures	350	400	450	500
Previous White Paper (Cmnd 8789)	380	450	530	..
Change	- 30	- 50	- 80	..

The downward revisions for 1984-85 and 1985-86 mainly reflect lower projections for inflation and economic growth in the Community than were assumed in the last White Paper.

4. Obviously, much may change between now and the deadline for the White Paper, and we shall be reviewing the position in the New Year.

5. So far as the Autumn Statement is concerned, all we need to publish is a single figure for net payments to European Community institutions in 1984-85, plus the change compared with the last White Paper. As I see it, we have four main options:-

1. retain the now-traditional assumptions and repeat the last White Paper figure;

2. retain the now-traditional assumptions and show officials' latest estimates based on these (ie a reduction of £50 million compared with the last White Paper);

3. show our uncorrected net payments, on the basis that we have no agreement at this stage on future refunds or reliefs; or

4. show a much lower figure for our net payments, intended as a signal of what we are prepared to pay.

I do not think that it would be right to adopt options 3 or 4. Both would draw attention to the figures, which would I think be best avoided. Under option 3, we would show a large increase compared with the last White Paper; under option 4, a large reduction. We would have to explain these changes. Under both options, the figures would be even less realistic than under our traditional assumptions, and the path of the public expenditure totals would be affected. Option 4 would also raise public expectations as to what will be achieved in the future financing negotiations.

6. In my judgement, therefore, the choice lies between options 1 and 2. Option 1 (no change) would be likely to attract the least notice. But I doubt however whether Option 2 would attract much notice either, for the improvement of £50 million compared with the last White Paper could be explained as an estimating change. Since there is a presumption in favour of publishing latest best estimates, unless there are strong reasons to the contrary, I propose to go for option 2.

7. I am copying this minute to Geoffrey Howe and Sir Robert Armstrong.

NL.

(N.L.)
4 November 1983

Qz.03410

MR COLES

POST-STUTTGART NEGOTIATIONS: CONFIDENTIAL DISCUSSIONS WITH THE FRENCH AND GERMANS

I should report that yesterday I had a confidential discussion in Paris with Monsieur Morel of the Elysee. I took the opportunity to float the idea that we might have a better chance of solving the problem of budget inequity if, while acknowledging our differences of principle, we also looked now at the figuring. I suggested that a possible solution might include:-

- a high limit for Germany, possibly higher than their current uncorrected net contribution, because the prime German requirement was that there should be some limit and that their budget contribution should be predictable;

- the net contribution of France and the United Kingdom at the outset should be broadly similar. It is interesting that, in reporting to Monsieur Attali and without prompting from me, Monsieur Morel suggested that the figures for a corrected net contribution for each country might be about 500 million ecu, ie not very different from our proposal in the safety net document.

2. The French were attracted to the idea that if we could reach some sort of understanding about the figures which would result from the final scheme, this would greatly improve the chances of obtaining an agreement of all member states (and help their objective of passing a greater part of the burden of our relief to the so-called "small rich" states).

/3.

3. Any understanding between France, Germany and the United Kingdom needs very careful handling but I do believe that it would be in our interest to explore this further now with the French and with the Germans.

4. I should underline that this initiative does not mean any change in our existing proposal (the safety net setting a limit on net contributions). It is essential that we continue to state, both at the Anglo/German summit and elsewhere, that the net contribution is the best measurement of the budget inequity and that we need the scale of relief set out in our paper. The purpose of the separate discussions with France and Germany is to persuade them that the relief can be financed in a way which we could all accept. For this reason, we have sketched out in the attached note the line which the Prime Minister might wish to take with Chancellor Kohl on this point at the bilateral summit next week.

5. I am sending copies to Brian Fall (FCO), John Kerr (Treasury) and to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

4 November 1983

CONFIDENTIAL

POST-STUTTGART NEGOTIATIONS: THE BUDGET INEQUITY

Line to take with Chancellor Kohl on 8-9 November

We must try to move towards a budget solution before Athens. Otherwise the European Council risks getting bogged down.

2. I agreed with President Mitterrand that we should have bilateral talks with his people for this purpose. I think you and I should do the same. The aim would be that France, Germany and the United Kingdom should try to agree the broad outline of a solution which all three of us can work for at Athens.

3. The elements would be:

(i) the United Kingdom and France would make net contributions of about the same size;

(ii) Germany to have a limit too, but higher because you are richer.

Your proposal in the Preparatory Group has helped to get some movement into the negotiation. But the French (and others) don't like one part of it - the Commission's modulated VAT. And we don't like the other - using the Danish expenditure gap as the measure of the size of the problem.

4. Under your proposal, you would have a relatively low limit (1900-2200 million ecu) and a high exposure to growth in your uncorrected net contribution. I believe that you and we and the French could agree if you would accept a higher initial limit with a lower exposure to later growth.

5. Could we agree that officials should explore this bilaterally - and separately with the French. The three of us must not appear to gang up. But if we - the future three only net contributors - can agree, we shall certainly not fail to get our way.

Eur Pol Budget

David

pl. ack his office.

AR 4/11

Mr Coles: Do we need to re-fix this?

MR. BUTLER

DMB 4/11

Meeting with Ian Stewart

While he does know all about the meeting, and it is on the general question of our European policies, rather than any particular Stewart concern, the Chancellor is inclined to think that it would be premature for the meeting to happen today. The logical timing, he thinks, would be after the Prime Minister's meeting tomorrow, and not necessarily immediately after.

I have mentioned the Chancellor's views on timing to Ian Stewart's office, so it would not come as any surprise to them if you were to stand him down for today.

John Kerr

C/f

3 November 1983

Agreed with Mr Stewart's office that this has been overtaken by events.
D 8/11

OW.

(2)

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

Prime Minister.

The Foreign Secretary will be commenting.

A.J.C. 4/11.

CONFIDENTIAL

PRIME MINISTER

3 November 1983

Dear Prime Minister.

EUROPE

Since your European Stategy meeting has been postponed perhaps I could offer a few thoughts on the subject.

We should have no illusions about the immediate difficulties facing us. There will be another fierce battle over the budget. Even with the weapon of the own resources ceiling, we shall have the utmost difficulty in getting both a satisfactory long term budgetary arrangement and all the improvements we would like to see in the CAP. Another bruising negotiation will inevitably leave us as an unpopular member. I agree with the FCO paper that, given this perspective, we should be looking for areas for the constructive development of the Community.

In one respect I am becoming increasingly concerned. I think all of us have now seen enough of the Greeks in action to acknowledge that they are uncomfortable bed-fellows, not only because we are dealing with a left wing Government but because their needs and aspirations are so different from ours. The entry of Spain and Portugal can only exacerbate these difficulties many times. Spain will be tough, proud and awkward. Portugal will have the greatest difficulty in conforming to the Community's rules without disastrous consequences for her economy. The CAP will become even less manageable, and more costly. Our latest calculations suggest that enlargement will add 1820 billion ecu. on agriculture alone.

/Decision making will ......

Decision making will become even more difficult. We know all these things yet we persist in pressing for enlargement because of the so-called political necessities. Is it not worth having another look at whether there are alternatives which could satisfy those necessities without pretending that Spain is just another Italy or Portugal another Ireland? Any such examination would obviously have to be handled with the greatest delicacy but I should be surprised if it hasn't been done in Paris.

As regards the CAP, our immediate efforts obviously need to be concentrated on getting the most improvement we can, including the imposition of strict financial discipline. But however successful we are with the financial guidelines, there will still be on-going decisions to be taken in the years ahead. I think we might improve our chances of getting those taken more rationally if there was to be a proper analysis of the way in which European agriculture is likely to develop over the next 5-10 years and the kind of response that the Community needs to make. This has not been attempted since the Mansholt Plan. That was a rather socialistic view of European agriculture. Given the political complexion of the majority of Governments in the Community we should be able to prevent that happening now. What I have in mind is a small group of wise men or independent experts who would provide the Community, not with a blueprint, but an assessment of trends of supply and demand and pointers to the policy implications. This would almost certainly reinforce the message we have been trying to get across about growing surpluses. In promoting such a suggestion we would need to be aware of the susceptibilities of the Commission who will think that this is part of their function. But I believe outside people would carry greater weight. Of course we should not float such an idea now but keep it up our sleeves as part of a final package, thus providing for the process of CAP reform to continue after the present round of negotiation has been concluded.

Finally, I endorse what is said in paragraph 18 of the FCO paper about the need to improve the efficiency of the Community institutions. Whatever happens about enlargement, we have an interest in seeing that the business of the Community is done expeditiously and competently. At the heart of this lies the Commission. Certainly, in agriculture, business gets done if the Commission is on the ball and if it is not the Council is paralysed. We have no interest in a feeble Commission, but we want an effective one which takes our interests into account at least as much as those of our partners and preferably more. But when next we are appointing Commissioners (and I assume we shall still have two next time round) I hope we will go for people of really high calibre; and persuade the Germans to do the same. I can think of nothing more likely to make the Community a more business-like place in which we can pursue our objectives.

/I am copying ......

I am copying this to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and Sir Robert Armstrong.

Yours ever

Michael

MICHAEL JOPLING

10 DOWNING STREET

Prime Minister

The meeting has only one hour for this difficult subject.

I suggest you simply go through the suggested conclusions at Flag A and see whether there is agreement or not.

A. J. C. 3/11

SUBJECT

FILE

RD7

10 DOWNING STREET

THE PRIME MINISTER

3 November, 1983

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T173/83

Dear Mr. President,

When we discussed the post-Stuttgart negotiations we agreed that it would be useful for there to be discreet bilateral contacts in the weeks ahead to further our shared objective of taking decisions at the Athens European Council. You suggested that the right course was for each of us to appoint a senior official, who had our confidence, to undertake these contacts. I have asked Mr. David Williamson, the head of the European Secretariat of the Cabinet Office, to take this on. I suggest that, as soon as you have made your choice, our two representatives should be in direct touch to arrange a first meeting.

Yours sincerely

Margaret Thatcher

His Excellency Monsieur Francois Mitterrand

CONFIDENTIAL

File

HL

10 DOWNING STREET

From the Private Secretary 3 November 1983

Thank you for your letter of 31 October proposing that the Prime Minister should send a message to President Mitterrand confirming that she had appointed Mr. David Williamson as her representative in the discreet bilateral contacts envisaged with the French before the Athens European Council.

I enclose a letter signed by the Prime Minister. I should be grateful if you could arrange for its delivery.

I am copying this letter and enclosure to Richard Hatfield (Cabinet Office).

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

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cc NO

CONFIDENTIAL

Qz.03405

PRIME MINISTER

POST STUTTGART NEGOTIATIONS: MEETING OF MINISTERS, 9.30 am 4 NOVEMBER

The purpose of this restricted meeting of Ministers is to review the United Kingdom's negotiating situation for the Special Council on 9-12 November. If the Special Council does not make reasonable progress, the task of the European Council at Athens on 5-6 December will be more difficult.

2. The Ministers attending are the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of State, Department of Trade and Industry (Mr Lamont) and the Minister of State, Ministry of Agriculture, Fisheries and Food (Mr MacGregor). Two papers, prepared by the European Secretariat, Cabinet Office, after official discussion, have been circulated:

- European Community: The Post-Stuttgart Negotiations
- European Community Budget Negotiations: Contingency Plans.

both attached. 3/11

3. It is recommended that you should direct discussion first to the main paper entitled the Post-Stuttgart Negotiations. This paper summarizes the response of other member states so far to our proposals under the three main headings:

- financing: correction of the budget inequity (the "safety net") and the Community's own resources

- changes in the common agricultural policy and the "strict financial guideline"

- other policies.

Although all the issues in the post-Stuttgart negotiations are linked, it is convenient to discuss them under these three separate headings.

/4.

4. On the budget inequity we have not moved one inch from our safety net proposal. We have succeeded in converting a number of member states to our view that the correction must be made through an abatement of a member state's VAT payment. We have also greatly increased the amount of money on offer from other member states: the latest proposal, that from Germany, could give us about twice as much money as the first proposal from the Commission. Nonetheless, we have a very long way to go. The conclusions on the budget inequity are in paragraph 12 (i) and you are recommended to summarize this part of the discussion by endorsing these conclusions, if there is agreement.

5. On agriculture we have not made much progress in converting member states to our view that there must be a very strict financial guideline which would be legally binding. We are in the process, however, of strengthening the less satisfactory proposals put forward by the Commission and probably the Germans. Our right tactic is to keep to our present stance and to draw others towards us. On specific questions, the number of issues for the Athens European Council is being reduced: it is possible that the issues will be limited to milk, cereals and cereal substitutes, monetary compensatory amounts and the wider application of guarantee thresholds to all (including Mediterranean) commodities. If so, a package may be possible but we shall need before 5-6 December to determine finally our view on the milk quota/super levy, on the cereal substitutes and on monetary compensatory amounts. The conclusions on agriculture are in paragraph 12 (ii) and you are recommended to summarize this part of the discussion by endorsing these conclusions, if there is agreement.

6. On other policies there are fewer difficulties. We need to establish more clearly with the French what they expect to include in the Athens communique on industrial cooperation. Our own major objective is to limit the Athens result to

 /decisions

decisions on a number of particular issues which would be favourable to the United Kingdom. The conclusions on other policies are in paragraph 12 (iii) and you are recommended to summarize this part of the discussion by endorsing these conclusions, if there is agreement.

7. Finally, this paper points out that we must be careful to ensure in a settlement that the new arrangements should apply to our 1984 refund (1985 budget). We must not let this fall between two stools. The conclusion is in paragraph 12 (iv).

8. A second paper on contingency plans is primarily for the information of Ministers. The Treasury is minuting separately about the 1982 risk-sharing money. The paper points out certain potential risks to our 1983 refund (the 750 million ecu net included in the 1984 draft budget) if either the European Parliament or member states try to cause difficulty with this. The options for counter-action are set out in paragraph 10. Contingency plans are prepared but it is not possible to take a final decision until we know whether or not the European Council in Athens has been successful and whether or not there are new difficulties in the way of payment of our agreed 1983 refund. You are recommended to seek the endorsement of the short conclusion in paragraph 12.

D F Williamson

D F WILLIAMSON

2 November 1983

oc NO

CONFIDENTIAL

Qz.03404

~~MR COLES~~ AC 3.11

EUROPEAN COMMUNITY: THE POST-STUTTGART NEGOTIATIONS

I understand that you have now arranged for 9.30 am on 4 November the meeting which the Prime Minister is holding with the Ministers principally concerned, in order to review our negotiating situation before the next meeting of the Special Council on 9-12 November. I have already submitted with my earlier minute of 28 October the Memorandum which the European Secretariat has prepared on the post-Stuttgart negotiations. That Memorandum deals with the major issues in the negotiation.

--- 2. I now attach a further Memorandum on the linked issue of handling our 1983 refund and the contingency plans in case there is deadlock at Athens. You will note that this paper does not call for decisions at the present time but draws attention to the options which will need to be considered if we do run into difficulties in obtaining the payment of our 1983 refund.

3. I am sending copies to Brian Fall (FCO), John Kerr (Treasury), Callum McCarthy (DTI), Robert Lowson (MAFF) and Richard Hatfield (Cabinet Office).

D F Williamson

D F WILLIAMSON

2 November 1983

CONFIDENTIAL

EUROPEAN COMMUNITY BUDGET NEGOTIATIONS: CONTINGENCY PLANS

Memorandum by the European Secretariat,
Cabinet Office

1. It is not possible now to know whether the European Council in Athens on 5-6 December will come to a successful conclusion, a partial success or a deadlock. It is necessary, therefore, not only to conduct our strategy with a view to a success at Athens but also to be prepared for a worse result and in that event to protect our position on our 1983 refund (750 million ecu net) and on the amount which we insist that we are owed under the 1982 risk sharing arrangement (75 million ecu net).

The 1983 Refund

2. The conclusions of the European Council at Stuttgart provide that a refund of 750 million ecu net should be incorporated in the 1984 draft budget. The Budget Council in July respected this decision: it made full provision in the 1984 draft budget and allocated the amount to budget lines, not to the reserve chapter. Implicitly, therefore, the Council rejected, as we do, any argument that these refunds were conditional on decisions on future financing.

3. The Stuttgart conclusions do not specify when during 1984 the refunds are to be paid. As in the case of previous refunds, we want the payment to be made before 31 March 1984. Before the refunds can be paid, two further stages are required:

(i) the European Parliament must adopt the 1984 budget, including provision for these payments;

(ii) the Council must agree the necessary implementing regulations which provide the legal basis for making payments specified in the Community budget.

Budgetary Provision

4. At its plenary session on 24-28 October the European Parliament put the United Kingdom's 1983 refunds (and

825 million ecu of agricultural guarantee money) into the reserve Chapter 100 of the draft budget, thus making payment of the refunds conditional on "the opinion it forms of the outcome of the European Council in Athens". On 22 November the Budget Council will have to decide whether to reject the proposals made by the European Parliament and reinsert the original provision. The United Kingdom will demand that our 1983 refunds are reinstated on budget lines. The Council has the last word on the part of our refunds classified as obligatory (736 million ecu gross) but the European Parliament at its second plenary session on 12-16 December has the last word on the part classified as non-obligatory (255 million ecu gross). If the Parliament respects the Council's classification between obligatory and non-obligatory expenditure, they would only legally be able to place the non-obligatory expenditure in Chapter 100. If some of the refunds remain in Chapter 100, a further decision by the Council and the European Parliament will be required before the money can be paid.

5. The European Parliament also has the right at its December plenary session to reject the draft budget in its entirety. This would create, however, an entirely new situation going well beyond the payment of our 1983 refund.

Regulations

6. The regulations have to be adopted unanimously by the Council of Ministers. An Opinion from the European Parliament is also required. If the European Parliament's Opinion differs from the Council's, it may demand conciliation with the Council before the regulations are adopted.

Cash Flow Problems

7. Even if the regulations have been passed and the necessary provision has been made within the 1984 Budget, there will still be an additional obstacle to be cleared to ensure that the bulk of our refunds reach us, as in previous years, by 31 March. In previous years the Commission has been able to meet this

/deadline

deadline without any difficulty, because it has had surplus cash in its bank accounts carried over from the previous year. At the beginning of 1984, however, it will be very short of cash. One way round this difficulty would be for the Commission to have recourse to advances of own resources and, if necessary, their overdraft facility. There will, however, be pressure from both the Commission and other member states that our refunds should be paid over a longer period of 1984.

The Political Obstacles

8. Despite the results of the European Council in Stuttgart and the decisions of the Budget Council in July, there is a risk that, if there is little or no progress at the Athens European Council, France or some other member states would block the implementing regulations under which the 1983 refunds would be paid to us in 1984. The conclusions of the Stuttgart European Council bear out our interpretation that no conditions were attached to the 1983 refund. The Prime Minister has since set out our understanding in a letter to Chancellor Kohl, copied to President Mitterrand, on which there has been no come-back. Chancellor Kohl's statement to the European Parliament on the outcome of the Stuttgart European Council made no mention of any conditionality. Nonetheless, the question of our 1983 refunds is a lever which some member states may yet try to use in the present negotiations.

9. Thus if in the opinion either of the European Parliament or of one or more member state there is insufficient progress at the Athens European Council in resolving the main issues including new own resources raised in the post-Stuttgart negotiation, the payment of our 1983 refunds could be blocked. The situation would almost certainly not be clearcut. We could find that provision for our refund was incorporated in the 1984 budget but most of it under Chapter 100 or that the non-obligatory part was removed altogether. Equally, there could be delay over the adoption of implementing regulations caused either by other member states' desire to continue to exercise leverage over us in the context of the wider

/negotiations

negotiations or by the need for conciliation with the Parliament. The situation might be sufficiently confused to make it difficult for us to point clearly to a single, politically motivated cause for delay.

Options

10. If following the European Council in Athens and the December plenary session of the European Parliament the obstacles to the payment of our 1983 refunds have not been overcome, the following are the principal options:-

Option 1. In the event of an overt challenge (eg a continuing refusal to agree to the implementing regulations) we could block the transfer of an equivalent amount of the Community's own resources. Contingency plans have been updated. This would require a formal decision of United Kingdom Ministers. Ministers would also need to decide a number of important issues, as set out in OD(83) 9, such as the form and extent of the blocking of Community funds, whether legislation were required and, if so, its timing and content. Action would create a new crisis in the Community and would have a major impact on the course of the post-Stuttgart negotiations.

Option 2. If the European Parliament, and not a member state, was the cause of the difficulty, we could seek a unanimous declaration by the Council of Ministers of its determination to honour the Stuttgart agreement on 1983 refunds. We would follow this up by demanding that the Commission and the Council honour this declaration, if necessary, through a Supplementary Budget in 1984 in time for it to be adopted to enable refunds to be paid by 31 March 1984, assuming that this was possible within the 1% ceiling and that the cash flow problem in paragraph 7 can be overcome. The European Parliament's agreement to this would depend on progress in the post-Stuttgart negotiation up to and at the March European Council (19/20 March).

Option 3. We could set a deadline for payment of the refund, eg the end of the United Kingdom's financial year which would

/be

be after the March European Council. We could couple this with a more or less explicit threat to block the transfer of Community funds if the deadline was not met.

1982 Risk-Sharing Refunds

11. The Treasury is minuting on the action to be taken on the short-fall (75 million ecu) which we claim in the risk-sharing element of our 1982 refunds. If Ministers do decide to block the transfer of Community funds, this sum could, if necessary, be added to the amount.

Conclusion

12. Our strategy is to achieve a successful result at the Athens European Council. Contingency plans in the event of a deadlock are prepared. It is not possible, however, in advance of the European Council to decide on a particular option before the exact circumstances are known.

European Secretariat
Cabinet Office
2 November 1983

Ref. A083/3122

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary may wish to report briefly on his discussions with the Italian Foreign Minister on 31 October. He may also refer to the discussion in the European Parliament on the 1984 draft budget (which includes the 750 million ecu net for the United Kingdom refund for 1983). The European Parliament has put the 750 million ecu for the United Kingdom refund and 825 million ecu of agricultural guarantee money into the reserve Chapter 100. This is not the end of the story. We expect that the Budget Council on 22 November will reinstate the original satisfactory provision on budget lines. The budget will not be finally decided before mid-December.

2. The Chancellor of the Exchequer may report that, following his dicussion with Herr Tietmeyer, the German paper on future financing and the budget inequity has been corrected in a number of ways more helpful to the United Kingdom (in particular, the Germans have removed the figure of only two-thirds compensation to the United Kingdom for the "payments gap").

3. During the next seven days the Energy Council will meet on 4 November, the Industry Council on 4-5 November and the Research Council on 5 November. There will also be an informal meeting of Social Security Ministers on 7 November. You are seeing Chancellor Kohl in Bonn on 8-9 November. The Special Council carrying on the post-Stuttgart negotiations will meet on 9-12 November, an important meeting in the preparation for the European Council. The Foreign and Commonwealth Secretary will speak at Chatham House on 4 November about Britain's approach to these negotiations. On the same day you will be reviewing the negotiating situation for the December European Council with a number of your colleagues.

D.F. Williamson

DAVID WILLIAMSON

2 November 1983

(1)

DMB 3/11

10 DOWNING STREET

PRIME MINISTER

The Economic Secretary to the Treasury has asked if he could see you privately for a few minutes tomorrow about the post-Stuttgart negotiations. He is anxious to have a word before the meeting of Ministers on this subject which you will be chairing at 0930 on Friday.

Subject to your views, I have arranged for him to see you at 1545 tomorrow at the House of Commons (during Business Questions).

Content? Yes MT

DMB

2 November 1983

(3).

PRIME MINISTER

You agreed with President Mitterrand that each of you would appoint a representative to carry out discreet bilateral contacts before Athens. You told me that you wanted David Williamson to be your representative. This is entirely acceptable to the Foreign and Commonwealth Secretary and the Chancellor.

Since David Williamson was already in touch with the Elysee I did not think that we need take any further action. But the Embassy in Paris believe that his hand will be strengthened if you send a formal message to President Mitterrand. If you agree you may care to sign the attached letter.

A.J.C.

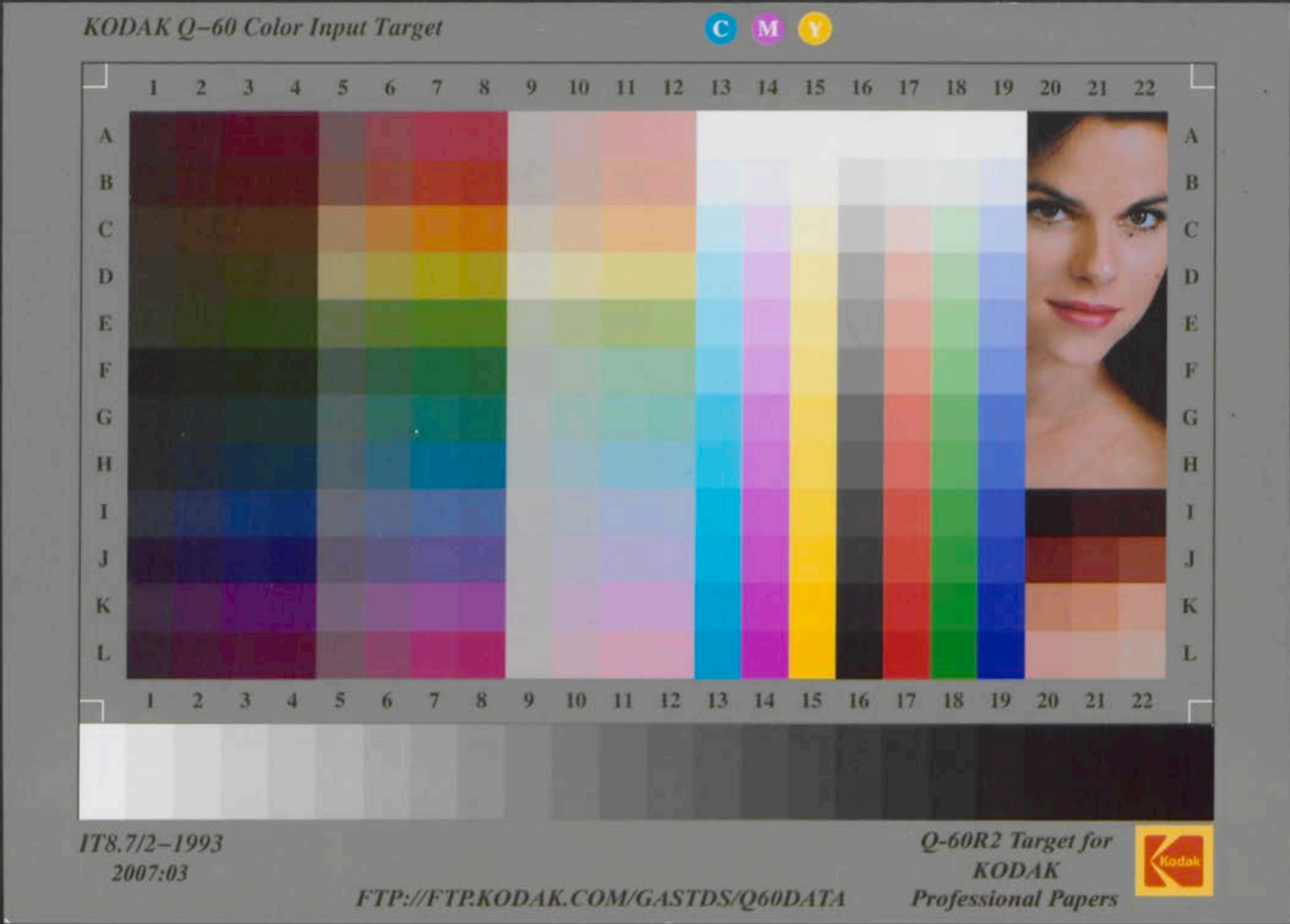
1 November 1983

PART 21 ends:-

FCO to AJC 31.10.83

PART 22 begins:-

AJC to PM 1.11.83



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