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PREM 19/1025

PART 13

Confidential Filing

European Council Meeting in Athens.

5-6 December 1983 - Policy

EUROPEAN POLICY

Part 1: October 1979

Part 13: October 1982

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PREM 19/10/25



10 DOWNING STREET

THE PRIME MINISTER

Need an agreement at next
meeting.

On Community will not away
and return to quarrels

Central funding is to face
the urgent issues.



10 KING STREET

What are we to say
to Conrad and Suarez.

~~16~~

Refers to late surplus

"Delay the day."

~~Meeting~~ → "New taxes"

Athens Summit

The Prime Minister (Mrs. Margaret Thatcher): With permission, Mr. Speaker, I shall make a statement on the European Council in Athens on 4 to 6 December at which my right hon. and learned Friend the Foreign Secretary and I represented the United Kingdom.

At its previous meeting in Stuttgart, the European Council had agreed that it was essential at this stage to consider the long-term future of the European Community and to tackle certain fundamental problems — in particular, agricultural surpluses, effective control of Community spending and a fairer distribution of the burden of financing the Community. We were all agreed that the Stuttgart package had to be taken as a whole and that decisions on each item depended on agreement on the rest. Unfortunately, the Community was not ready at Athens to take the necessary decisions. A number of member states wished to follow past practices and adopt a number of unsatisfactory compromises.

On agriculture, the main issues discussed at Athens were price policy and the limitation of open-ended guarantees, action to curb the milk surplus, import and export policy, the proposed oils and fats tax and monetary compensatory amounts.

There was a considerable difference of view on price policy, on the volume of milk that might be subject to quota and super-levy and on various requests and proposals from some countries for exemptions. The United Kingdom is among those member states that consider that a rigorous price policy is essential, that any other arrangements for milk such as a super-levy should be non-discriminatory and that the surpluses of many other Community products need to be dealt with as well. Four member states, including the United Kingdom, made it clear that the proposal for an oils and fats tax was unacceptable. On monetary compensatory amounts, the differences between France and Germany were not resolved.

With regard to the unfair budgetary burden, there was some recognition that a lasting solution must be found that would put limits on the net contributions of member states — limits that are related to ability to pay. That would be implemented by correcting the VAT contribution of the member state concerned in the following year. The majority of countries wished to establish a lasting system on those lines, which would be part and parcel of any decision on new resources. Unfortunately, although preparatory negotiations on the matter had made considerable progress, not all member states agreed to this approach, and, accordingly, no decisions could be taken. Similarly, with the problem of Community expenditure, the will to control it effectively was just not present at the Athens meeting.

Even the ideas recently advanced by the French Government were not accepted by all countries as a basis for discussion. I made it clear that there must be strict guidelines for agricultural spending, which must be embodied in the budgetary procedures of the Community. Unless the agricultural and financial issues can be resolved, the resources for new policies such as co-operation in research and development are very limited indeed, although many of us recognise that in the long run they are very important and that room should be made for them.

International questions such as Cyprus and the Lebanon were not discussed in plenary session, but were, of course, much discussed outside it. No official statements were issued on these or any other matters.

It is regrettable that the European Council was not able on this occasion to make the necessary progress for the next stage of the Community's development. I had made it clear that I would not consider an increase in own resources unless there was agreement on a fair sharing of the budgetary burden and an effective control of agricultural and other expenditure. There was no such agreement and, therefore, for the United Kingdom, the question of an increase of the Community's resources did not arise.

Mr. Neil Kinnock (Islwyn): May I first ask the Prime Minister about the things that are almost absent from her statement and, apparently, were almost absent from the discussions in Athens? I understand that her wish was to prevent Heads of State from discussing anything until they had resolved the internal issues of the Community. Is that why no significant attention was given to subjects such as Cyprus, the world recession and, particularly, the Lebanon?

Is the Prime Minister aware that yesterday we were given what we interpreted as an undertaking—I think a genuine undertaking—that as part of the review that the Government are undertaking of the British presence in Beirut, we could look forward to a statement on the Prime Minister's return? No such statement has been forthcoming. Therefore, will the Prime Minister give some time to that matter in her reply to me or to other hon. Members, because there is great concern at the moment, especially in the light of reports that a British Land-Rover has been knocked out and that British positions have been under fire?

I have some questions about specific issues discussed in Athens. It appears from press reports that the Prime Minister has tried to lay the blame for the unmitigated failure of the Athens summit on everyone but herself. Of course, we are used to that from the banana skin Prime Minister. Will she tell us whether she remembers that, on her return from the Stuttgart summit in late June, she said that she expected great success in Athens on budgetary discipline, equitable sharing of burdens and control of expenditure? She is quoted in today's newspapers as saying that the deepening crisis will sharpen our partners' minds and her quoted statements strongly imply that our partners will be brought to order by the time of the Brussels meeting in March. What does the right hon. Lady think will change between Athens in December and Brussels in March?

Mr. Nicholas Winterton (Macclesfield): The weather.

Mr. Kinnock: Why does the Prime Minister believe that the French will change their position during those months? Does she really think that fundamental reforms are more likely under a French Presidency of the Council than they have been under the six months of the Greek Presidency?

Thanks to the failure in Athens, we have no agreement on the 1984 rebate, and the European Parliament could decide not to release the rebate for 1983, which was agreed at Stuttgart. Consequently, who will suffer the most

Spain and Portugal

56. **Mr. Heathcoat-Amory** asked the Secretary of State for Foreign and Commonwealth Affairs what is the estimated net cost of the European Community budget of the proposed accession of Spain and Portugal.

Sir Geoffrey Howe: It is generally accepted that both Spain and Portugal will be net recipients from the Community budget. Their actual net receipts after accession will depend on the outcome both of the post-Stuttgart and the accession negotiations currently under way.

Mr. Heathcoat-Amory: Bearing in mind that the movement towards the accession of Spain and Portugal is gaining momentum can we be given accurate estimates of costs on which to base a decision of principle, as the events of the past few days show that budgetary arrangements, once settled, are difficult to alter? Will my right hon. and learned Friend confirm that there is a limit to the costs that the Government would be prepared to accept in admitting Spain and Portugal to the EC?

Sir Geoffrey Howe: The costs of accession cannot yet be determined, as they depend on the nature and conclusion of the enlargement negotiations, and on the outcome of the negotiations that were broken off in Athens yesterday. Our contribution to those costs depends critically on our success in achieving a fair amendment of the budgetary arrangements in the Community which was one of the two key conditions emphasised by my right hon. Friend in Athens and Stuttgart.

Mr. Deakins: Are the estimates of the costs of accession likely to be based on present levels of agricultural production in Spain and Portugal or are vast increases to be expected under any conceivable Regime for those two countries?

Sir Geoffrey Howe: The precise shape of agricultural output and size for those two countries depends on the conclusions arrived at for the CAP regime as a whole.

Foreign Ministers

57. **Mr. Skinner** asked the Secretary of State for Foreign and Commonwealth Affairs when he most recently met other European Community Foreign Ministers; and what subjects were discussed.

Sir Geoffrey Howe: I met my Community colleagues on 4-6 December at the European Council, to which I accompanied my right hon. Friend the Prime Minister. The subjects discussed will be covered by my right hon. Friend in the statement she will be making immediately after Question Time today.

Mr. Skinner: Is not it time that even this thick-skinned Government understood that the Common Market summit—like many others—was a complete waste of time? Does not that fact vindicate those of us who, on 28 October 1971, refused to be carried away by the propaganda to vote for the Common Market, as were the Social Democrats and the rest? Does not it say much about the Common Market that it cannot settle matters discussed for 48 hours, but can manage to produce regulations to cover the length,

weight and size of gherkins? What a carry on. Why does not the Foreign Secretary stand at the Dispatch Box and say that we will not send any contribution? That is the way to operate.

Sir Geoffrey Howe: I am prepared to leave the hon. Gentleman in the increasingly eccentric isolation that his views represent. He would do well to consider the length of time, which has to be measured in years and not days, that the Labour party has taken in failing to solve its problems.

Mr. Budgen: Will my right hon. and learned Friend tell the House what percentage reduction in price for cereals and milk was proposed at Athens by the British Government?

Sir Geoffrey Howe: Our main proposal for milk was concentrated on reducing substantially the total volume of milk covered by Community arrangements and on proposing a price freeze for a significant period. We proposed that cereal prices should be lowered progressively, to get closer to world prices.

Mr. Ernie Ross: Point 2 of the Venice declaration referred to the traditional ties and common interests that link Europe to the middle east. Why was time not found to discuss a joint common initiative to help resolve the problems of the middle east?

Sir Geoffrey Howe: Some discussions on that subject took place between those who attended the Athens meeting, but no time remained for formal conclusions on such matters. It would have been inappropriate to try to reach rushed conclusions, as most time had to be devoted to discussions on the main Community agenda.

Mr. John David Taylor: If there is still no reform of the CAP by March, will the Government be prepared to agree a new farm price review?

Sir Geoffrey Howe: The longer the time that elapses before these crucial questions are agreed, the greater will become the constraints on the institutions of the Community, including the constraints within which Agriculture Ministers have to consider farm prices.

Council of Ministers

59. **Mr. Fallon** asked the Secretary of State for Foreign and Commonwealth Affairs when he next expects to attend the Council of Ministers of the European Communities.

Mr. Rifkind: My right hon. and learned Friend expects to attend the next Foreign Affairs Council in Brussels on the 19 and 20 of December.

Mr. Fallon: In the light of recent events, will my hon. Friend consider the suggestion that primary responsibility for next year's farm prices should be transferred from the Agriculture Council to the Finance Council or the General Council?

Mr. Rifkind: My hon. Friend knows that our prime objectives include ensuring that there is a strict financial guideline in agriculture and that financial considerations should play a most important part in determining the totality of agriculture expenditure.

pressure in the build-up to Brussels — ourselves or countries whose Governments oppose significant reforms in the system of financing?

Will the Prime Minister tell the House what response she made in Athens to the positive proposals put to her for joint action by member Governments to raise falling investment and to reduce unemployment across the whole continent of Europe? Will she accept that, especially in the light of our own prolonged slump under her Government — [Interruption.]

Mr. Speaker: Order.

Mr. Kinnoek: Certain hon. Members could not give any demonstrations of democracy to our partners in Europe.

In the light of the perpetuated slump in this country under her Government, does the Prime Minister not recognise that the continent must invest, trade and produce its way out of depression and thus avoid the waste and horror of 20 million unemployed in Europe by the 1990s? What constructive response has the Prime Minister given to those proposals? Few authorities in this country or among our partners could have thought that she was serious about advancing British interests in Athens, when, in his autumn statement, her own Chancellor budgeted for an increase of £420 million, or 50 per cent., in United Kingdom spending on agricultural intervention next year? Was not that a clear signal to everyone, including those with whom the right hon. Lady was negotiating, that the Government either had no clear intention of securing reform or had given up on it altogether? Was the Chancellor giving a signal? [Interruption.] Apparently the right hon. Gentleman does not understand what I mean. Was it deliberate, or was it just stupid? In either case, does the Prime Minister recognise that the publication of those figures undermined her negotiating posture at the summit? Do not all those considerations — [HON. MEMBERS: "Get on with it."] Hon. Members are going to get it. Our country has been let down again, and they are going to get more of it.

The fact that the right hon. Lady has fallen into the period of the French presidency, the failure of Athens itself, the rebate problem and the incompetence of her negotiating stature leave us even worse off now than when she went to Athens.

In a spirit of helpfulness and without resorting to any short-term expedients — [Interruption.]

Mr. Speaker: Order. A certain latitude is always allowed to the Leader of the Opposition, but I hope that he will come to his conclusion soon.

Mr. Kinnoek: I shall seek earnestly to respond to your request, Mr. Speaker, but we have just heard one of the most superficial and inadequate statements — [HON. MEMBERS: "Yes—yours!"] If the right hon. Lady will not volunteer any matters of substance, we will get the answers out of her, even if it takes longer, by asking questions.

In a spirit of helpfulness and without resorting to any short-term expedients — which I abominate as much as the right hon. Lady does — I suggest that the Prime Minister could gain much greater progress by the time of Brussels, first, by assuring the House that there is no question now of asking us for any increase in our own resources VAT contributions to the EC. [HON.

MEMBERS: "She said that."] Hon. Gentlemen were not listening. The choice of words in the Prime Minister's statement was a great deal more delicate than it had to be.

Secondly, will the Prime Minister insist at the farm price review next year, if no progress has been made, that there will be a reduction in British farm prices in order to reduce the cost to the common agricultural policy?

Finally, will the right hon. Lady now declare her determination to withhold all or part of our contributions until agreement is reached upon fundamental changes in the Common Market which remove the persistent disadvantages of British membership? Will she accept that, unless she is prepared to take such action, none of her tantrums or posturing will impress the British people in the slightest?

The Prime Minister: The right hon. Gentleman's first point was about Cyprus. I had discussions in the margins with the Greek Prime Minister. There is of course nothing new to report on Cyprus. We fully support the activities of the Secretary-General of the United Nations, who is using his good offices to try to bring the two communities together in a unitary Cyprus. We drafted the United Nations Security Council resolution and worked very hard to get it a very good vote. The right hon. Gentleman will be aware of its wording. The matter is in the hands of the Secretary-General and we support his activities.

As a guarantor power, we have twice contacted the other two guarantor powers in an attempt to set up talks. So far we have not succeeded, because the conditions set by the two parties for sitting down together are at present inconsistent. We shall persist in our efforts.

There were talks between the countries represented in the multinational force in the Lebanon. We are in the multinational force together and we believe that we must continue to consult each other and to make decisions together. [Interruption.] There is to be a meeting tomorrow of the Foreign Ministers of the four countries in the multinational force. It is clear that the services of the British contingent are much valued locally by, I believe, all parts of the Lebanon community —

Mr. Andrew Faulds (Warley, East): The Druze and the Moslems?

The Prime Minister: —and I believe that they would be upset or even dismayed if our small but valuable force pulled out. It is a force of total integrity, in which we can take pride. It has two jobs: guarding the building where the security and truce talks are taking place, and engaging in reconnaissance in Beirut. I believe that there would be considerable repercussions not only among the communities in the Lebanon and the Arab and Jewish communities beyond it, but also within the Alliance, if there were any suggestion that we intended unilaterally to pull out or to lead a retreat. We do not. We are trying to carry out our duties well in the Lebanon.

The particular matter under consideration was the whole Stuttgart agenda. The right hon. Gentleman has no idea how difficult it is to reach agreement among 10 countries when what is under discussion is the whole matter under the purview of the European Community.

Mr. Gerald Kaufman (Manchester, Gorton): You said you could.

The Prime Minister: Yes, of course, we always try, and many countries agreed. However, when fundamental

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changes are to be made, there has to be complete unanimity among all the partners. Their interests are very different. Some of the great beneficiaries of the Community wish to carry on as they are. The reason why they will not be able to do so indefinitely, and why things will change progressively during the year, is that the Common Market is gradually running out of money with which to carry out existing policies and, at the rate at which they are being produced, the agricultural surpluses will soon run up against a ceiling and the heads of Government will have to turn their minds to different matters.

Change will therefore be nearer by March. As I explained at a press conference after the summit, I doubt whether the Common Market will be in real financial difficulty until the autumn, but the present policies cannot be carried on indefinitely because there will be no money to finance them. That will be the point at which we are most likely to get reform. A number of us had hoped to bring about a change before that, but we were not successful in getting the agreement of 10 countries. If I had accepted some of the compromises that were suggested, the right hon. Gentleman would really have been able to criticise. They would have sold our farmers down the river and given us a substantial increase in contributions without any lasting solution on effective control of the budget or fairer sharing of the financial burden.

I turn to the 1983 rebate. The sum of 750 million ECUs agreed at Stuttgart is not yet in default [HON. MEMBERS: "Yet."] The right hon. Gentleman spoke as though the Common Market were in default with Britain. It is not. That contribution of 750 million ECUs is due by the last day in March and there is no default unless it is not paid by that time.

With regard to the right hon. Gentleman's next point — [Interruption.] — shall we assume, the Common Market not having been in default? If it does default, we shall have to consider matters then. I believe that the right hon. Gentleman would like it to default just to be able to make an issue of it. I believe that it would be far better if the hon. Gentleman were able to agree. I believe that this country gets a great many jobs because we are members of the Community. If we were to follow the right hon. Gentleman's policy of pulling out of the Common Market, a great deal of investment and a great many jobs would be lost—not least in Wales. If that is what he wants, let him say so.

Mr. Kinnock indicated dissent.

The Prime Minister: If we were not members of the Common Market and were to return to the trading conditions that prevailed in the 1930s, with trade barriers going up, there would be absolute chaos, and unless we were participants in the common agricultural policy, farming and the food industry in this country would not be anything like as healthy as they are, and we should not be as self-sufficient as we are. All those matters are great plus points, which would be lost under the right hon. Gentleman's policies.

With regard to raising investment, as I pointed out to the right hon. Gentleman, there is a great deal of investment in this country because we are members of the Common Market. We shall not be able to raise the investment due under the economic and social policies

unless we can constrain agricultural surpluses more effectively. A number of us are willing to go down that path. We have not yet achieved the full agreement of all the members. A number of us wanted to cut next year's milk production to 97.2 million tonnes, which would have been 1983 minus 6 per cent. Although most of us were prepared to go along with that, a number of countries wanted to opt out and be allowed to produce the amount that they are producing this year. If there are to be changes to reduce the surpluses, and if we are to have a super-levy, they must apply to everyone without discrimination. We were not able to achieve that.

With regard to the suggestion that we withhold our contributions, I have told the right hon. Gentleman that the Common Market is not in default with Britain yet and we are not in default with it. Let us try to keep matters on a legal and honourable basis and hope that that 750 million ECUs will be forthcoming by the end of March.

Mr. Geoffrey Rippon (Hexham): Does the Prime Minister accept that it is those who most desire the success of the European Community who most welcome her firm stand and her insistence that we cannot, although some of us would wish to do so, increase the Community's resources until there is agreement not just on the size, but on the shape of the budget? While agreeing that it is probably better to have an open failure at Athens rather than a pretended success, does she agree that it might be better not to have another meeting of Heads of State or Heads of Government until a firmer basis for agreement is achieved at a lower level?

The Prime Minister: I am grateful to my right hon. and learned Friend. I took the view that a patched-up compromise, which would have been unsatisfactory in every direction and would have involved having returns of our contributions for three or four years, in return for a permanent increase in own resources, should be completely rejected. We should still persist with trying to achieve the necessary fundamental changes in the European Community's policies.

The next regular scheduled meeting is in March. I agree that there is no point in accelerating a meeting until we are much further forward and much more preparatory work has been done on the details.

As my right hon. and learned Friend will know, some of the details that we were discussing are not suitable for discussion by Heads of State and should be agreed at the meeting of Ministers.

Mr. D. N. Campbell-Savours (Workington): The right hon. Lady is not a Head of State.

The Prime Minister: I am sorry, Head of Government. There were of course Heads of State—[HON. MEMBERS: "Queen Maggie."]—and as hon. Members know—[Interruption.]

Mr. Speaker: Order. The Prime Minister must be allowed to finish.

The Prime Minister: Heads of State and Heads of Government were represented. The President of France is, of course, a Head of State. Some of the subjects were not suitable for detailed discussions by Heads of State or Government and should be completed by the other preparatory committees.

I believe that we shall meet in March. Whether we shall concentrate on this or on the normal subjects that we discuss has yet to be seen.

Dr. David Owen (Plymouth, Devonport): The stand adopted at Athens by Her Majesty's principal Minister has, I believe, the support of the vast majority of the British people, and, what is more, is in the interests of the European Community. It deserves and will therefore receive our support.

On the Lebanon, the right hon. Lady has rightly rejected the unilateral cutting and running of the peacekeeping force as suggested in the House on Monday. I believe that she is right to do so. Will she assure the House that we shall take a diplomatic initiative with our two European partners to establish the independence of the peacekeeping force in the restoration of peace in the Lebanon, and specifically urge on our United States allies the need to study the Lebanese-Israeli agreement again, and to take account of the feelings of the Moslem population in Lebanon and the Syrian Government's position?

The Prime Minister: I am grateful to the right hon. Gentleman for his support on European Community matters. As I said, the four Foreign Secretaries will be meeting on Thursday when there is a NATO meeting. They will also be having separate meetings. I am sure that the points made by the right hon. Gentleman will be pursued vigorously at that meeting. We are very much aware of them.

Sir Peter Blaker (Blackpool, South): With regard to the Lebanon, is not closer consultation between the Governments who contribute to the multinational force the one objective that we should seek to achieve? If we were to withdraw our contribution to that force unilaterally, would it not defeat that objective?

The Prime Minister: Yes. We have no intention of withdrawing unilaterally, for the reasons that I have given. Our force is valued. If we want to exert maximum influence on Lebanese affairs, we must continue to be part of that multinational force. I agree with my right hon. Friend, that we need closer consultations with the United States. We meet frequently with our European partners, but not so frequently with the United States. That will be one of the valuable assets of the NATO meeting and the meeting of Foreign Secretaries, including Mr. Shultz, to which it will give rise.

Mr. Jack Ashley (Stoke-on-Trent, South): Is the Prime Minister aware that she deserves the support of both sides of the House for the efforts that she has made to defend British interests in the EC? Our support should be expressed clearly and unambiguously. Having said that, will the Prime Minister consider two matters—first, the withdrawal of British payments to the EC and, secondly, making contingency arrangements for its break-up? That will show that she means business when she fights for British interests in Europe.

The Prime Minister: With regard to the part of the right hon. Gentleman's question about contingency arrangements, it would not be right to prepare for an event that I believe will not occur.

We are at present negotiating for enlargement of the EC to include Spain and Portugal, and those negotiations must

continue. It is in the interests of Europe, and of democracy everywhere, that they succeed and we have an enlarged European Community.

With regard to the right hon. Gentleman's question about withholding, the European Community is not in default with us on its obligations. Were it to default on its obligations, then we would have to take steps to safeguard our position.

Mr. Robert Jackson (Wantage): Since the Community's failure at Athens is clearly not the fault of the British Government, would my right hon. Friend make it clear that when the European Parliament votes on the budget next week it would be wrong and mistaken for it to take any action that would discriminate against Britain?

The Prime Minister: Yes, I wholly agree with my hon. Friend. It would be wrong for the European Parliament to discriminate against Britain. It would not be helpful. We are as usual taking a very positive position on the Community and a very positive position on solving our problems, but we do insist on solving the long-term problems. Judging by the position so far taken up by the Parliament, it also desires the solution of that problem on a long-term basis.

Mr. Roy Jenkins (Glasgow, Hillhead): Will the Prime Minister accept that, while I thought she threw away a good solution three years ago in Brussels, there was nothing on which she should have settled at Athens? There was no serious resolve to get hold of agricultural expenditure and she was right in the circumstances to play for time. Will she accept that the stakes are very high for March or June 1984, particularly at a time when there is increasing distrust across the Atlantic? If the Community were to begin to disintegrate, the dangers in terms of money and security in Europe would far exceed even the issues that she was discussing at Athens.

The Prime Minister: I noted the right hon. Gentleman's preliminary statement. He will remember that, when he thought I threw away the chance of a good solution, I actually went on a got a better one. I remember the occasion very well.

With regard to what he said about the stakes being high in March or June, yes, they are high, but that is an extra reason why the Community should be prepared to have strict financial guidelines, to have a fair sharing of the burden and to key that new system into a possible agreement to extend own resources. We cannot have an agreement to increase own resources unless we simultaneously get an agreement on a fairer sharing of the burden. Then we shall get a lasting solution and not otherwise.

Mr. Teddy Taylor (Southend, East): As the common agricultural policy has been a constant source of conflict between the nations of Europe and will continue to be so even if the proposed modifications succeed, would it not be wiser for the Government to try to discuss informally with the other leaders of Europe the possibility of a looser association that would ensure the continuance of the Common Market and of unity without having a policy that surely is contrary to all the excellent economic policies pursued by Her Majesty's Government?

The Prime Minister: Obviously there are some conflicts among the 10 members and many of them were discussed during the past two or three days. I think there

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would be infinitely more conflicts if we were not members of the European Community, and I think it would be a mistake to assume that there would then be a common market, including Britain, if we came out of the Community as such. We should then face extensive problems and we should lose a great deal of investment, jobs and future prospects if there were to be any question of Britain coming out of the Community. However, I believe we settled that question once and for all at the last election.

Mr. Ron Leighton (Newham, North-East): Does the Prime Minister recall the Government publishing 18 months ago an excellent pamphlet entitled "The Budget problem" the last sentence of which says:

"A lasting solution to the budget Problem must be found. This is the task for the autumn of 1982."?

As 1982 and 1983 have gone by, will she cut the cackle and take some action to carry out the resolution of the House that British contributions should not exceed our receipts? Will she do that by withholding the contributions that do exceed our receipts?

The Prime Minister: No, Mr. Speaker. I will uphold, or try at all times to uphold the agreements that successive Prime Ministers have honourably reached with the European Community. At the moment we are trying to change those agreements because we think that in some aspects they ceased to be operating fairly. If one wants to get a better agreement one does not just go about breaching an old one.

Mr. Dave Nellist (Coventry, South-East): Tell that to Eddie Shah.

The Prime Minister: If we break our own agreement within the Common Market how can we ever expect the Common Market to honour an agreement with us? We are trying to change the budget system on to a lasting system on a totally different basis from that which has ever been held before. The advantage we have now that we did not have three years, two years or one year ago, or certainly the advantage we will have some time within the next one to two years, is that the 1 per cent. VAT ceiling will probably be reached during the coming year and therefore we are much more likely to get a change than we have been in the past.

Mr. Maurice Macmillan (Surrey, South-West): Does the Prime Minister agree that there is no possible solution to this dilemma by seeking to develop a Community on the looser lines of a trading partnership between the nations and that it is the nature of the Community that is essential to its political and security aspects? Since this may take some time despite her efforts, can she give an indication that those areas of co-operation, notably industry and especially the aircraft industry and high technology, will not be adversely affected by the negotiations as they proceed, no matter how rancorous they may get?

The Prime Minister: I think that when we go to an even larger Community of 12 some relationships are bound to be slightly looser because it is not possible to agree everything when there are disparate views among 12 different people. On the latter part of the question, I share my right hon. Friend's views on the necessity to have more co-operation on high technology. I think it is one of those aspects where Europe has lost out to the Japanese and to

the United States, although we are a larger market and every bit as healthy a market as the United States and much larger than Japan. I would like there to be some room made in the agricultural budget in order to get more industrial co-operation like Esprit and, of course, outside the Community we have matters to consider that we are now considering such as the airbus. We shall not have aircraft and high technology industries in Europe unless we are prepared to have much more co-operation than we have at present.

Mr. John Morris (Aberavon): Since British agriculture is far from reaching self-sufficiency, were not the negotiations in Athens an attempt to mitigate a European scandal and an obscenity? In the course of any discussions, it would be British agriculture that would be sacrificed and any hope of expansion would be lost. Will the Prime Minister therefore answer a simple question? Given her concern for jobs uttered earlier, how many jobs would be lost in British agriculture and why should our milk producers be punished in this way?

The Prime Minister: British agriculture has done well during the time that we have belonged to the European Community. British agriculture, the right hon. and learned Gentleman remembers, was always subsidised. I do not know of any industrial country in the world that has not had to make special provision for its agriculture if it wishes to have a healthy agriculture.

Mr. Jack Straw (Blackburn): Healthy?

The Prime Minister: Perhaps the hon. Gentleman who insists on interrupting from a sedentary position would wish it to go back to the condition it was in in the 1930s, when the policy was cheap food at the price of the British agricultural community.

The milk surplus is, of course, only one of the surpluses; milk is 25 per cent. in surplus in Europe. We are very nearly self-sufficient in the United Kingdom, but not quite. However, we are part of the common agricultural policy and we are trying to reduce the surpluses, though not by discriminating between one country to another.

Unfortunately, some countries included in the proposal asked to be made exceptions. Ireland wished not only not to reduce her output but actually to increase it, and Italy wanted to be an exception to the proposal that each of us would have to reduce the amount produced at present. It was not possible to go forward on that basis, because, instead of really tackling the surpluses, what was happening at Athens was that some countries wanted to raise extra taxes by increased co-responsibility levy and by an oils and fats tax to finance increased surpluses. It could have been a compromise but one that we totally and utterly rejected as going wholly in the wrong direction and abdicating from the Stuttgart decision.

Sir Anthony Meyer (Clwyd, North-West): My right hon. Friend has universal support for her rigid defence of British interests. So also do the leaders of the other member countries, many of whom are in a weaker political position than she is. Is she content at this time of exceptional peril merely to allow time to operate on them to bring them round to our point of view in view of the need for the European Community to exercise a united moderating influence on the United States?

The Prime Minister: I am grateful to my hon. Friend for those remarks. Undoubtedly, some of the decisions that each of us were required to take at Athens would be very difficult politically. We shall not get a change in the practice of the Community in regard to surpluses—not only milk surpluses but, for example, olive oil and wine, and there are great intervention funds for rice and tobacco—without there being considerable difficulty in taking some of the decisions that we must take. Therefore, each country was bound to have to take some penalties and get some gains from the many decisions that we had to take. How far we shall get them in the next six months I do not know—the European elections come up in June—but I believe that it is to our advantage to go ahead and make difficult decisions. I have always taken the view that we must not run away from long-term decisions. However, that view is not at present universally shared. The coalition Governments are often those in most difficulty. It says a lot when one has a good majority from a good two-party system.

Mr. Dafydd Wigley (Caernarfon): With the European elections coming in June, there may be pressure to delay an agreement. Is the right hon. Lady aware that many commentators fear that a financial crisis could come considerably earlier than the autumn? Will she give an assurance that the Government will bring forward contingency arrangements to ensure that those who are dependent for their cash flow on European funds will have their needs met and that there will not be a loss of confidence in the intervening period?

The Prime Minister: Some Heads of Government and some Heads of State may take the view that it would be more difficult, with the European elections coming up, to take the necessary steps required to carry out the Stuttgart decision. That may be right, in which case it would be delayed even longer.

As for a financial crisis, that will depend, of course, on the amount produced and on world prices. We could come into crisis earlier or later, and if we have any real difficulties on the budget, that would be the strongest factor that one could adduce to get agreement on reducing surplus production.

Mr. Richard Body (Holland with Boston): Is there any hope that my right hon. Friend will come just a little closer to the view that has been expressed on these Benches that there will continue to be friction and discord in the Common Market so long as it remains a customs union instead of a free trade area and so long as it insists on being a supranational authority instead of a partnership of nation states, as some on these Benches wish it to be?

The Prime Minister: I do not think that we could change from the kind of Community that we are now to the kind of Community that my hon. Friend wishes to see. I am the first to admit that there are considerable arguments, conflicts and discords, as there are bound to be in a relationship of that kind. I do not believe that those would be reduced if we went to the other kind of community, and our influence throughout the world would be substantially reduced were we not a full partner in the Community.

Mr. Tam Dalyell (Linlithgow): If, as in her answer to the Leader of the Opposition, the Prime Minister attaches so much importance to consultation with the

United States, why does she think that Washington treated us so cavalierly over the Lebanon air strike? Could it possibly have been tit for tat for her disgraceful attitude towards Washington in not consulting them on sending the battle fleet or sinking the *Belgrano*?

The Prime Minister: The United States did not treat us in a cavalier fashion over the air strike. Decisions on self-defence must be taken on the spot, and co-operation between the commanders of the multinational force on the spot is excellent.

Mr. David Crouch (Canterbury): I greatly valued my right hon. Friend's statement this afternoon about maintaining the British presence, our forces, in Lebanon at this critical time. It was not only a careful and considered statement by her but a courageous one, because uppermost in our minds must be the safety of those men in that dangerous situation. May I suggest that so long as their role as an interposition force—a peace-keeping role—is not changed, they should remain? When anarchy and lawlessness break out on the streets, that is not the time to remove the police force.

The Prime Minister: I thank my hon. Friend for those remarks. We are, of course, daily concerned with the safety of our forces. That is why some weeks ago we sent a force of Buccaneers to Cyprus—to be there should we need them—and a few days ago HMS *Fearless* arrived to help should her services be needed; and sometimes the forces can spend some time on *Fearless*. I am grateful to my hon. Friend for taking the view that he expressed. It is a genuine peacekeeping role. It is highly valued and I believe that if the multinational force were to come out now, the consequences would be severe indeed. So far it has not proved possible to get a United Nations truce supervisory force to take its place. That in theory is technically possible and there is nothing to stop it, except that so far the Soviet Union has not given its agreement.

Mr. Peter Hardy (Wentworth): As apparently it takes nearly 400 people on the Conservative Benches to effect the ruin of this country, is the right hon. Lady satisfied that less than one quarter of that number of young soldiers can be left in an exposed position to carry out a task which, I think, she described as "extremely valuable"?

As the right hon. Lady mentioned the European elections, is she prepared now wholeheartedly to endorse those Conservative Members of the European Assembly who have not only voted against the national interest in regard to the budgetary contributions but also appear to believe overwhelmingly in the principle of unlimited food surplus?

The Prime Minister: I do not accept the strictures of the hon. Gentleman on our membership of the European Assembly. It is working both for British interests and for the interests of the European Community as a whole.

Frequently, I am afraid, we put our soldiers in an exposed position, nowhere more so than in Northern Ireland, where—whether in the Lebanon or in Northern Ireland—they also carry out their role extremely well. I have given my views on the force in Lebanon; it is doing an excellent job and will continue to do so unless all four members of the multinational force come to some different arrangement, and there is no sign of that yet.

Mr. Peter Temple-Morris (Leominster): While accepting utterly what my right hon. Friend said about the

[Mr. Peter Temple-Morris]

British peacekeeping force in the Lebanon, does she appreciate that there are people both inside and outside the House who have increasing and reluctant reservations about the drift of United States policy in the middle east and who fear that if that drift is allowed to continue unchecked, that fact alone could represent the greatest danger in the future—however much we may dislike that fact—to the British peacekeeping force? Will my right hon. Friend therefore confirm that she is in constant contact with Washington over these important matters?

The Prime Minister: We share my hon. Friend's concern at any increase in violence, first because of the violence itself, which is horrific, and secondly because it is not conducive to the reconciliation talks that the President of Lebanon must soon continue again in Geneva. Thus, I understand my hon. Friend's concern. We should also understand that if, by any terrible mishap, we had lost a large number of soldiers in the Lebanon in the same way as the United States has, we should rightly think that our first duty was reconnaissance—

Mr. J. Enoch Powell (Down, South): When were we told about that?

The Prime Minister:—we should rightly tell the Syrians that we would be undertaking reconnaissance and we would expect our planes not to be shot at; but if they were, we might also rightly think to take certain action in self-defence. I am sure that my hon. Friend, while I understand his concern, would not want us ever to consider even pulling out unilaterally or leading a retreat from the Lebanon.

Several Hon. Members *rose*—

Mr. Speaker: Order. This is a very important matter. Therefore, I propose to allow questions to run until half past four, which will mean that the House will have spent about an hour on this important statement.

Mr. Robert Kilroy-Silk (Knowsley, North): Given the threat to British forces in the Lebanon, does the Prime Minister not accept that she has a clear responsibility either to reinforce that garrison or, preferably, to withdraw it?

The Prime Minister: I do not think there is anything I can usefully add to what I have already said. We have a small force there. When we were originally asked to join the force I said that we could put in only a very small force because we are stretched militarily around the world. That small force is valuable.

Mr. Kilroy-Silk: How can it protect itself?

The Prime Minister: If it needed to have more for its own protection, that would be made available. If one turns around the argument and says that they ought not be there—as I gather the hon. Gentleman thinks—then it would be unwise to put more there. I am not sure which case he is arguing.

Mr. Timothy Yeo (Suffolk, South): Bearing in mind that it was the Labour Government which conducted a so-called renegotiation of the terms of British membership of the Common Market, may I ask if my right hon. Friend agrees that it is shameful for the Opposition now to be glorying in the difficulties with which the EC is faced and, indeed, ludicrous for them to direct criticism at those

member states which are trying to resolve the difficulties? By doing those two things, are they not making even harder, the urgent task which we face in the first half of next year?

The Prime Minister: Yes. I think that even the Labour party would not seek to come out of the Common Market.

Mr. Paddy Ashdown (Yeovil): The Prime Minister has mentioned the European Community running out of money in certain areas. While it is probably true that the funding of the EC is sufficient to last until August, does she not accept that there will be a considerable temptation for the Community to dip into the regional and social funds to fund the deficit in agriculture and other areas? Would she agree with us—would she agree with me—[HON. MEMBERS: "Ah!"]—would she agree with us—[HON. MEMBERS: "Which?"]—that the maintenance of the integrity of those two funds and their enlargement are in large measure essential for the future development of the Community? Will she give an undertaking that she will resist any attempts by the Community to dip into those two funds to fund profligacy in agriculture and other areas?

The Prime Minister: Community funds will have to act in accordance with the rules, but they will be in difficulty if the surpluses go on increasing. While we have tried to get limitations on those surpluses we have not so far been successful. As the hon. Gentleman knows, it takes time to achieve that. A lot depends on prices policy too during the next review. It will be difficult. I hope that the two funds will be kept separate.

I would not necessarily agree with the hon. Gentleman that we must have an enlargement of the funds at any price. I firmly set my face against enlargement except at a price. That price is strict guidelines on financial control, which are embodied in the budgetary procedure. It is no good having political guidelines. They must be in the budgetary procedure so that they are observed. Also, we are not prepared to pay more unless there is a fairer sharing of the burden. It seems intolerable for other countries to say to the two main contributors, Germany and ourselves, "We have not got enough. We know you are the main contributors. Now you have to pay some more." I am saying that, if there is to be more, there must be a fairer sharing and it must be based on ability to pay, not contributions.

Mr. Dennis Walters (Westbury): Did my right hon. Friend have an opportunity to discuss with her colleagues the recent accord between the United States and Israel which has opened a new and dangerous dimension in the situation in the Middle East? Would she exercise her influence on President Reagan to point out that he should be more even-handed and that in committing himself to supporting one of the parties in the dispute, which incidentally is still illegally occupying large tracts of Arab land, he cannot help to bring about a comprehensive peace settlement?

The Prime Minister: We are all naturally anxious, as is my hon. Friend, to bring about a comprehensive peace settlement and to secure conditions under which both Israel and Syria can withdraw from the Lebanon and the President of the Lebanon can go ahead with seeking a reconciliation between the many factions in the Lebanon, which is a difficult enough job on its own. We have to consider how best to go about that very delicate task.

Mr. Robert C. Brown (Newcastle upon Tyne, North): Would the Prime Minister not agree that since the French are doing so well out of the CAP, to expect any French President to volunteer co-operation on reform of the CAP would be as unrealistic as to expect turkeys collectively to ask for Christmas to be brought forward by three months? Would the Prime Minister agree that the words "a deep renegotiation" have been used over and over again but that we have never actually seen that? Can we have an assurance from her that she is not prepared to allow the EC to founder on the rocks of the CAP, even if it means fundamental renegotiation of the treaty itself?

The Prime Minister: I feel that fundamental renegotiation of the treaty itself is unlikely. If the hon. Member looks at the clauses in the treaty relating to the common agricultural policy he will not find that the problems arise from the treaty clauses. At the beginning of the CAP it was thought that it would be more or less self-sufficient because the levies were to bring incoming goods up to the European price. It was expected that it would be self-sufficient, and it was until the big surpluses developed.

With regard to the surpluses, I think the hon. Gentleman is being unjust to the President of France in any suggestion that France was one of the most difficult countries on reform of the CAP. That is not so. There were other countries that wanted to be able to opt out of doing their part in cutting down the surpluses. The President of France was one who agreed that we had to take steps to cut down the surpluses. Each of us then tries to fight our own corner and to see that it is done in a way that is not too harmful to our farmers. For example, I am particularly anxious that we should not get both an increase in the co-responsibility levy and in the super-levy because we have to pay a lot of co-responsibility levy compared with milk production. All those are detailed things which I still hold Heads of Government should not be left to discuss at a European Council of that kind.

Mr. Nicholas Winterton (Macclesfield): I welcome my right hon. Friend's robust and determined stance at the summit conference in Athens. Additional nations are about to join the European Community, which will cost existing members a great deal of money. Bearing in mind her last remarks, would she not agree that it is unfair for the British dairy producer, the most efficient in Europe, to bear the burden of any agreement that might be made within the European Community, particularly in relation to the co-responsibility levy and the super-levy which is proposed

by the European Commission and which will prejudice and be to the tremendous disadvantage of the dairy sector in this country?

The Prime Minister: The enlargement to include Spain and Portugal would add extra cost to the budget, which is why both Germany and ourselves have had to insist that we could not bear the full burden of that increase. Therefore, we cannot take the enlargement on the present pattern of contributions. We have to have a changed pattern. That is precisely the point on which we are fighting. My hon. Friend will agree that in political terms it is, I believe, to everyone's advantage and also to the advantage of Spain and Portugal to have them politically within the Community.

With regard to the dairy problem, my hon. Friend has put his finger on one of the great problems which effect our farmers. We have 15 per cent. of the milk production of the Community and we pay 19 per cent. of the co-responsibility levy because of the way in which that levy is arranged across the Community. Therefore, when it comes to thinking about the super-levy, one of the points we are making strongly is that there must be no discrimination. Once one goes on that route there are so many exception and derogations, and they tend to be made in a way which is damaging to our farmers.

Rev. Martin Smyth (Belfast, South): We welcome the robust presentation of the statement today, we share the Prime Minister's conviction about coalition government and we welcome the defence of agriculture within an industrial nation because it is precious to Northern Ireland. The Prime Minister referred to a conversation with the Greek Premier. I understand that she also spent some time with the Premier of the Irish Republic and that the Foreign Secretary took the opportunity of an earlier European meeting to meet the Minister for Foreign Affairs of the Irish Republic. Was the prevention of terrorism in Northern Ireland discussed, or was that one of the subjects on which, to use the words of the statement, there were unsatisfactory compromises and "the will to control it effectively was just not present".

The Prime Minister: I had a brief discussion with the Taoiseach. What was said was confidential, but it would not cause the hon. Gentleman any concern. It was a routine meeting such as we usually have in the margins on these occasions. I also had quick conversations with the Prime Minister of Greece. Again, there is nothing further to report. This House is concerned, as he is and as the President of Cyprus is, that a unitary state of Cyprus be restored. We are taking all reasonable steps to that end.

Mr. Edgar Graham

4.30 pm

The Minister of State, Northern Ireland Office (Mr. Adam Butler): With permission, Mr. Speaker, I should like to make a statement on the murder earlier today of Mr. Edgar Graham. I do so on behalf of my right hon. Friend the Secretary of State who is in Northern Ireland.

Mr. Edgar Graham, a member of the Northern Ireland Assembly, was murdered at 10.50 this morning outside Queen's university, Belfast, where he lectured. While talking to a colleague on the pavement, he was approached by two youths on foot who fired a number of shots and then fled. The Provisional IRA has claimed responsibility for the murder. A full police inquiry was mounted immediately.

I know that the whole House will join me in extending sympathy to Mr. Graham's family, as also to those right hon. and hon. Members who were his colleagues. The House will also wish to join me in expressing total condemnation of this outrage.

Edgar Graham was the kind of young man who is needed in Northern Ireland politics. His intellectual gifts would have enabled him to make a good career in any number of fields. He chose to devote them to the process of democracy. At 28, he was already a senior figure in his party, including being secretary of the Ulster Unionist Council.

I can speak with personal knowledge of his political skills and penetrating mind as Chairman of the Finance and Personnel Committee of the Northern Ireland Assembly. I therefore express my own feelings as well as those of the Government in lamenting his untimely death.

Mr. Peter Archer (Warley, West): The whole House will feel a sense of loss at the murder of a young man of 28 by butchers masquerading as heroes. We all join the Minister in extending our sympathy to Mr. Graham's family and friends in their shock and bereavement. Members in all parts of the House, irrespective of political commitment, will recognise that Northern Ireland and the world have been deprived of talents which they can ill afford to lose and for which I as a lawyer can vouch.

Will the Minister confirm that, while every effort should and will be made to bring the murderers to justice and to ensure security on the streets of Northern Ireland, no measures can guarantee security until the communities of Northern Ireland have learnt to live together, and that if they are to live in a normal, stable community those who believe in constitutional democratic government must show that it can resolve issues between those who differ from one another? Will the Minister also appeal to those who, understandably, feel a sense of outrage and stress to them that measures of retaliation and escalation of the violence will merely reward the murderers with the very objective which they set out to achieve?

Mr. Butler: I am grateful to the right hon. and learned Gentleman for his opening remarks and for the total condemnation that he expressed. He is right to draw attention to wider aspects of the Northern Ireland scene. I agree with him that the problems there can be resolved only when the two communities have found ways to live harmoniously together. He is also right to refer to retaliation. If there was one purpose behind the brutal murder of Mr. Graham, I suspect that it was to bring about

a spate of retaliatory measures. I share the right hon. and learned Gentleman's view that that must not be allowed to happen.

Mr. J. Enoch Powell (Down, South): On behalf of my right hon. Friend the Member for Lagan Valley (Mr. Molyneux), whom the Secretary of State, following this event asked to meet him in Belfast, may I ask whether the Minister is aware that the expressions of loss and sympathy from both Front Benches, which have been echoed by the whole House, will be noted and appreciated both by the bereaved and by all our fellow citizens in Northern Ireland?

May I also ask the Government what message they believe that those who ordered the murder intended to transmit and to whom that message was addressed?

Mr. Butler: I am grateful to the right hon. Gentleman. My right hon. Friend the Secretary of State was, of course, in two minds about whether to make the statement to the House himself, but he was in Northern Ireland this morning and decided that he should stay in the Province. He has already had a meeting with the Chief Constable and with the Commander Land Forces.

It is not for me to say what message was intended by those who ordered the murder. What is important is the response to it. I expressed my feelings on that in reply to the first question.

Rev. Martin Smyth (Belfast, South): The Front Bench statements are to be welcomed, but they leave me a little perplexed. I am sure that they will also leave many people in Northern Ireland perplexed. I speak as the constituency Member for Belfast, South and as a colleague of Edgar Graham, who represented south Belfast with me in the Assembly. I worked with him in the Business Committee of the Assembly. I therefore know something of the tremendous loss suffered by the people of Ulster and the United Kingdom at large. Had Edgar Graham been alive on the morrow, he would have been here in Westminster consulting senior Members and Back Benchers.

I disagree with the view that the purpose of the killing was simply to cause community strife. I believe that it was part of a calculated nose-thumbing snub to this House and to the security forces to kill a man such as Edgar Graham, who took a firm line on law and order and not long ago appeared on the media calling on people not to take retaliatory action.

I should have liked the Minister making the statement today to be in a position even at such short notice, to explain why, although the security forces had been made aware of an imminent attack on a prominent Unionist, and had been made aware by me personally that the most vulnerable member was Edgar Graham, no action was taken to provide the protection which is now proved to have been necessary.

I regret that throughout the past 14 years people have gone through the ritual, pietistic condemnation of murder and violence, but when the security forces start doing the job for which they are trained and getting at the terrorists the self-same people put pressure on the security forces to stop. I hope that the message from this Parliament today will be that the security forces, who already have enormous constraints upon them under the law, should not constantly be penalised, while sacrificing their lives, by the knowledge that if they do not hit fast and hit the right person they will immediately be apprehended and

TUES A.M.



New text produced

PAP: I go: is it registered?

CRAM: Unhelpful & intently basis. favourable.
Avoid capital & debt

MING: U. with but v. diff. gr. ∴
General framework + legal aspects to handle

Case history: not the UK and
More time will not work. Elmer's work
not right so they decide
make this part even more

PAP:

MING:

That was gone
with: a number of matters in France
have not been understood so, while a lot
worked for by other has.

1) Always allow for no indirect other shares
but avoid next days for holding; also
take the down + in states. Capital cost.
We've done some states - with other
mechanism but it is no understatement
with 430,000 production in this production

2) Best year 83-5% with 20% a
interim holiday means main cause of
- further not taken, means that those
with interim holiday will be involved,
small farm production

(see above to interest + other: but

to with frame to meet but it is not a.

Let meet .6

But no rate 83.5% gives added from

Words 1 in year

Other products 1 in year: this way 500 to 350

MCA: will be met with given ① then

Can be no doubt how to 20- in MCM for

driving out. In a holistic for ② will be

must be given ~~the~~ given ECU for new MCM

Structural funds + enlarged in can assist

- major incentive for frame.

30. ix. 84 is way too far ahead

I'm hoping to shoulder my responsibility.

If I have to, then (it's not a commitment)

the loan the better.

Budget discipline: UK

Intensities: Well! Just have to agree
figures with UK & FDR. But in reality

with FDR, another (non European system)
formed a better solution.

But how to know what selling cost?

500 or 1000 Mecu? to wd. has 4800

But she - back to milk

- wrong data
- initial questions
- no cost or incentive
- dropping the better solution
- can't go below 26% cases
- MCM outside by words

PAP.

Does balance equal income?

KOHL.

Start with enlargement: think income
reasonable. so say that capital date that
to in Padden or fr.

On rest as a whole, mentions call
to produce this amount, a basis of
LUBB's holdings
Part 1 is asset; also 1 can

Ag:

Point out all the ideas. Ask you.

How do we handle 10, 50, 100? 1 year
with these

But how do we finance 100 or 200?
1. or 200 type of co. not long. What's
that?

Initial holdings: value at. Get a
unilateral part of package

If we do 100 or 200 + value at
those should be av. body, how to
finance, it is asset is

See no part in rest of it + facts.

Bodying desirable. Unilateral to be
what's there at in detail

Intolerance: without figures it looks like

MERS: clear one for the name

Fundamental question remains: without figures,

how can we agree? Well figures, we
might agree. With a carbonic power

MARTENS:

Col. must as basis

M.T.:

many problems for many of us.

- 1) Nil or price + glue shortness
- 2) milk. Real problem is surplus. This
don't tackle it. Now following shortage
mandate, moving away from it
Even with new rates cost to farmers
100 or 200 or 200 must.
Co. with buy is a risk to farmer
Oil + food cost: world other as
well as US. Agreement with
Canada: again enormous problem
New problem: not discussed.
Anxiety that this will let it & then
through a = funds
Guidelines: need to include in budgeting process,
& marketable dev
Implementation: Shetty said this should be
integrated part of new program procedure.
Plain contradictions = next.
Again decision market is on which
own resources as to put - place for
5 years + the dollar
Debt then found. Canada studies
.. problems which still identified + which
this doc. runs away from

MON P.M.

POP:

Budget:

When go?

We've proposed a new rule

If proposed it will need another by
Parliament. If accepted it will operate
from 1.1.86.

If so, then there has to be an
ad hoc estimate for 84 & 85
What?

Starting in '86, a rule will be
functioning. This is clear despite
or point of view between UK & FR
UK with indefinite duration
for not proposed for that

but it will be no effect of no horizon
- 1990 - that seems likely.

Who speaks?

LONG PLATE

Conclusion:

Point to adopt fully guidelines

- 1) Difficulties with shares + flows from
Cody
- 2) Max limit returned on share to GDP,
~~increasing~~ with capital fully as
not with us
- 3) ~~not~~ budget for VAT mark in fully year
- 4) Finance for those who have no share
no companies + make states who are
capitalist that will be up to
countries no companies

- 1) VAT get.
- 2) Allowance side by
- 3) max limit 20 to 100

Let sides fix

JEWELL: This is a flat back towards
 net contribution status
 Especially ∴ in year to come
 VAT revenue will grow as proportion of
 own resources + less than 20 net
 contrib basis

- M.7:
- ① Has to be own resource get.
 - ② Duration must be as long as own
 resource income
 - ③ Let have agreed on 84 + 85, as
 separate exercises. Just not possible
 mechanism.

LoB: Get. ... mixed a bit
 Needed: Probably not not do,
 with own VAT scale OK.
 Given better demands on (i).
 Can be objection of APR 20 (i).

SCHEURER: Return to Paddy paper.
 ... It's not we have

PAP: No doubt we have an impact but
 have to return later

Plan for today.

Brain surgery.

Meats & fish & fruits in school room.
Produce the right focus & stay out in
hardcore results.

MARRIAGES:

Presiding text is most likely reproduce
results.

But how can we go further if results
not looking better

How can we discuss this, without
FMS with us?

PAP:

We'll all be together after dinner

VARRIS:

Geometric problems do help

FDR says VAT base

That means a more so fully solution

But FDR says
not buy more than

Presiding text
receive not less than

GEORGE

LUBSON

There is a fundamental difference

We're getting lost

We don't hit hard with it - it's
in vain

Co. n.

Explains when we now are (!!!)

All options can be accommodated in Presiding text

Atkinson's Evidence.

ANN:

(4)

Believe does not imply consent.

Attain big made no change framework.

Stuttgart body for some but not for others
- or - selective basis

Don't deny some justification for this
business.

But why becoming v. different from what
we thought.

PM + I very disappointed

If this is relevant, let's stick to a
Free Trade Area.

Must believe when all this attaches

Why it exists, historically, without all this

History

Don't know when going. But it 6 years

is not enough, what is?

Risks against FDR idea or no content
by them no reforms. If like this, then
we can't go along with it

PAP

William And's content -

John H. Paddy had + put on back had

We just recently transition in saying 20 to be as
just as we can, especially as we've been to
content of back entry to EC

A very risky thing for country like ours to do,

-? low productivity etc so low

Need for poor country to join club while not
differs have been missing

Struggle for survival in a Customs Union, with
only CAP + with structural funds despite

no redistribution, do we belong just to the
ind. center or sell goods to us?

What's the game?

We're under attack

To under attack only or friend side is only part.

Our commercial balance has worsened.

Juste who will destroy the UK.

If you're only going to under attack, what you put in, why bother?

What about a trade - hotel - with US, S. America, Eastern bloc

We're going to live with the rules: how what advantage?

It's thought we understand the UK.

We don't. We're the making real business to stay within.

Presley had back a:

must address ourselves to structure & issues
Over in whole place dynamite at
foundations & economy.

All these problems arise: we're in
depression: g.d.p., investment, unemployment.

When pie is shrinking, it's a zero sum game.

∴ relevance is v. important.

We have no ind. strategy

We're the smallest high int. rates in US,
+ high deficits so financial arguments.

And Europe is financing that.

So important things not happening

We're prepared to do all the necessary things

- ind. strategy

- new policies

Why not in the dollar? ∴ Greeks,

as Presley, have the model

So lets look at middle husband
what region 20th c is '85 '86.

NOTE:

lets husband this section
of husband was from the problem.
But some other ~~maybe~~ will work

-AND.

(27)

[CAP - FALL!]

We talk more than the rules show
Others have special case e.g. UK's
right to purchase from NZ

Conclusion: we need a blended system.
It has certainly shown up in W. est.
extension

On that basis it is the least.
That also looks at degree of proximity.
Problems of proximity can be solved @
extent of the problems.

Re. Common modularized VAT program:

A weak point: ~~if this goes to~~
- CAP

Certainly est. not really hostile
or countries \therefore similarities being a
little positive than others

F172.
Assess validity of second of AND's
points.

Your point (i) seems odd \therefore more
proximity means more receipts (*)

Orn. doesn't go forward.

VARAS.

This point (*) has been made twice.

It's not true.

Repeal a point for y' day.

We're in by virtue of a contract,
signed by 6 in Rome.

Others have joined same contract, with
transitional measures.

Can't ignore that. Or the obliged to
come up with new treaty.

In any case, T.R. excludes
justice return

That's at least a one point

Can't solve by attacking CAP + trying
to win it all

Can't ignore effect of other countries.

As for net contributions, can that be
checked? Or crossing the
threshold so that. But we refer
to world that agreement

When UK joins, transitional measures
first. They are now behind us.
UK can base a fact that those
measures continue

They do, de facto. In 1980
agreements. But 1980 agreements that
have been signed. We should
simply have extended transit. measures

That's in dist. in a work-upt way.

(29)

Now what is the effort?

To bring out ag. holding, get rid
a little part of total effort

And UK contribute

Admirable outline of Brit. delivery,
which I admire

The names are wearing out. "Let us
agree on the better effort", they say.

And to let us know so water down
every effort.

Luther points to danger of that.

They don't require S. countries to
be self-suff. in milk, nor do in wine

Still discussing UK proposal.

Original bid was for 7 years.

We would make the bid.

But proposal to make an intermediate
period; in this was meeting we were
proposed to help.

Now is this takes up a day or each
country, with time to make the in-
line not proposed to amend the treaty.

We will avoid this debate.

Your proposals were very practical

But they're inevitable

They're algebraic

Unlikely wrong not right

e.g. Common exports from UK

1.3% ECU too much

N/A that!

But we have to say so that there
mistakes + say so correct the

fatigue causes us to give way.

Not just a yr of pleasure M.T.

Always glad to take so he

- will = little bit of mistakes, 1 year.

But still very pleased.

O - not balances, quite at a
quarter.

But as for answer. 1. date after

an act of hostility towards

UK + Germany. But not

helped to reach conclusion that
is contrary to reality

Since my attempt is vague, people

think I'm giving way.

I'm not.

I'm careful to go on

arguing for year to year

The days in a week in ~~the~~ the
Commonwealth.

We have to have more

It's not fair

I believe this business that rules
place every year

I recognize this points the system.

But to be it

This has to be brought to a halt

We've scattered the entire population.

But I'm not going to accept any
lastly death.

If I go any further than I shall
calculated myself

V. entirely to discuss the system, but
unless it be logical

Swindle, death? How long?

One year. I'd go as far as 2.

Can't accept any death on a lasting basis

If so, all rules have gone

All this is immediately ourselves

will matter what that be left to

others

Regard all problems except
from one year to the next the
lengths greater to UK in 1972
- normal than that

VARAC,

There is a full forward &
conclusion

- GAP -

Should go to blended system,
CA in shape one way only
was better

All the matters and the situation

So we want to all extent, will
specify how they to achieve that.

It beyond that, we'd be ready
to do all the parties: each in their

Conclusion:

- ① We are to report control & what to stay to
- ② Don't want to be able to stay as well
under control
- ③ We in particular & 2. based mechanism
- ④ It will be to stay a well controlled,
we can't control to UK

SCULLY:

Prize Prudon handbook should.

Gene's handbook problem can be dealt with by key

PAP:

Don't Prudon handbook deal with Gene's problem

CONSENT:

No.

LUSBY:

Modulated scale should be rejected.

HDR says they will not limit their control to CE

in control of HDR, I should advise against it.

If it is to be done, then it should be done in full respect for Treaty

M.7:

If to be for an year, then we can save ourselves a lot of work. If not to be done, then we need a system

Deals with one double bundle of Italy + Greece as well as us.

Resolves basic case against us or one ~~case~~ bundle: it. 3rd world aid.

Assume we need to take solution for more than one year.

~~the~~ 2nd text

Gewinner:

We know that combine is the
2 mechanisms

- do not have to sell down the
plus what come through,
with modelled VMT

Upper limit based on down the
limit based on expenditure / GDP growth.
Perhaps we can take the M.7's figures

LUBRAM:

We can not have M.7 right.
Question:

Looks quite unjustified
in capital with rules & why

MARRAS:

Can we have flat rate rules.

M.7:

Not flat rate -
this was just illustration of how
firm would work out, a basis of
Paddy, banks - a model,
as we suggest



now filed on
1) Cyprus: Int. Sit
A2
→ 2) European Councils
Athens Pt 13

10 DOWNING STREET

From the Private Secretary

MR. FALL
FOREIGN AND COMMONWEALTH OFFICE

CYPRUS

As you are aware, Mr. Papandreou suggested to the Prime Minister that, owing to the pressure of European Council business, they should not have the formal bilateral meeting which had been arranged for 5 December but should instead have a brief discussion of Cyprus in the course of the dinner for Heads of Government later that day.

The Prime Minister told us afterwards that the exchange had been very brief. She had asked Mr. Papandreou whether he had considered fully the impression which would be created if Greece were thought not to be willing to take part in tripartite consultations. Mr. Papandreou stated in reply that he had not yet taken a final decision about consultations and that he would be discussing the matter with President Kyprianou next week.

A.S.C.

6 December 1983

SUBJECT
cc Mafto



10 DOWNING STREET

From the Principal Private Secretary

6 December 1983

cc HMT
MAFF
DTI
CO

hld on:

- 1) France: Anglo-French Relations Pt 2
- 2) European Councils: Athens Pt 13

Dear Brian,

I enclose a record of a discussion between the Prime Minister and President Mitterrand about European Community issues at a working breakfast in Athens today.

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

Yours ever,

Robin Butler

Brian Fall Esq

Foreign and Commonwealth Office

CONFIDENTIAL

RECORD OF A MEETING AT A WORKING BREAKFAST BETWEEN THE
PRIME MINISTER AND THE PRESIDENT OF THE FRENCH REPUBLIC
AT THE FRENCH AMBASSADOR'S RESIDENCE IN ATHENS AT 0845 HRS
ON TUESDAY, 6 DECEMBER

Present:

Prime Minister
Mr. F.E.R. Butler

President Mitterrand
M. Attali
Interpreter

President Mitterrand opened by saying that he felt it important, in the light of the press reports about the European Council that morning, that both their colleagues and the outside world should know that dialogue between the British and French Governments was continuing. The press appeared to have the impression that the Council had been dominated by an Anglo/French conflict. He did not seek such a conflict, and did not wish to give an impression of conflict at all. The problems of the Community were only a small part of the preoccupations of European governments. There were many issues on which they had a common stand. But unless the present situation was corrected, the press would soon be talking of a return to the Hundred Years War.

The Prime Minister said that she did regard the situation in the Community as very serious, and as much more serious than just a Franco/British disagreement. After Stuttgart the Community had a historic opportunity to re-assess its financial arrangements and tackle the problems of agricultural surpluses. But the present Council had run away from the fundamental problems.

/She

CONFIDENTIAL

CONFIDENTIAL

- 2 -

She found disagreements between herself and President Mitterrand particularly difficult to understand because in October they had agreed on maintaining close relations on the matters to be discussed at the Council and had both appointed personal representatives to hold discussions with a view to avoiding misunderstandings. She had made a similar arrangement with the Germans, and she understood that the French had too. Despite this, President Mitterrand's attitude at the Council had taken her by surprise. She had come to the Council pleased with the proposal of M. Delors on budgetary control, but had found herself alone in supporting them. She did not know how this situation had come about, particularly without any warning.

President Mitterrand asked which proposal of M. Delors the Prime Minister was referring to. The Prime Minister said that she was referring to the proposals on budgetary control. President Mitterrand asked in what respect his position had differed from that of M. Delors. The Prime Minister said that the French had appeared to support at the Council their own proposal and she had been alone in speaking up for it. President Mitterrand said that he did have some differences on the approach to milk surpluses because he felt it was necessary to take account of the views of the countries especially concerned: that said, however, he supported a limit on milk production.

The Prime Minister said that if there was to be such a limit, it would have to be fought for. She had not been in favour of the proposal for a super-levy, but had been prepared to accept it since it appeared to be the only way forward likely to command general assent. But she had been appalled by suggestions that Italy and Greece should have special treatment, and she did not see how Ireland could be allowed actually to increase production.

CONFIDENTIAL

/On financial

On financial burden sharing, she had thought that the proposals in the Presidency paper provided an excellent starting point and had been under the impression that three out of the four points were agreed: she had had no idea that President Mitterrand took a different view.

President Mitterrand commented that the only differences over burden sharing was a point of principle about the calculation of the British contribution. He repeated that he did not want a conflict with the British, but he did want a levy on oils and fats and negotiations with the United States on agricultural imports.

The Prime Minister said that she had understood that a large part of the solution of burden sharing had been agreed, and that all which remained at issue was the calculation of the compensation to Britain and the method by which it would be shared by the other member countries. But these matters would now be passed to the French under their Presidency. It might well be that the Community would not run into financial crisis during the French Presidency, although depending on the next harvest and the movement of world prices it would be likely to do so in the autumn. The next Council on these matters would have to be very carefully prepared and she would not be in favour of holding another special Council on these matters until the ground work had been done. But the absence of agreement would make it very difficult for agriculture Ministers and the Commission to determine the price fixing for next year.

/President Mitterrand

President Mitterrand said that he never heard that there was agreement about a way of settling the budget problem. The French had made some gestures of goodwill but these did not represent agreement. He would like to discuss these matters further with the Prime Minister on a suitable occasion. The Prime Minister commented that discussions would need to be continued with the Germans as well.

President Mitterrand said that he did not know what France would have to pay next year. He understood that France would have to meet 40 per cent of any compensation to the United Kingdom and that its net contribution might amount to 2 billion ecu.

The Prime Minister commented that the United Kingdom's unadjusted net contribution was 2 billion ecu and the Germans' was 2.3 billion ecu. But the Germans got other benefits from membership of the Community which induced them to be generous. Even so, there had to be a limit on the German contribution because there was always a risk that a new generation would arise in Germany which would be unwilling to make such a large contribution. It would be a disaster if Germany became neutralist or opted to become reunited with East Germany. President Mitterrand said that this temptation was already present. The Prime Minister said that this was why a reasonable settlement had to be found, which covered the Germans. It was an historic opportunity which the present Council had not approached with sufficient gravity or awareness of the far reaching political implications. A transient compromise was not acceptable. The

/Council

CONFIDENTIAL

- 5 -

Council also had to face the question of enlargement, and she expected that there would be discussion of this aspect later in the morning.

At this point there was discussion on the current situation in Lebanon which has been recorded separately. Shortly before the meeting concluded, the Prime Minister reverted to European Community issues and said that she did not want a continuing conflict with the French Government over these matters. She thought that it would be necessary not only to maintain the system of personal representatives in preparation for the next special Council but also for herself to fly over to Paris, if necessary privately, for personal discussions with President Mitterrand.

President Mitterrand repeated that the only problem with the British over the budget was the method of calculating the British contribution. He also felt that the British were too soft with the Americans on cereal substitutes and on United States agricultural imports generally: these were relatively minor matters in relation to the big issues on which Britain and France were agreed. If there were less US imports of cereal substitutes there would be fewer cows and less milk in Europe. The Prime Minister commented that her actions over Grenada indicated that she did not take an uncritical view of the United States.

6 December 1983

FRB
...

TEXT OF A PRIVATE NOTICE QUESTION FROM RT HON DENIS HEALEY MP

Question: To ask the Secretary of State for Foreign Affairs if he will make a statement on the situation in the Lebanon.

Answer:

On 3 December anti-aircraft guns fired on US reconnaissance aircraft over Lebanon. Early on 4 December US aircraft bombed Syrian military targets in Lebanon. Two US aircraft were shot down. Last night 8 US marines were killed by shell-fire.

We are in close contact with other contributors to the MNF. We share the objective of helping the Lebanese Government restore stability and create conditions in which the Lebanese people can themselves sort out their difficulties free from outside interference.

All the parties welcome the role of the British contingent, which has the vital task of guarding the meetings of the Ceasefire Commission. The safety of our men is kept under constant review.

It is vital that all parties in Lebanon show restraint and work together to make further progress towards national reconciliation. We shall continue to urge this on President Gemayel.

5 December, 1983

AtkinsMr ColesPrime Minister's Meeting with President Mitterrand: Argentina

The Prime Minister may wish to make the following points to President Mitterrand.

(i) Relations with new Argentine Government

Understand that Prime Minister Mauroy will be representing France at Dr Alfonsin's Inauguration. I welcome return of democracy in Argentina. Cannot discuss sovereignty over Falklands, but our disagreement on this issue should not prevent Britain and Argentina from re-establishing normal commercial and diplomatic relations.

If he has opportunity to do so, hope M. Mauroy will tell Alfonsin that we shall be very ready to work with his Government to that end.

(ii) Arms Sales

President Reagan will shortly announce certification. Shall not quarrel with that: US have formed the judgement that Argentine human rights performance now meets the test.

But remain most concerned about what actual sales may follow, and will continue to press Reagan to exercise the greatest caution.

Still a grave risk of sending the wrong signals to Argentine military. Americans bound to be influenced by what France does and hope that you will continue to show restraint.

(B J P Fall)

5 December 1983

cc: PS
Sir J Bullard

Copy to: Secretary of State
via Mr. Butler
Mr. Williams
Sir C. Tickell
Mr. Vaux

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND: 6 DECEMBER

Points to make

1. Very disappointed by way meeting has gone. Had hoped to follow up Stuttgart communique and set Community on new course which would have enabled European Council to concentrate on really important issues and put ~~the~~ our internal squabbles behind us. June general election settled "in or out" question for Britain once and for all. Wanted to bury the budget problem by finding an equitable solution in a wider framework; and to get Community spending under control, as we are all having to do with public expenditure at home.

2. Instead we have had the worst European Council meeting I can remember. Vested interests have blocked any sensible reform of agriculture. The budget problem has been addressed in the same confrontational way we have experienced again and again in recent years. The net beneficiaries, with only one honourable exception (Netherlands) clearly think the game can go on for ever. But it can not. No question of agreeing to any increase in own resources on basis currently under discussion.

3. All the more disappointing because I was convinced key lay in reaching basic understanding with you and Germans. Responded positively to your approach last February (Cheysson to Howe/Pym). Followed up with detailed official talks about possible budget corrective systems; encouraged by your willingness at Special Councils to discuss such systems; agreed when you and I met in October to keep in personal touch through our close collaborators. No whisper of your intention to revert to the negative line you took yesterday reached me at any stage.

4. I fear that, so long as you take a theological line about defending the sacred ark of the Community covenant against the British who are trying to destroy it, we shall get nowhere. We are not trying to destroy it. We want to make it work to our mutual interest. We know that certain aspects of the CAP mean a lot to you. But we believe that your and our interests can be reconciled if we talk as equals with an equal stake in the future of the Community.

5. No wish at all to see our failure this week lead to an open crisis. But public judgement of this meeting will be harsh. Time is not on our side if we are to find solutions before realities of shortage of funds impose their own.

Hope French Presidency will set about picking up pieces and finding way to fulfil Stuttgart Communique, not looking for ways round it.

6. /If President Mitterrand says he will not agree to regulations for UK's 1983 refunds decided at Stuttgart/
No linkage between UK 1983 refunds and Athens result. Clear commitment at Stuttgart. If you block or deliberately delay payment of refunds beyond end of first quarter in 1984 (normal time by which payments made in earlier years to fit in with UK financial year) will have no alternative but to safeguard our position.

7. /If President Mitterrand raises Airbus/ Have had first presentation by British Aerospace and Rolls Royce. Will not reach decision until January. Determined that decision should reflect economic and commercial realities. But fully aware of your view and importance you attach to this project.

8. /If President Mitterrand raises Skynet/ Grateful for further response you have made to us. Not had any account of these talks. Will consider matter carefully on my return. But, as you know, the cost gap between Space Shuttle and Ariane was pretty wide.

SUBJECT
re MCAW

S E C R E T



Filed on:

1) Inland: mtgs
with the Taoiseach
PT6

→ 2) European Councils:
Athens PT 13

10 DOWNING STREET

From the Private Secretary

5 December, 1983

Dear John,

Meeting between the Prime Minister and the Taoiseach
in Athens on Monday, 5 December

The Prime Minister and Dr. FitzGerald had a short meeting in the margins of the European Council in Athens today. I enclose a record of the conversation. I also enclose a note of my subsequent conversation with Mr. Nally.

I am sending a copy of this letter and enclosure to Peter Ricketts (Foreign and Commonwealth Office) and to Richard Hatfield (Cabinet Office).

Yours ever
John Lyon.

J. Lyon, Esq.,
Northern Ireland Office

S E C R E T

Record of a conversation between the Prime Minister and the Taoiseach
at 0920 hrs on Monday, 5 December at the Zappeion Hall in Athens

Present: Prime Minister Dr. FitzGerald
Mr. A.J.Coles Mr. Nally

The Prime Minister referred to the state of discussion in the European Council and in particular to the question of milk. A super levy would cause just as much trouble for the United Kingdom as for Ireland. She could accept a super levy only if all the others agreed to it. The base year should be 1983. She could envisage special structural measures for Ireland. Dr. FitzGerald said that he had visited all the Member States and had found that there was much sympathy for the Irish problem. The Prime Minister observed that milk production in Ireland had increased by 50 per cent since Ireland had joined the Community. Dr. FitzGerald replied that Irish milk production was still well below the British and Danish levels. Much of the justification for Irish membership of the Community related to milk. It was impossible for him to agree to a super levy without dérogation for Ireland. The press had apparently been told that Britain was blocking an agreement of the kind Ireland wanted. This would be very unhelpful to him domestically.

The Prime Minister then said that she understood that the Taoiseach wished to discuss security co-operation. Mr. Prior had recently discussed the McGovern case with Mr. Barry who had said that he would regard the matter as closed. Dr. FitzGerald said that the situation had worsened considerably as a result of press comment.

/The

The Irish Police Commissioner was not prepared to talk at this stage with the Chief Constable in Northern Ireland. This was very bad for the general relationship between the two police authorities. He recalled that the Chief Constable had said in May that he would appoint someone to examine the McGovern case. Thus when he (Dr. FitzGerald) had discussed the matter with the Prime Minister in Stuttgart in June he had said that the trend was in the right direction. On several occasions we had promised to let the Irish know the results of our thinking but had failed to do so. There had been an arrangement that Sir Philip Woodfield should talk to Mr. Nally in August but this conversation had not happened. The replies that had been received from the North to questions from the South were inadequate and were seen by the Commissioner as a cover-up.

Police co-operation had deteriorated. Until May, 1982, there had been regular meetings on the border. Press leaks at that time had lead to the termination, by agreement, of these meetings. Then during 1983 co-operation on the border had further deteriorated. At operational level it was reasonably good but there was no overall direction. The Joint Co-ordinating Committee had not been re-established. The Garda Commissioner had been promised co-operation by the Chief Constable in May but had received none and, having taken delivery of a totally unsatisfactory letter, now felt that he could not deal with the Chief Constable. The press were full of this matter. We could not go on like this.

S E C R E T

- 3 -

Mr. Prior was to see the Irish Minister of Justice in January. It was essential to get police co-operation back on the rails. There should be an investigation, perhaps a joint investigation, of the McGovern case.

The Prime Minister suggested that Mr. Coles and Mr. Nally should meet while in Athens and go over the ground again. It was essential that security co-operation was maintained.

The discussion ended at 0935 hrs.

A.S.C.

5 December, 1983

S E C R E T

S E C R E T

Filed on:

→ 1) European Council
Athens Pt 13

2) Includ: Sit 14

NOTE OF A CONVERSATION BETWEEN MR. COLES AND MR. NALLY ON MONDAY,
5 DECEMBER; 1983 AT THE ZAPPEION HALL, ATHENS

Mr. Nally gave me a detailed account of the McGovern case from December 1981 onwards.

Having rehearsed the history as he saw it, Mr. Nally said that the Taoiseach still hoped that an investigation of the McGovern case would be carried out in Northern Ireland (as the Chief Constable had promised in May). Dr. FitzGerald's only objective in all this was to get police co-operation back to its proper level. This meant re-establishing the Joint Co-ordinating Committee and healing the breach between the two police chiefs. The best course now might be to work for a successful meeting between Mr. Prior and the Irish Minister of Justice in January. That meeting could agree to re-constitute the Joint Co-ordinating Committee. We should also contemplate the possibility of the meeting being attended by the Commissioner and the Chief Constable. However, while these steps would be welcomed, they might not be sufficient. Press comment in Ireland was beginning to take an ugly turn. There was a suspicion that the Irish Government was involved in a cover-up. Possibly only an enquiry could clear the air. The other possibility was that the pending court cases in both the North and the South should go ahead - and that might remove the need for an enquiry.

I said that I would report these observations, that I thought the Prime Minister might well wish to discuss the matter again with Mr. Prior and that we would consider the extent to which we could use the January meeting to resolve the problems created by the McGovern case.

A. J. Coles.

5 December 1983

S E C R E T

AJC

MR BRIAN FALL (2)

EUROPEAN COUNCIL : POLITICAL CO-OPERATION
ITEMS

1. I attach clean copies of the four drafts requested by Heads of Government, in the form agreed by Political Directors this morning:-

Middle East - This follows the line of the original British draft, but has been up-dated. It says nothing about the circumstances in which the MNF might be withdrawn.

Cyprus - This is a Greek draft, with a final sentence suggested by the UK which is ambiguous on the question whether (as the Greeks say) the Turkish Cypriot UDI must be rescinded before the UN Secretary General can continue his mission of good offices.

Central America - This text was agreed some days ago in the Latin American Working Group. In substance it does not go beyond what the European Council said at Stuttgart.

Argentina - A message of congratulations on the establishment of a democratic government.

2. I also attach an agreed text on Afghanistan, for issue on 27 December, the fourth anniversary of the Soviet invasion.

3. There was a move by the Dutch and others to produce a paragraph on Chile. I said I saw no reason to single Chile

/out, and

out, and anything said about Chile would need to be balanced. The Dutch said they must have a strong statement or nothing. In the end it was agreed to make no recommendation on this.

4. The Germans withdrew their draft on East/West relations. My view is that any statement on this subject by the European Council is unnecessary, given that the Foreign Ministers of NATO are to meet later this week; and that if something is to be said in Athens, it can only be drafted after the Heads of Government or at least the Foreign Ministers have actually discussed East/West relations and agreed on what kind of things need to be said.

5. Lastly, I attach the political co-operation part of the "Annual Report on European Union" which Foreign Ministers will be asked to approve.

J.B. Bullard

5 December 1983

JULIAN BULLARD

cc: Mr. Butler
Mr. Coles
Mr. Ingham
Mr. Goulden
Mr. Brenton
Sir M. Butler
H.M. Ambassador

ALL MEMBERS OF THE UK DELEGATION

PRIME MINISTER'S BRIEFING MEETINGS

These will be kept as small as possible.

The following (but only the following) officials have a standing invitation to briefing meetings on the Prime Minister's programme unless, for operational reasons, it is necessary further to limit the attendance.

10 Downing Street

Cabinet Office

Mr. F.E.R. Butler
Mr. A.J. Coles
Mr. B. Ingham
Mr. D. Williamson

Foreign and Commonwealth
Office

Mr. B.J.P. Fall
Sir Julian Bullard
Sir Crispin Tickell
Mr. D.H.A. Hannay
Mr. P.J. Goulden

HM Treasury

Mr. B. Unwin

MAFF

Sir Michael Franklin

UKREP Brussels

Sir Michael Butler
Mr. J.A. Shepherd

A.J. Coles

4 December, 1983

COMMISSION DES COMMUNAUTÉS EUROPÉENNES

SEC(83) 1758

Bruxelles, le 4 novembre 1983

POLITIQUE AGRICOLE COMMUNE :
"FINANCIAL GUIDELINES"

(Note de la Commission)

- Budget
- No. 100 10 1700
1. The Stuttgart European Council recognised the need for a greater budget discipline. It is indeed essential that the management of the EEC's resources be based on rules as rigorous as those governing the management of the Member States' public finances.
 2. The European Council calls on the Council to lay down internal rules under which it will determine at the start of each budget exercise the maximum envelope of expenditure that it intends to adopt for its own part and to put across vis-à-vis the other Institutions in the course of the budget procedure
 3. Within this envelope the Council imposes on itself a guideline for agricultural expenditure. The European Council approves in this respect the Commission's proposal for a directive.
 4. The development of the major budgetary trends will have to be the subject of multiannual programming by the Commission and the Council in consultation with the European Parliament.
 5. The Commission will regularly report to the Parliament and the Council on the execution of the budget as far as both agricultural and non-agricultural expenditure is concerned. Where there is excess expenditure or the risk of excess expenditure, the Commission shall present the appropriate proposals to the budget authority: for agricultural expenditure reference shall be made to the provisions foreseen in the Commission's proposal for a directive.

1. Les modifications que la Commission a proposées aux règles des organisations communes de marché, si elles sont mises en application, assureront la maîtrise des dépenses agricoles et freineront leur évolution future. C'est dans l'hypothèse que le Conseil se prononcera favorablement sur cet ensemble de mesures que la Commission soumet les directives financières ci-après.
2. La Commission s'engagera devant le Conseil européen à adopter une orientation qualitative qui la guidera dans sa propre gestion, à savoir que le taux de croissance des dépenses agricoles ⁽¹⁾ (en tant que moyenne calculée sur plusieurs années) reste inférieur à celui des ressources propres de la Communauté ⁽²⁾. La moyenne visée ci-dessus sera calculée sur l'année en cours et les deux années précédentes.
3. La Commission suggère que le Conseil européen demande expressément au Conseil d'adopter la même orientation qualitative dans les décisions de sa compétence.
4. La Commission demande au Conseil d'adopter des règles de procédure particulière pour assurer au mieux une stricte discipline budgétaire dans la gestion de la politique agricole commune.

(1) Les montants à considérer sont ceux des dépenses à imputer aux titres 7 et 8 ~~du~~ du budget (FEOGA Garantie), déduction faite des sommes correspondant à l'écoulement du sucre ACP et aux restitutions liées à l'aide alimentaire, ainsi que des versements effectués par les producteurs au titre des cotisations sucre et iso-glucose, ainsi que des recettes provenant des taxes de coresponsabilités ou d'autres taxes dans le domaine agricole.

(2) Il faudra, lors du calcul du taux de croissance des ressources propres potentielles, tenir compte de toute modification de la base de ces ressources, en se fondant sur des bases comparables avant et après le changement.

5. En ce qui concerne les décisions qui ont un effet déterminant sur le volume des dépenses agricoles, c'est-à-dire la décision sur les prix agricoles que le Conseil Agriculture doit prendre chaque année sur proposition de la Commission, la Commission propose les règles suivantes :

a) En présentant ses propositions agricoles, la Commission chiffrera leur incidence budgétaire par rapport à l'évolution de la croissance des ressources propres, selon une formule commune et constante, à savoir la moyenne glissante des taux de croissance de l'année courante, de l'année passée immédiate et de l'année future.

b) La Commission, ayant à l'esprit l'engagement visé au § 2, confirme qu'elle entend pour les prochaines années suivre une politique restrictive des prix dans la présentation de ses propositions annuelles sur les prix de campagne, pour les secteurs en surplus et ceux pour lesquels la croissance rapide des dépenses se conjugue à la limitation des débouchés.

c) Sur cette base, la Commission suggère que le Conseil européen demande au Conseil d'adopter la règle suivante : si le Conseil Agriculture, de l'avis de la Commission, s'oriente vers un dépassement des coûts avancés par la Commission dans sa proposition initiale, la délibération finale devra être renvoyée à une réunion spéciale du Conseil avec la participation tant des Ministres des Finances que des Ministres de l'Agriculture et ne pourra être arrêtée que par cette réunion spéciale.

6. En ce qui concerne l'élaboration et l'exécution du budget, la Commission propose l'adoption des règles ci-après :

.../...

a) En présentant ses propositions budgétaires dans le cadre de son avant-projet de budget, la Commission tiendra compte de toutes les dépenses envisageables de l'année budgétaire en question, y compris celles qui devraient découler des propositions de la Commission sur les prix.

L'objectif de la Commission et du Conseil sera donc de maintenir les dépenses du FEOGA Garantie à l'intérieur des crédits accordés dans le budget de l'année.

b) La Commission établira une procédure d'alarme ("Early Warning Procedure") qui lui permettra, après avoir identifié rapidement en cours d'année les risques de dérapage budgétaire, de faire immédiatement rapport au Conseil et au Parlement (*).

Après avoir eu recours à toutes les possibilités offertes par la gestion quotidienne de la PAC, la Commission proposera au Conseil et au Parlement, le cas échéant, des mesures de nature à limiter, dans le respect des principes de la PAC, les augmentations des dépenses agricoles. Il appartiendra aux autres Institutions de la Communauté de prendre les décisions qui s'imposent dans les meilleurs délais, afin que ces mesures puissent atteindre leur objectif.

La Commission n'aura recours à un budget supplémentaire qu'après avoir épuisé toutes les possibilités d'économies offertes par la gestion quotidienne de la PAC et par les décisions supplémentaires éventuelles du Conseil.

(*) Indépendamment d'une décision du Conseil sur les prix qui s'écarterait des propositions de la Commission (cas où la procédure spéciale de décision visée au point 5.c. ci-dessus est d'application), un tel "dérapage" ne peut en effet résulter que de développements économiques contraignants et non prévisibles au moment de l'adoption du budget.

Commentaires

a) L'engagement de la Commission, tel que visé au § 5 b), ne concerne que ses propositions de prix.

Il n'est pas possible, en effet, d'exclure que des circonstances exceptionnelles (par exemple sur les marchés extérieurs) entraînent une progression anormale de la dépense agricole, indépendamment des prix pratiqués dans la Communauté.

b) En cas de dépassement de l'orientation qualitative visée au § 2 (soit du fait d'une décision spéciale du Conseil - point 5.c. -, soit du fait d'un budget supplémentaire), le respect de l'orientation qualitative signifiera que tant le Conseil que la Commission doivent, pendant les deux exercices suivants, faire en sorte que, sauf développements erratiques, la dépense agricole soit ramenée dans les limites résultant de l'orientation qualitative. L'action des Institutions devra porter par priorité sur les secteurs de production qui ont été à l'origine du dépassement de l'orientation qualitative.

REPORT OF THE MINISTERS FOR FOREIGN AFFAIRS
TO THE EUROPEAN COUNCIL ON EUROPEAN UNION
(POLITICAL SECTION)

In the field of European Political Cooperation, the Ten have continued their efforts to coordinate their policies in as wide a spectrum of international problems as possible, taking into account the objectives set out in the Solemn Declaration on European Union. In particular:

In a series of statements, including the one issued at the conclusion of the Stuttgart European Council, they have stressed their full support for the independence, sovereignty, territorial integrity and unity of Lebanon and reiterated their support of its legitimate government. They have also asked for the withdrawal of all foreign troops, with the exception of those which are in Lebanon upon the request of the Lebanese Government. On the other hand, by the participation of three of them in the Multinational Force and the decision in principle of two member states to send observers to Lebanon, as well as by the continuing presence of four others in UNIFIL, they have concretely manifested their willingness to help put an end to the Lebanese tragedy.

The Arab-Israeli conflict remains an issue of great concern to the Ten. With regard to the Palestinian question the Ten, by their statement of November 9 last, called on all parties concerned to put an end to the fighting and reaffirmed that the

problems of the region should be settled as soon as possible in accordance with the principles contained in their declaration of June 19, 1982 and subsequent declarations. Regarding this problem they have taken a positive view of Security Council Resolution 542 of 1983. They further stated that self-determination for the Palestinian people, with all that this implies, remains a key issue which must be addressed in the context of a global, just and durable solution of the Arab-Israeli conflict. It has for some time been the position of the Ten that the PLO must be associated with peace negotiations.

The war between Iran and Iraq is another cause of grave concern to the Ten, who have repeatedly voiced their belief that it should end through negotiations, after the belligerents have agreed to a ceasefire and have withdrawn within internationally recognised frontiers. They consider Resolution 540/1983 of the Security Council as a valuable contribution to efforts undertaken so far to achieve the above end. They have further made known their readiness to help the belligerents, should they so wish, reach a peaceful settlement of their differences. A condition for a useful role of the Ten in this context is the maintenance of their impartiality in the conflict.

The latest crisis in Cyprus, where the Turkish Cypriot community issued a declaration purporting to establish a "Turkish Republic of Northern Cyprus" as an independent state, provided the Ten with another opportunity of "speaking with one voice". By their statement of November 16 they reiterated their support for the independence, sovereignty, territorial integrity and unity of the Republic of Cyprus, reaffirmed that

they regard the government of President Kyprianou as the sole legitimate government of Cyprus and called upon all interested parties not to recognize the so-called independent state. Those of the Ten who are members of the Security Council voted in favour of Resolution No.541, which reaffirms the above principles.

In Africa, the problem of Namibia remains unfortunately unsolved although all the parties, including South Africa, have accepted Security Council Resoltuion 435. This resolution is based on a plan prepared by the contact group, three of whose members come from among the Ten. We give our full support to the efforts of the group as well as to those of the Security Council and the Secretary General for a speedy implementation of the above resolution, so that the Namibian people can accede to its independence without further delay.

Another aspect of the situation in Africa which causes concern to the Ten is the continuing incursions of South African forces into neighbouring countries. We have condemned these incursions because they are contrary to international law and heighten the tension in Southern Africa.

The situation in Afghanistan and Cambodia has also remained unchanged. Both countries continue to be under foreign occupation and are denied their independence, as well as the right to choose freely their form of government. In both cases human rights are being violated by the occupying forces.

The Ten have repeatedly called for the withdrawal of Soviet troops from Afghanistan and Vietnamese troops from Cambodia as a

prerequisite for any peaceful settlement of the respective problems. They have voted in the United Nations accordingly over the past years. They have also given their support to all efforts to solve the problems through negotiations.

Relations with the Soviet Union, which after the invasion of Afghanistan and the imposition of martial law in Poland entered a difficult period, were further strained by the shooting down of a Korean airliner last September. The Ten remain of the opinion that dialogue with the Soviet Union is necessary. They are ready to work for a more constructive relationship, and call upon the Soviet leadership to make the necessary contribution to restore international confidence and to abide by internationally accepted standards of behaviour.

As regards Poland, the Ten are willing to respond positively to any effective measures of liberalisation. The measures of July 22, while going in the right direction, fell short of the expectations of the Polish people. The Ten have taken the initiative to open negotiations for the rescheduling of the Polish debts.

By their cohesion and close collaboration, the Ten were able to contribute substantially to the successful outcome of the Madrid phase of the CSCE. It was in part thanks to their joint efforts that the meeting ended with the adoption of a balanced concluding document, in which the human dimension held as important a place as the mandate for launching the European Conference on Disarmament in Europe. They will press for the respect by all signatories of all the dispositions of the Madrid Final Document. Satisfactory results were obtained at the

Helsinki preparatory meeting of the CDE. It opens a new perspective for taking concrete steps to improve confidence and stability in Europe as well as for paving the way towards effective disarmament measures. The Ten will join efforts for a successful outcome of the conference which would make a major contribution to better cooperation and improve security in Europe. To show the importance they attach to the Stockholm Conference, the Foreign Ministers of the Ten plan to attend its inaugural session.

The situation in Central America is an issue of growing concern to the Ten, especially since recent events in the region and the Caribbean. Their statement at Stuttgart set out the principles which in their view should govern the solution of this particularly delicate and difficult problem. Convinced that the problems of Central America cannot be solved by military means, but only by a political solution springing from the region itself and by respecting the principles of non-interference and inviolability of frontiers, the Ten reiterated their strong support for the efforts of the Contadora group of countries. This was highly appreciated by them, as became apparent at the meeting of the "Troika" with the Foreign Ministers of these four countries. The possibilities of developing relations with the countries of that region are being examined.

The identity of views of the Ten was further confirmed by the statement which the Greek Foreign Minister delivered on their behalf at the current session of the United Nations General Assembly. It conveyed to that universal gathering the image of a

group of countries which see eye to eye on most international problems which confront the world today.

To live up to this image, the Ten will continue this year their efforts to strengthen further the close cooperation they enjoy on specific matters examined by the General Assembly including disarmament questions. A uniform voting pattern has not always been possible to achieve in spite of their determination to do so. The common positions they adopt in the United Nations are often a point of reference for other countries, many of which consult them on a regular basis.

The same spirit of cooperation among the Ten prevailed in other international fora, such as the United Nations Conference on Racial Discrimination, where the Ten, by a common statement, gave expression to their firm determination to oppose all forms of racial discrimination, including the abhorrent system of apartheid.

A field where the identity of views of the Ten is particularly pronounced is that of human rights. This was apparent at the meeting of the Commission of Human Rights, as well as at the Third Committee of the General Assembly. Most of the Western human rights initiatives have been launched by the Ten. They also play an outstanding role in the dialogue between Western countries and other regional groups in those bodies. The consistent championing of the cause of freedom and human dignity has earned the Ten the respect of other member states.

Consultations and exchanges of views with third countries, among them the United States, Japan and ASEAN, were conducted in a constructive manner. It is noteworthy that an increasing

number of third countries show interest in inaugurating such exchanges. Thus the Ten tend to become a valid interlocutor capable of often influencing developments and playing an increasingly important role in international affairs.

In the course of the last twelve months, the Ten have established contacts with the other members of the Council of Europe at political director level. The two meetings held so far proved fruitful and were duly appreciated by the Eleven. The informal meetings of ministers, although not conducted on the same Ten-Eleven basis, are also a very useful vehicle for an open exchange of views on matters of common interest.

The above results of Political Cooperation were obtained, inter alia, by making full use of the mechanisms provided for by the London Report and by intensifying cooperation among missions of the Ten in third countries. Furthermore, the Solemn Declaration on European Union adopted in Stuttgart in June 1983 will enhance and broaden Political Cooperation in the process of European construction. It was also agreed to create a planning group whose task it is to prepare medium and long-term studies with a view to providing a longer perspective on questions of a more general nature, both political and economic.

On the way to closer European cooperation, the Ten through the Presidency have continued the meetings and frank discussions with the European Parliament, whose views they duly take into consideration while elaborating their policies. The ongoing dialogue with the Parliament, which will be reinforced by the implementation of the Solemn Declaration on European Union, will

allow for a better mutual understanding.

In conclusion, the attachment of the ten governments to European Political Cooperation has once more become manifest over the last twelve months and has proved their determination to persevere on the road to European union.

-o-o-0-o-o-

Sir M Butler

EUROPEAN COUNCIL

1. Over dinner last night Mr Ersboll told me something of how he proposed to brief Mr Papandreou this morning on handling the meeting.

Order of business

2. Mr Ersboll was unaware of the Prime Minister's message to Mr Papandreou, even though it was leaked to the Athens press on Friday. I told him of it and argued strongly for the procedural proposal in that message. It would not be any easier to solve the financial issues if they were left until the end, when everything else had been done, and time was pressing. If the idea was to work towards a 9 to 1 line-up against the UK at that stage, it was wholly misguided.

3. Mr Ersboll said that Mr Papandreou would be under equally strong pressure from President Mitterrand to begin with agriculture. In the circumstances he thought he could only advise Mr Papandreou to begin the proceedings by making the following points:-

- (a) The future of the Community demands that the European Council reach agreement on all the main issues. It can be done. The chance must not be missed. (No negative predictions of crisis a la Thorn, whom Mr Papandreou will try beforehand to dissuade from doom-laden prophecy);
- (b) All the issues interdependent; no agreement on any one without agreement on all;
- (c) Some want to start with agriculture, others with financial questions (eg Germans and UK): all the same to him, given (b) above, so he will follow the views of the Council;
- (d) Whatever happens no subject will be skimped because of time pressure; he is ready to prolong the proceedings for as long as is necessary to deal fully with everything.

Texts

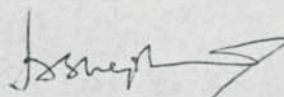
4. Mr Ersboll is not proud of the Presidency text. At Stuttgart the Germans had accepted his draft and presented it to Chancellor Kohl as their own. This time the Commission

and Mr Varfis between them had made it impossible for him to do his job. The worst part was the New Policies muddle, where there were two texts. He would advise Mr Papandreu to handle this item by saying:

- (a) We have two texts before us; must decide what we want to work on;
- (b) Invite each head of government to say very briefly what are the essential elements they wish to see included;
- (c) Then ask Secretary-General to produce new single text incorporating those desiderata.

I encouraged him in this, since it offers a good opportunity to ensure that our points are covered.

5. On budgetary imbalances Mr Ersbell was strongly opposed to the establishment of working groups of either officials or Foreign Ministers (cf Stuttgart). He had quite enough material to produce clear texts quickly on the basis of discussion in The Council. He hoped the Commission could be kept out of any drafting. He would advise Mr Papandreu of the need to draw clear conclusions on this as on other points, unlike Mr Varfis.



J A Sherherd

cc PS
Mr Coles ✓
Mr Hannay
Mr Williamson
Mr Unwin

4 December 1983

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

3 December 1983

Duty Officer
No 10 Downing Street

Dear Duty Clerk,

MESSAGE FROM PRESIDENT KYPRIANOU TO THE PRIME MINISTER

The Cyprus High Commissioner telephoned the FCO this afternoon on instructions to pass on comments by President Kyprianou about the Prime Minister's statement in the House of Commons on Thursday 1 December, and in particular about her answer to a Supplementary on Cyprus from Mr Norman Atkinson MP.

The Prime Minister said: 'It may ^{be} that by getting talks going between President Kyprianou and Mr ~~Den~~ ^{Den} ~~tash~~ ^{ktash} one might be able to help to restore the unitary state of Cyprus.' President Kyprianou was anxious that the British Government should not seem to encourage talks between himself and Mr Denktash before the purported Turkish-Cypriot Declaration of Independence had been reversed. He would be very ready to talk to Mr Denktash but only after reversal.

President Kyprianou also said, in connection with the Prime Minister's remarks about tripartite consultations under the Treaty of Guarantee, that he continued to hold the position he had explained to the Prime Minister in London and New Delhi. He did not want the possibility of parallel exchanges (between the UK and Greece and the UK and Turkey) to be excluded, at least at first. Both the presence of Turkish troops in Cyprus and the purported Declaration of Independence made tripartite consultations difficult.

President Kyprianou was worried that these remarks by the Prime Minister might be exploited in Athens and Nicosia. Asked to clarify, the High Commissioner said that in Athens the Opposition might exploit these remarks; and in Nicosia AKEL and others. (The High Commissioner at no point suggested that either the Turks or Turkish Cypriots would 'exploit' the Prime Minister's remarks.) President Kyprianou hoped that the Prime Minister would not repeat similar remarks. Meanwhile he would refrain from commenting himself

/and hoped

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and hoped thereby to maintain the good relations he had established with the Prime Minister at their recent meetings in London and New Delhi.

I have consulted the Department concerned and the Duty Private Secretary. They suggest that this letter should be attached to the Prime Minister's briefing for her meeting with Papandreou on Cyprus. But they do not consider that it affects the line that the Prime Minister has been recommended to take with him. The Foreign and Commonwealth Secretary has not seen this letter but I will be showing him a copy in parallel.

Yours sincerely,

T. P. Hollaway

T P Hollaway
President Clerk

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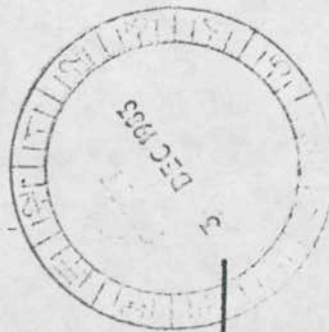
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~~SIR J BULLARD~~
MR JENKINS

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FM ATHENS 031015Z DEC 83

TO FLASH FCC.,

TELNO 723 OF 3 DECEMBER 1983.,

REPEATED AS IMMEDIATE INFO TO NICOSIA, ANKARA, WASHINGTON,

UKMIS NEW YORK AND UKDEL NATO.,

REPEATED AS PRIORITY INFO TO UKREP BRUSSELS, CBFC, MODUK (DS11),

BONN, PARIS AND ROME.,

REPEATED AS ROUTINE INFO TO ISTANBUL.

MY TELEGRAM NO. 722: CYPRUS: GUARANTOR POWER CONSULTATIONS

1. I DO NOT KNOW WHAT BRIEF THE PRIME MINISTER WILL HAVE FOR HER DISCUSSION WITH PAPANDEOU (SEMICOLON) BUT I SUGGEST THAT THE FOLLOWING POINTS SHOULD BE BORNE IN MIND. I START FROM THE ASSUMPTION THAT ANY FORM OF TALKS UNDER THE TREATY OF GUARANTEE RUN A STRONG RISK OF LEAVING US WITH A GOOD SHARE OF THE BLAME FOR FAILURE. ON THAT BASIS OUR AIM SHOULD BE TO AVOID BECOMING ENGAGED IN ANY SUCH TALKS WHILE ALSO, TO THE EXTENT POSSIBLE, AVOIDING ALLOWING THE GREEKS TO DRAW THE CONCLUSION THAT WE ARE LETTING THEM DOWN.

2. IF YOU ACCEPT THAT, WITH WHATEVER NUANCE, THE PRIME MINISTER SHOULD REFUSE TO GO DOWN THE PATH OF PARALLEL DISCUSSIONS WITH THE GREEKS AND THE TURKS, I RECOMMEND THAT THE PRIME MINISTER SHOULD SEE PAPANDEOU LATER RATHER THAN SOONER DURING THE ATHENS COUNCIL. THIS WILL RETAIN FOR AS LONG AS POSSIBLE THE INCENTIVE FOR PAPANDEOU TO TAKE ACCOUNT OF OUR VIEWS IN HIS STEERING OF THE COUNCIL.

3. AT LEAST FORMALLY PAPANDEOU WILL EXPECT A REPLY TO HIS QUESTIONS ABOUT OUR OBJECT IN REACTIVATING THE TREATY OF GUARANTEE AND THE SUBJECTS TO BE DISCUSSED (MY TUR). I SUGGEST THAT THE REPLY

AND THE SUBJECTS TO BE DISCUSSED (MY TURN). I SUGGEST THAT THE REPLY SHOULD INCLUDE THE THOUGHT THAT OUR AIM IS TO WORK FOR A CYPRUS SOLUTION. FOR THAT IT IS ESSENTIAL FOR THE MAJOR PARTIES (AND OF COURSE ALSO FOR THE PARTIES DIRECTLY CONCERNED ON THE GROUND) TO BE PREPARED TO TALK TO EACH OTHER. DISCUSSION BETWEEN THE GUARANTOR POWERS IS ONE WAY OF FACILITATING THAT AND OF ASSISTING SIMILAR EFFORTS BY THE SECRETARY GENERAL OF THE UNITED NATIONS. THE TOPICS FOR DISCUSSION WOULD NO DOUBT HAVE TO BE DECIDED BY REPRESENTATIVES OF THOSE ATTENDING THE MEETINGS. BUT WE WOULD EXPECT THEM TO INCLUDE MEASURES FOR IMPLEMENTATION OF SECURITY COUNCIL RESOLUTION NO. 541.

4. SUBJECT TO THE ABOVE, I SUGGEST THAT THE PRIME MINISTER SHOULD BASE HER FURTHER RESPONSE TO PAPANDREOU ON THE FOLLOWING:-

- (A) THE GREEK SUGGESTION OF PARALLEL TALKS WOULD NOT BE PRACTICABLE. THERE WOULD BE WIDE SCOPE FOR MISUNDERSTANDING RECRIMINATION AND DELAY.
- (B) IN ANY CASE THE NATURAL MEANING OF ARTICLE IV OF THE TREATY OF GUARANTEE (''UNDERTAKE TO CONSULT TOGETHER'') IS FOR THE THREE GUARANTOR POWERS TO MEET TO WORK OUT MEANS OF DEALING WITH BREACHES OF THE PROVISIONS OF THE 1960 TREATY.
- (C) BY AGREEING TO TALK UNDER THE TREATY OF GUARANTEE THE TURKS HAVE IMPLICITLY RECOGNISED THE CONTINUING VALIDITY OF THAT TREATY. THE GREEKS, BY ACCEPTING TRIPARTITE TALKS IN ACCORDANCE WITH THE TREATY, WOULD BE GIVING THEMSELVES THE OPPORTUNITY TO CONFRONT THE TURKS WITH THE FACT THAT THE ACTION TAKEN BY DENKTASH AND TURKEY'S RECOGNITION OF IT ARE IN BREACH OF THE VERY TREATY WHOSE VALIDITY THE TURKS HAVE RECOGNISED.
- (D) (NOT FOR USE IF IT CAN BE AVOIDED). THE TURKISH RESPONSE, TO THE EFFECT THAT THEY ACCEPT TRIPARTITE TALKS IF THESE ARE ACCEPTED BY BOTH OTHER GUARANTOR POWERS, DOES NOT AMOUNT TO ACCEPTANCE OF PARALLEL TALKS.9

5. I RECOGNISE THAT THE ABOVE POINTS ARE ALL ARGUMENTS IN FAVOUR OF GREEK ACCEPTANCE OF TRIPARTITE DISCUSSIONS AND THEREFORE ON THE FACE OF IT INCONSISTENT WITH OUR AIM OF AVOIDING ANY TALKS (PARAGRAPH 1 ABOVE). BUT, JUDGING BY WHAT PAPANDREOU SAID TO ME YESTERDAY, THERE IS VIRTUALLY NO RISK THAT THE GREEKS WILL BE CONVINCED. FOR THEM THE REFUSAL TO SIT DOWN WITH THE TURKS HAS BEEN MADE INTO A QUESTION OF PRINCIPLE. MOREOVER THEY HAVE JUST PATCHED UP AN AGREEMENT TO THAT EFFECT WITH THE GREEK CYPRIOTS DURING KYPRIANOU'S RECENT VISIT.

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CYPRUS: ADVANCE COPIES

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SIR J BULLARD

MR JENKINS

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~~RESIDENT OFFICE~~

PS/No.10 DOWNING STREET

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FM ATHENS 021450Z DEC 83

TO FLASH FCO.,

TELNO 722 OF 2 DECEMBER 1983.,

REPEATED AS IMMEDIATE INFO TO NICOSIA, ANKARA, WASHINGTON,

UKMS NEW YORK, UKDEL NATO,

REPEATED AS PRIORITY INFO TO UKREP BRUSSELS, CBFC, MODUK (DS11),

BONN, PARIS, ROME.,

REPEATED AS ROUTINE INFO TO ISTANBUL.

M.H.P.T. (NOT TO ALL): CYPRUS: GUARANTOG POWER CONSULTATIONS

SUMMARY

1. PAPANDEOU EXPLAINS THAT AT HIS MEETING WITH THE PRIME MINISTER HE WOULD WANT TO ASK ABOUT HER INTENTIONS IN PROPOSING REACTIVATION OF THE TREATY OF GUARANTEE AND ABOUT THE SUBJECTS TO BE DISCUSSED.
2. PAPANDEOU REQUESTED A REFUSAL TO TALK DIRECTLY TO TURKS WITHOUT REVOCATION OF TURKISH CYPRIOT UDA.
3. CLEAR IMPLICATION THAT PAPANDEOU IS LOOKING TO US TO PULL HIS CHESTNUTS OUT OF THE FIRE AND CALCULATES THAT WE SHOULD TAKE A GOOD SHARE OF BLAME FOR FAILURE.

DETAIL

4. WHEN WE HAD FINISHED DISCUSSING THE ATHENS COUNCIL, PAPANDEOU HIMSELF RAISED HIS PROPOSAL FOR A PRIVATE TALK WITH THE PRIME MINISTER ABOUT CYPRUS.

5. He said that he had reported his suggestion and had no reason to suppose that Mrs Thatcher would not be ready to discuss Cyprus with him. It would help if he could have an indication of the points which he wished to put to her.

6. PAPANDREOU SAID THAT HE WOULD PUT THE QUESTION THE OTHER WAY ROUND. WHAT DID THE PRIME MINISTER HAVE IN MIND BY HER PROPOSAL TO REACTIVATE THE TREATY OF GUARANTEE? WHAT SUBJECTS WOULD THOSE CONCERNED BE EXAMINING? HE THEN WENT ON TO MAKE THE FOLLOWING POINTS:-

- (A) THE GREEKS WERE VERY FRIGHTENED OF TRIPARTITE CONSULTATIONS BETWEEN THE GUARANTOR POWERS. THEY FORESAW THE POSSIBILITY OF FAILURE WHICH WOULD LEAVE THE SITUATION WORSE THAN AT PRESENT. THAT WAS TO SAY NOTHING OF THEIR UNWILLINGNESS TO SIT DOWN WITH THE TURKS AFTER WHAT HAD OCCURRED (SEMICOLON) AND TO APPEAR TO LEGITIMISE A FAULT ACCOMPLISHED WITH TURKISH TROOPS STILL OCCUPYING NORTH CYPRUS (SEMICOLON)
- (B) THE GREEKS WERE FED UP WITH A CONTINUOUS PROCESS OF MAKING CONCESSIONS. THERE HAD TO BE A LIMIT (SEMICOLON) THIS HAD NOW BEEN REACHED (SEMICOLON)
- (C) NEITHER THE GREEKS, NOR THE GREEK CYPRIOTS, WERE READY FOR DISCUSSIONS WITH THE TURKS, OR THE TURKISH CYPRIOTS, UNDER THE AUSPICES OF THE SECRETARY GENERAL OF THE UNITED NATIONS UNLESS THE DECLARATION OF UDIH HAD BEEN REVOKED (SEMICOLON)
- (D) IN VIEW OF (A) TO (C) ABOVE, THE GREEKS SAW NO ALTERNATIVE TO BILATERAL DISCUSSIONS WITH BRITAIN, COMPLEMENTED BY BILATERAL DISCUSSIONS BETWEEN BRITAIN AND TURKEY. MRS THATCHER COULD PLAY A VERY IMPORTANT ROLE. THE ONLY COURSE FOR THE GREEK CYPRIOTS WAS BILATERAL TALKS WITH THE UN SECRETARY GENERAL. THE GREEKS SAW THE NEED TO AVOID A SITUATION IN WHICH MILITARY ACTION WAS POSSIBLE, PARTICULARLY GIVEN THE EXPLOSIVE STATE OF THE AREA (SEMICOLON)
- (E) NO GREEK GOVERNMENT HAD EVER DISCUSSED DETAILS OF THE CYPRIOT PROBLEM WITH TURKEY. PAPANDREOU WAS NOT GOING TO BREAK THAT RULE.

7. He said that he supposed that if there were an offer from the Turkish side which the Cypriots judged sufficiently attractive to merit examination, the Greek side (he emphasised that he was not suggesting that the Greeks would be the ones to assess the merits of any Turkish offer or to negotiate about it) might be prepared to discuss it.

8. PAPANDREOU DID NOT RESPOND TO THIS. HE SAID THAT IT WOULD BE DIFFERENT IF THE GREEKS WERE ASKED TO 'RATIFY' A PACKAGE DEAL.

8. PAPANDEOU DID NOT RESPOND TO THIS. HE SAID THAT IT WOULD BE DIFFERENT IF THE GREEKS WERE ASKED TO "RATIFY" A PACKAGE DEAL. HE ADDED THAT THE GREEKS HAD BEEN PLEASED BY OUR STAND AND THAT OF THE UNITED STATES, BOTH OF WHICH THEY THOUGHT TO BE GENUINE. HE WOULD BE SEEING SHULTZ NEXT WEEK (THE GREEK PRESS HAS ANNOUNCED THAT THIS MEETING WILL BE HELD IN BRUSSELS IN THE MARGINS OF THE NATO MEETING).

9. PAPANDEOU SAID THAT THE BEST TIME FOR A MEETING WITH THE PRIME MINISTER MIGHT BE IMMEDIATELY AFTER THE AFTERNOON SESSION OF THE COUNCIL ON 4 DECEMBER.

COMMENT

10. THE CLEAR IMPLICATION OF THE WAY IN WHICH PAPANDEOU SPOKE WAS THAT HE IS AIMING TO GET US TO PULL HIS CHESTNUTS OUT OF THE FIRE. NO DOUBT HE ALSO CALCULATES THAT IN THE EVENT OF FAILURE WE SHALL BE LANDED WITH A GOOD SHARE OF THE BLAME. HE TALKED ABOUT THE NEED FOR REALISM, BUT HIS ATTITUDE TOWARDS THE POSSIBILITY OF ANY CONTACT WITH THE TURKISH SIDE GIVES NO SIGN OF A WILLINGNESS TO WORK DIRECTLY FOR A SOLUTION WHETHER UNDER THE AUSPICES OF THE GUARANTEE TREATY OR THE UNITED NATIONS.

G H O D E S

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Security Council

Distr.
GENERALS/RES/541 (1983)
18 November 1983

RESOLUTION 541 (1983)

Adopted by the Security Council at its 2500th meeting,
on 18 November 1983

The Security Council,

Having heard the statement of the Foreign Minister of the Government of the Republic of Cyprus,

Concerned at the declaration by the Turkish Cypriot authorities issued on 15 November 1983 which purports to create an independent State in northern Cyprus,

Considering that this declaration is incompatible with the 1960 Treaty concerning the establishment of the Republic of Cyprus and the 1960 Treaty of Guarantee,

Considering, therefore, that the attempt to create a "Turkish Republic of Northern Cyprus" is invalid, and will contribute to a worsening of the situation in Cyprus,

Reaffirming its resolutions 365 (1974) and 367 (1975),

Aware of the need for a solution of the Cyprus problem based on the mission of good offices undertaken by the Secretary-General,

Affirming its continuing support for the United Nations Peace-keeping Force in Cyprus,

Taking note of the Secretary-General's statement of 17 November 1983,

1. Deplores the declaration of the Turkish Cypriot authorities of the purported secession of part of the Republic of Cyprus;

2. Considers the declaration referred to above as legally invalid and calls for its withdrawal;

3. Calls for the urgent and effective implementation of its resolutions 365 (1974) and 367 (1975);
 4. Requests the Secretary-General to pursue his mission of good offices, in order to achieve the earliest possible progress towards a just and lasting settlement in Cyprus;
 5. Calls upon the parties to co-operate fully with the Secretary-General in his mission of good offices;
 6. Calls upon all States to respect the sovereignty, independence, territorial integrity and non-alignment of the Republic of Cyprus;
 7. Calls upon all States not to recognize any Cypriot State other than the Republic of Cyprus;
 8. Calls upon all States and the two communities in Cyprus to refrain from any action which might exacerbate the situation;
 9. Requests the Secretary-General to keep the Security Council fully informed.
-

APPENDIX B

DRAFT TREATY OF GUARANTEE (1960)

The Republic of Cyprus of the one part, and Greece, Turkey and the United Kingdom of Great Britain and Northern Ireland of the other part,

- I. Considering that the recognition and maintenance of the independence, territorial integrity and security of the Republic of Cyprus, as established and regulated by the Basic Articles of its Constitution, are in their common interest,
- II. Desiring to co-operate to ensure respect for the state of affairs created by that Constitution,

Have agreed as follows:—

ARTICLE I

The Republic of Cyprus undertakes to ensure the maintenance of its independence, territorial integrity and security, as well as respect for its Constitution.

It undertakes not to participate, in whole or in part, in any political or economic union with any State whatsoever. It accordingly declares prohibited any activity likely to promote, directly or indirectly, either union with any other State or partition of the Island.

ARTICLE II

Greece, Turkey and the United Kingdom, taking note of the undertakings of the Republic of Cyprus set out in Article I of the present Treaty, recognise and guarantee the independence, territorial integrity and security of the Republic of Cyprus, and also the state of affairs established by the Basic Articles of its Constitution.

Greece, Turkey and the United Kingdom likewise undertake to prohibit, so far as concerns them, any activity aimed at promoting, directly or indirectly, either union of Cyprus with any other State or partition of the Island.

ARTICLE III

The Republic of Cyprus, Greece and Turkey undertake to respect the integrity of the areas retained under United Kingdom sovereignty at the time of the establishment of the Republic of Cyprus, and guarantee the use and enjoyment by the United Kingdom of the rights to be secured to it by the Republic of Cyprus in accordance with the Treaty concerning the Establishment of the Republic of Cyprus signed at Nicosia on to-day's date.

ARTICLE IV

In the event of a breach of the provisions of the present Treaty, Greece, Turkey and the United Kingdom undertake to consult together with respect to the representations or measures necessary to ensure observance of those provisions.

In so far as common to the three guaranteeing Powers reserves the right to take action with the sole aim of re-establishing the state of affairs created by the present Treaty.

ARTICLE V

The present Treaty shall enter into force on the date of signature. The original texts of the present Treaty shall be deposited at Nicosia.

The High Contracting Parties shall proceed as soon as possible to the registration of the present Treaty with the Secretariat of the United Nations, in accordance with Article 102 of the Charter of the United Nations.



Foreign and Commonwealth Office

London SW1A 2AH

2 December 1983

John D. L.

Cyprus: Meeting between Mrs Thatcher and the Prime Minister
of Greece

I enclose a brief on Cyprus for the meeting between Mrs Thatcher and Mr Papandreu in the margins of the European Council at Athens. Mr Papandreu is likely to want the UK to assume the role of mediator.

Mr Papandreu's request for a meeting with the Prime Minister followed immediately upon his meeting with President Kyprianou of Cyprus in Athens on 30 November. We have no definitive information about the outcome of that meeting. But press reports indicate that the meeting patched up the earlier disagreement between the two leaders on the question of consultations between the Guarantor Powers: Kyprianou had reportedly favoured these, while the Greeks have taken the line with us and in public that they will not talk to the Turks so long as Turkish troops remain "in occupation" of the north. The Greek position appears largely to have prevailed although press reports suggest that, in public at least, the pre-condition may have changed to one requiring the Turkish Cypriots to rescind their declaration of secession. The Greeks have told us that their earlier reply, refusing to take part in tripartite consultations, still stands. By way of a compromise, both leaders may have agreed to concentrate on the existing Greek proposal that the UK should take a leading role in the search for a settlement by carrying out bilateral UK/Greece and UK/Turkey talks.

There is very little prospect in the present climate of our being able to play a successful leading role either in resolving the present crisis, or in contributing to the longer-term search for a solution to the Cyprus problem. Such an approach would also present considerable disadvantages. The Greeks' objective would be to use any such talks to put pressure on the Turks and to blame us for insufficient effort if these tactics failed to produce a reversal of the Turkish Cypriot declaration of independence and Turkish recognition of it.

/Our



Our own influence over the Turks is very limited: American pressure in connection with military aid appears to be the most fruitful source of leverage. Such influence as we have on the Turks is better used in conjunction with American efforts. Any suggestion that we were active at Greek behest would doom our activities to failure. Furthermore the Turks would probably maintain their present position that they would only take part in consultations if the Greeks did so too. (The Treaty of Guarantee requires the parties to consult "together". All previous consultations have been tripartite; when one guarantor power has been unwilling to take part there have been no consultations.)

The only advantage in agreeing to take on the role of mediator would be presentational - but these would be short lived if our efforts were seen to fail. At the moment public and Parliamentary opinion, except the pro-Turkish lobby, seems broadly satisfied with our stance and our efforts to get Guarantor Power talks going. If, as now seems likely, tripartite talks under the Treaty prove impossible, we should reinforce the weight we are already putting behind the efforts of the UN Secretary-General as the only sensible way of trying to make progress on the Cyprus problem.

The Prime Minister may therefore think it right to resist pressure from Papandreou for the UK to conduct parallel but separate consultations with both Greece and Turkey. We should say that any Guarantor Power talks under the Treaty must be tripartite. If it proves impossible to arrange these, we shall of course remain in close touch with all involved, including Greece and Turkey. But any such discussions would not be the consultations "together" envisaged in the Treaty. And the main role in promoting a solution to the Cyprus problem would rest with the UN Secretary-General.

The Points to Make on EC/Cyprus updates the main European Council brief to take account of Vice-President Haferkamp's talks with the Cyprus Government on 2 - 3 December. But this does not change the line in the main brief. Haferkamp will still not report to the Foreign Affairs Council until 19 December, and any further discussion of sanctions against northern Cyprus at the European Council remains entirely inappropriate. The High Commissioner in Nicosia, who will see Haferkamp on 3 December, is being asked to send a report of Haferkamp's discussions immediately to Athens.

/The enclosed



The enclosed brief has not been seen by Sir Geoffrey Howe: a copy is being submitted to him in parallel this evening.

*Yours
R B Bone*

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

/ PS. I enclose a telegram we have just received from Athens reporting a call by the Ambassador on Papandreou. You may find it useful additional background. It broadly confirms the above account of Papandreou's meeting with Kyprianou.

CONFIDENTIAL covering SECRET

BILATERAL MEETING WITH THE GREEK PRIME MINISTER

CYPRUS

POINTS TO MAKE

1. Despite the great set-back that UDI represents, we continue to want a solution to the Cyprus problem that will be acceptable to both communities. Also imperative to ensure that situation in Cyprus does not deteriorate further. In particular, military escalation by any of the parties should be avoided. Our actions since UDI have been dictated by these considerations. Hope that you will be guided similarly.

2. We were pleased that the UN Security Council resolution deploring UDI, based on the UK draft and amended in light of discussions in London between President Kyprianou and me, was passed so quickly and overwhelmingly. We made our own position clear immediately after UDI: we deplored the Turkish Cypriot action, wanted it reversed, would not recognise any state in Cyprus other than the Republic of Cyprus and hoped that other states would follow suit. We had earlier told both the Turkish Government and the Turkish Cypriots that we hoped they would not go down the road of independence. Greatly regret that this advice was not heeded.

3. UN SCR 541 mandated the Secretary General to pursue his mission of good offices. Believe that this is the best way forward and strongly support him. Hope that you will too. [If it is suggested that the mission of good offices is dependent on withdrawal of UDI or some other condition] All parts of the Security Council Resolution carry equal weight. Pre-conditions will serve only to delay possibility of progress. Secretary General should be allowed to act quickly while the Turks and Turkish Cypriots still feel on the defensive. New talks between the two communities need not imply recognition of Denktash.

Consultations between Guarantor Powers

4. Understand that your Government will not join us and the Turkish Government in tripartite talks. Have you considered presentational impact that this will have? Turks will say that your refusal is as much a breach of the Treaty of Guarantee as anything else that has happened. We remain prepared to enter into such consultations as soon as the other two governments concerned are ready to do so.

UK to act as Mediator

5. Would need to consider this proposal carefully. At first sight, most reluctant. Likely to cut across Secretary General's efforts. Have no reason to believe Turks would accept it. Likely to argue that the Treaty of Guarantee obliges them only to enter into tripartite consultations. That indeed is our reading of our obligations under the Treaty. We shall of course stay in close touch with all parties concerned and continue to do what we can to assist in bringing about a solution. This will involve keeping in close touch with you, and also with the Turkish Government. But would see this as different from the 'consultations together' required by the Treaty. Are also in close touch with President Kyprianou. Important that none of our efforts should be used by anyone as an excuse for not making progress.

EC Action against Northern Cyprus [If raised]

6. Matter was discussed fully by Foreign Ministers on 22 and 29 November. Vice President Haferkamp will be reporting to the Foreign Affairs Council on 19 December, following preparatory discussions on Coreper. No new decisions until then.

7. We should be scrupulous in avoiding any action which might prejudice non-recognition of the Turkish Cypriot regime. But the Community's approach should also be consistent with the aim of nullifying effects of Turkish Cypriot decision. Should avoid action which will reinforce existing divisions.

SECRET

ESSENTIAL FACTS

1. On 15 November the Turkish Cypriot 'Assembly' issued a declaration purporting to establish an independent state in northern Cyprus. The same day the Secretary of State said in the House of Commons that Her Majesty's Government deplored this action by the Turkish Cypriot community and considered it incompatible with the 1960 Treaties. So far only Turkey has recognised the new 'state'.
2. On 18 November the UN Security Council passed (13-1-1) a resolution (copy attached) deploring the action, calling for its reversal, and instructing the UN Secretary General to pursue attempts to reach a solution to the Cyprus problem through his mission of good offices. The resolution was based on a British draft, amended in light of discussions between the Prime Minister and President Kyprianou of Cyprus on 17 November.
3. Immediately after the declaration, the Foreign and Commonwealth Secretary proposed to his Turkish and Greek colleagues joint consultations under the 1960 Treaty of Guarantee (copy attached). The Greek Government refused to talk to the Turks while Turkish troops remained in northern Cyprus and have twice confirmed that this is their position. Turkey agreed to consultations provided Greece also took part. Recent statements by Papandreou and President Kyprianou suggest that both the Greek and Cyprus Governments would like the UK to take on the role of mediator. (The Greek Government had earlier proposed UK/Greek and UK/Turkish bilateral discussions).
4. Papandreou sees the Cyprus problem primarily as an element in the dispute between Greece and Turkey. He has little concern for the welfare of either community in Cyprus, and sees UDI as an opportunity to score propaganda victories over the Turks. Before their summit meeting on 30 November he and Kyprianou seemed

/unable 5

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unable to co-ordinate their response to UDI (which may have accounted in part for the fairly complacent attitude of the Turks).

5. If Papandreou suggests that the UK should take on the role of mediator, his motives will probably be to use our efforts as a forum to attack the Turks.

*Passage deleted and retained under Section 3(4).
O'Wayland, 31 January 2013*

6. Our own perception of the best way forward is to persuade the UN Secretary General actively to pursue his mission of good offices and try to find some means by which the parties can again be brought to negotiate with each other. Inevitably, in the aftermath of Denktash's declaration, this will take time. But the earlier he starts and the less he is fettered by preconditions, or diverted by attempts to set up alternative machinery, the better.



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 Sir,

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.

(R P Hatfield)
Private Secretary

A J Coles Esq

RESTRICTED

EUROPEAN COMMUNITY: FINANCINGFact Sheet1. 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:

| | |
|--------------------------------|-----------------------------|
| <u>Increase in VAT ceiling</u> | <u>Additional resources</u> |
| 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

4. Effect of an increase in the VAT ceiling on the United Kingdom's contribution

Before the effect of corrections are taken into account, each 0.1% increase in the VAT ceiling would increase the United Kingdom's gross contribution by up to about

£170 m

The effective VAT rate for the United Kingdom will be substantially reduced by the corrective arrangements which we secure under our safety net proposal. For example, if the United Kingdom had received in respect of 1982 the relief under our safety net proposal, the total amount of VAT which the United Kingdom would have transferred to the Community for that year would have been equivalent to a VAT rate for the United Kingdom of 0.4%. Even if the VAT ceiling for the Community were raised 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 £550 m.

Cabinet Office

2 December 1983

Note: The exchange rate used throughout is 1 ecu = £0.58

Qz.03474

MR COLES

EUROPEAN COUNCIL, 4 - 6 DECEMBER: OPENING REMARKS BY THE
PRIME MINISTER

In the light of the discussion yesterday, I submit
draft opening remarks for the Prime Minister.

I am sending copies to Brian Fall (FCO), John Kerr (Treasury)
and Sir Robert Armstrong.

D F Williamson
D F WILLIAMSON

2 December 1983

ATHENS EUROPEAN COUNCIL

OPENING REMARKS BY THE PRIME MINISTER

We have a long and difficult agenda and must not spend too much time on making speeches to each other. So I shall be brief.

2. It is vitally important that the Community should solve its internal problems. Viewed in the wider perspective of East West relations and the problems of the world economy, the issues which divide us are relatively small. Yet for each of us agreement on these issues will be bound to cause serious political difficulties at home. No-one is going to emerge from this meeting without problems.

3. On the other hand the prize of an agreement should be an important incentive to us. It would:-

- a. Set the Community on a new path, accelerate industrial co-operation and growth in a revived common market and help to contribute to the economic recovery which is just beginning in Europe.
- b. Institute much stricter financial control, a vital need when we are all struggling to keep public expenditure down.
- c. At last set in train a reform of the CAP which will bring the agricultural surpluses under control.

/d. Launch

- d. Launch a revised own resources system which ensures that we do not have to quarrel about money again in the next decade.
- e. provide a sound basis for the early completion of the negotiations for the enlargement of the Community.

3. We are all agreed that the Stuttgart package has to be treated as a whole, here in Athens and afterwards. That is the only way we can have a balance of advantage for all of us. We need to tackle the most difficult and least prepared subjects first - that is to say budgetary control and budget imbalances and the CAP - to give us time to work out solutions. But equally we have to be clear that decisions on one subject depend on agreement on the others.

4. I want to say a word about the problem of budget imbalances. We have all suffered, but no-one more than I, from the arguments of the last four years. We must put these behind us. What we agree must be fair for all of us and suitable in an enlarged Community. We are not devising a short term arrangement to reduce the burden on the United Kingdom.

5. Behind all the arguments in the preparations for this meeting there lies a difference of perspective. When we in the United Kingdom look at the problem, we ask ourselves what would be a fair net contribution for a country in the position of the United Kingdom,

/still below

still below the average in relative prosperity now and only just above it in a Community of 12. I have the impression that many of your governments are briefing you to look at it simply in terms of what it will allegedly cost you to reduce the burden on us, that is to say in 7 cases how much your net benefits will fall. Since we are trying to devise a fair system for the longer term, we have to look at the likely outcome for all member states, ensuring that the least prosperous receive appropriate benefits and that those who will bear the burden of net contributions do so in relation to their ability to pay.

6. I am pleased to hear that Foreign and Finance Ministers have been edging forward towards a consensus that the new solution should be implemented on the revenue side by a reduction of VAT payments in the following year and should form an integral part of the amended own resources decision, thus keeping the expenditure side of the Community budget free for the development of genuine Community policies. I hope too we can all accept the Commission's latest proposal that a threshold should be established beyond which relief will be made available to member states bearing too heavy a burden and that this threshold should be expressed as a percentage of the GDP of the member state, the richer having a higher threshold.

7. But it is distressing to hear that Ministers have been arguing for so long about how to measure the burden. I must tell you frankly that we shall not be

willing to go along with any of the various devices which have been put forward for defining the burden as less than it is. We are not going to make a fudged compromise on this issue. A lasting solution must be fair, rational and durable for all member states. It is frankly not serious to suggest that the burden to be lightened, the gap to be filled - in part not in whole - is the difference between a country's share of Community expenditure and its share of Community GDP or its share of the Community's population. The real gap is between its share of Community expenditure and its share of own resources. That is the money which flows out from the net contributors to the Community each month to be spent in the net beneficiary countries.

I made it clear at Stuttgart that I could only consider an increase in the Community's own resources if arrangements were agreed for a fair sharing of the budgetary burden and for effective control of agricultural and other expenditure. On both those issues the Special Preparatory Councils have made some progress in substance but the Presidency's draft conclusions are a very long way indeed from providing a satisfactory basis for an agreement. I suggest, Mr President, that we concentrate this afternoon on making progress on these issues so that revised draft conclusions can be prepared over night on which we can work tomorrow. Otherwise we shall find that there is no time to solve our remaining differences through the thorough discussion which will be required.



Prime Minister.

This is very useful.

A.J.C. 2/12

Qz.03473

MR COLLES

EUROPEAN COMMUNITY: EUROPEAN COUNCIL OF 4 - 6 DECEMBER

You thought that it would be helpful for the Prime Minister to have a short glossary of the main terms which may be used in the discussion on the budget inequity at the European Council on 4 - 6 December. I attach a note covering the main terms and illustrating it with the figures.

I am sending a copy to Sir Robert Armstrong and Brian Fall (FCO).

D F Williamson

D F WILLIAMSON

2 December 1983

EUROPEAN COMMUNITY NEGOTIATIONS ON THE BUDGET INEQUITY

Glossary of terms, with illustrative figures

1. Gross contribution. The gross contribution is the total amount of customs duties, agricultural levies and VAT on a standard basis within a ceiling of 1% ("own resources") which a member state passes over to the Community.

| | million ecu | |
|-----------------------|-------------|------|
| | 1981 | 1982 |
| UK gross contribution | 3880 | 5080 |

2. Net contribution. The net contribution is the gross contribution less receipts from the Community budget. The United Kingdom's net contribution is too high for two reasons:

(i) because we receive too little from the Community budget (our share is only about 13%). This is usually known in the Community as the payments gap or the expenditure gap (see below);

(ii) because we pay in too much money from customs duties and agricultural levies (our share is about 26%). This is usually known in the Community as the excess contribution.

In money, point (i) is much more important than point (ii)

| | million ecu | |
|---------------------|-------------|-------------|
| | 1981 | 1982 |
| UK net contribution | <u>1419</u> | <u>2036</u> |

3. The safety net. The United Kingdom's proposal works by applying relief to the whole of the net contribution. It works on the fair principle of relative prosperity. If a member state's GDP per head is 90% or less of the Community average, its net contribution is zero (ie relief is total). Above this the limit rises gradually with relative prosperity. The limit is always expressed as a percentage of a member state's total GDP. In 1982 the United Kingdom's limit would have been about 0.1% of its GDP and Germany's limit would have been 0.32% of its GDP.

| | million ecu | |
|---------------------------------------------------|-------------|------|
| | 1981 | 1982 |
| UK adjusted net contribution under the safety net | 219 | 437 |

4. A safety net could of course operate in two parts - one part setting relief because we receive too little from the Community budget (point 2(i): the payments or expenditure gap) and the other part setting relief because we pay in too much money from customs duties and levies (point 2(ii): the excess contribution). Other member states have moved a considerable way towards us on the first point. They are opposing us on the second point.

5. The payments (or expenditure) gap. In a two part solution, this is the bigger part. We should be able to get good relief on this. Other member states will not want us to have 100% relief above the limit. There are three ways of measuring this gap but the differences, when averaged over a period of years, are not very great:

(i) the payments share/VAT share gap. This is the difference between our share of payments from the Community budget (about 13%) and our share of all the VAT paid to the Community (normally 20-21%). We think that on balance this is the best measurement (the VAT share is, after all, our marginal contribution). This gap was

| | million ecu | |
|--|-------------|------|
| | 1981 | 1982 |
| | 1070 | 1785 |

If we got relief for all of it (which other member states will oppose) and applying our own limits formula:

| | | |
|-----------------------------------------------------------------------------|-----|-----|
| UK adjusted net contribution from payments share/VAT share gap relief | 568 | 688 |
|-----------------------------------------------------------------------------|-----|-----|

or (ii) the payments share/GDP share gap. This is the difference between our share of payments from the Community budget (about 13%) and our share of the Community's total GDP (about 20%). This gap was

| | million ecu | |
|--|-------------|------|
| | 1981 | 1982 |
| | 1188 | 1263 |

If we got relief for all of it (which other member states will oppose) and applying our own limits formula:

| | | |
|-----------------------------------------------------------------------------|-----|-------------|
| UK adjusted net contribution from payments share/GDP share gap relief | 450 | <u>1210</u> |
|-----------------------------------------------------------------------------|-----|-------------|

This type of relief is in the proposals of Germany, France and Denmark.

or (iii) the payments share/population share gap. This is the difference between our share of payments from the Community budget (about 13%) and our share of the Community's population (about 20.5%). This gap was

| | million ecu | |
|--|-------------|------|
| | 1981 | 1982 |
| | 1246 | 1369 |

If we get relief for all of it (which other member states will oppose) and applying our own limits formula

| | | |
|----------------------------------------------------------------------------------|-----|------|
| UK adjusted net contribution from payments share/ population share gap relief | 392 | 1104 |
|----------------------------------------------------------------------------------|-----|------|

This type of relief is in the Commission's proposal.

6. The excess contribution. In a two part solution, this is the smaller part. In recent years the excess contribution of customs duties and levies has provided about 350 million ecu towards our total net contribution. Other member states are opposing any second mechanism at all. The simplest way would be to have relief related to the GDP share/own resources share. When added to 5(ii) this would cover the whole gap between our low share of payments from the Community budget (the payments share) and our high share of contributions to the Community budget (the own resources share) ie it would cover the whole net contribution. If this new scheme could not be obtained, there are three possibilities:

(i) a cleaned-up Dublin relief mechanism. The Dublin mechanism did not work because it was littered with restrictive conditions. It was, however, a GDP share/own resources share relief scheme, which might be brought out of mothballs without the restrictive conditions.

(ii) Commission's proposal for modulated VAT. The proposal is that, subject to certain other criteria and definitions, any Community expenditure on agriculture which is above 33% of the budget would be paid for by member states on a different VAT key which would be more favourable to the United Kingdom. This does not respond directly to the excess contribution problem but it would give the United Kingdom a considerable amount of extra money

/modulated VAT:

| | million ecu | |
|-----------------------------------------------------------------------------------|-------------|------|
| | 1981 | 1982 |
| modulated VAT: relief for UK additional, for example, to that in para 5(ii) | 318 | 537 |

It is opposed by some member states, particularly France, partly because it "discriminates against" agricultural expenditure.

(iii) possible Commission proposal for modulated VAT on a different basis.

7. In all these areas we base ourselves on the figures in the allocated budget. We do not accept any attempt (such as that recently made by the Commission) to reduce the real figures by excluding some expenditure. The correct definition of the allocated budget is in a Commission note of 1980 (reference XIX/480/80).
8. If the United Kingdom obtains sufficient relief, there are two further points about the implementation of relief:
- (i) it should be implemented, in the Community phrase, "on the revenue side" ie by reducing the VAT contribution of the benefitting member state in the following year. This leaves the Community budget free for proper expenditure instead of cluttering it up with pseudo-schemes.
- (ii) it will be necessary to agree how the relief is financed. We maintain that member states benefitting from reliefs should not contribute to their own or other benefitting member states' reliefs. The cost of relief should be shared among the other member states either according to the normal VAT key or according to a special financing key. The two methods do have different effects: France, for example, wants a special financing key in order to keep down its own net contribution which would otherwise rise quite steeply in order to pay for our reliefs.
9. Timing. We need the solution to apply in respect of 1984 and later years. (This would still allow the system to come in effect in 1985 because the VAT relief is given in the year following the excessive net contribution).

D. F. Williamson

D F WILLIAMSON

2 December 1983

SUBJECT cc Ops
PRIME MINISTER'S + Malta
PERSONAL MESSAGE Embassy of Greece
SERIAL No. T2028/83 1a, Holland Park,
London, W.11

cc ~~Boyd~~
Williamson
Kear

No.F.3432

2 December 1983

The Principal Private Secretary to
The Rt.Hon.Margaret Thatcher MP.,
Prime Minister,
10 Downing Street,
London SW1

Prime Minister.
Not satisfactory (see
page 2).

MW
A.J.C. 2.12
but I have established that it
was sent before he received your
own message.

Dear Private Secretary,

We have been requested by Mr.Andreas Papandreou,
Prime Minister of Greece, to convey the following message
to the Prime Minister :

" Athens, 2 December 1983

Dear Colleague,

I feel that it would be useful to express some
of my thoughts with regard to the European Council that
will take place in Athens on December 4-6.

The negotiations referred to in the declaration
of Stuttgart constitute the most important and complex
issue we shall be faced with, the day after tomorrow.
This issue will be the starting point of our discussions
on Sunday afternoon.

Naturally, I do not need to remind you of the
burden of our responsibility as regards the outcome of
a negotiation that is decisive for the future of the
Community. Failure would have an enormous negative
impact not only on European public opinion, which is
waiting to find out what kind of 'Europe' we want,
but also on the two future member-states, who find
it hard already to convince their public opinion of
our credibility.

Our negotiations will be based on a text, the
preparation of which has been long and painstaking.

I am certain that you will agree with me on
the necessity to limit our deliberations only to

.../...

the essential issues that are interlinked. Depending on their degree of maturity, we should decide on specific measures or establish concrete directions. I, therefore, believe that to facilitate discussions, we should identify immediately the items that are considered to be of vital importance.

Within this framework, I believe that we should begin with the problems of the agricultural sector. If we solve the crucial and really difficult question of the rationalisation of the acquis, we shall be able to proceed to the issue of shaping a more effective structural policy, to decisions concerning the development of new policies, and to the settlement of budgetary questions, naturally bearing always in mind the existing interdependencies.

Our goal in the European Council of Athens is to arrive at political, functional and reliable decisions. If we do not succeed in effectively tackling one or two difficult problems, the ensuing result will be the failure of the negotiations as a whole. Therefore, I ask you to show the necessary flexibility, so as to identify all possible solutions that could pave the way for an agreement.

My endeavour will be to examine exhaustively all the issues. I hope that these crucial discussions will be completed during the afternoon session of Monday, but, if necessary, depending on the problems that will have emerged, we could devote Monday evening, before and after dinner, to private talks that might help us to reach the appropriate decisions.

On the basis of these discussions, the Presidency will draw up a text to be submitted to the Council on Tuesday morning. The time remaining on the agenda, on Monday evening and on Tuesday, will be devoted to other important political issues.

Furthermore, on the basis of documents submitted by the Commission, we shall proceed with the analysis of the economic and social situation in the Community and with the approval of the Annual Report on European Union. Finally, I am certain that you understand my wish for a positive discussion on the Greek Memorandum, in the light of the political consensus achieved in Stuttgart.

We are faced with a difficult task and with an overburdened agenda. Nevertheless, I await our meeting with confidence and look forward to welcoming you all in Athens.

With best personal regards,

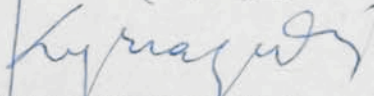
Andreas G.Papandreou"

I would be grateful if this message could be

.../..

brought to the Prime Minister's attention at the earliest opportunity.

Yours faithfully,



Nikos Kyriazides
Ambassador



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister.

A.S.C. 3/12.

2 December 1983

John Stan.

M

European Council: Political Items

Since the Prime Minister's briefing meetings this time have covered only the Community side, you may like to have the following note on the political items on which the Presidency has suggested that the European Council should adopt conclusions at the end of its meeting in Athens:

Middle East

There was a strong feeling amongst Foreign Ministers last week that the European Council should once again define the position of the Ten, but concentrating this time on what needs to be done in Lebanon, where several of the Ten are deeply engaged either in the MNF or in UNIFIL. The UK has circulated some suggestions which may form the basis of draft conclusions on this point. The French have also suggested endorsing the resolution adopted by the UN Security Council on Iraq/Iran.

Cyprus

Greece will press for a message of support for the UN Security Council resolution, and probably for some criticism of Turkey as well as the Turkish Cypriots. The Greeks are not asking for decisions on economic sanctions to be taken by the European Council, though they are continuing to press for these in COREPER.

East/West relations

The Germans want the European Council to give a suitable signal to the East in the light of INF deployment, the Soviet walk-out from Geneva and the doubts about Andropov's health. A special mention of Poland may be appropriate, and it may be suggested that the conclusions should refer back to the CSCE (Madrid) and forward to the CDE (Stockholm).

/Afghanistan



Afghanistan

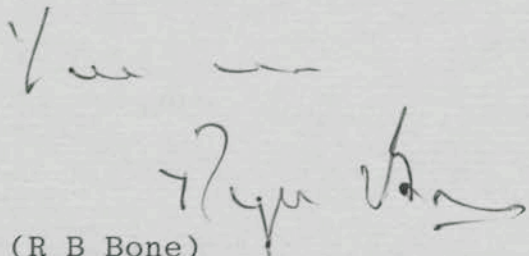
At UK insistence, it will be suggested that the European Council should approve a statement to be issued in its name on the fourth anniversary of the Soviet invasion (27 December).

Latin and Central America

There are various elements including the tension in Central America, the election of a civilian President in Argentina and human rights in Chile and elsewhere. It does not look as if Grenada would need to be mentioned.

All these points are covered in the Prime Minister's briefing (Briefs Nos 12 and 12A) and the Foreign Secretary does not foresee great difficulty over any of them. Draft conclusions on all of them should be available late on 4 December or early the next morning, for discussion by Heads of Government when the opportunity arises.

I am copying this letter to Sir R Armstrong.


(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

MFT

End of
Committee
Akers



10 DOWNING STREET

From the Private Secretary

2 December 1983

Dear Roger,

European Community: Main Issues for the
European Council, 4-6 December

The Prime Minister discussed the main issues for the European Council of 4-6 December with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture, Fisheries and Food yesterday. The Minister for Trade and the Minister for Information Technology were also present for the discussion on trade and industry and on the proposed Community programme for information technology (ESPRIT). Sir Michael Franklin, Sir Michael Butler, Mr. Gray, Mr. Unwin, Mr. Hannay, Dr. Walker and Mr. D.F. Williamson also attended.

The Prime Minister said that she had accepted the advice that she should send a message to Mr. Papandreou making clear that it was important to launch discussion early in the European Council on the subjects which were least prepared, in particular those relating to the budget. This did not detract from the need for a global solution. It was now necessary to look at all the elements of a package.

On ESPRIT the Minister for Information Technology said that, if that programme was to be supported at the expense of the United Kingdom's own Alvey programme, he would not be prepared to support ESPRIT at all. There were, however, some other existing or planned research and development programmes within the Community which were of lower priority, some of which were set out in the annex to the Trade and Industry Secretary's minute of 30 November. Wherever feasible, savings should be made on these programmes in order to finance ESPRIT. In discussion it was argued, on the one hand, that there should be offsetting savings if the ESPRIT programme were to go ahead and that some of the planned research programmes on which savings were suggested were likely to be a dead letter. The

/position

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position of public expenditure was bound to be different as a result of membership of the Community. On the other hand, it was said that the ESPRIT programme was a good one; that we should be able to obtain agreement to a review at the halfway stage; and that it should be possible to obtain assurances from the Commission that ESPRIT, as a priority programme, would be financed within the existing spending limits, thus making necessary savings elsewhere within the research and development framework programme or on other sectors such as agriculture. The Prime Minister, summing up the discussion, said that the whole package at Athens depended crucially for the United Kingdom on whether we obtain the budgetary safety net. She was dissatisfied that some research and development programmes in the Community were not very effective and of low priority. If ESPRIT was of higher priority, then some of these programmes should be curtailed.

On other policies the Minister for Trade stressed the importance that we attached to making progress on completing the internal market. These were objectives on which it was reasonable to hope for some positive decisions at Athens.

The Minister of Agriculture, Fisheries and Food said that the agricultural issues at the European Council were difficult and some points could give rise to considerable opposition within the United Kingdom farming industry. United Kingdom farm incomes were not doing well and the political difficulties should not be underestimated. On limits on the guarantees ("guarantee thresholds") the present text was not bad but needed to be strengthened, in order to make quite sure that it applied to Mediterranean commodities and did not concentrate unfairly on those of interest to farmers in Member States such as the United Kingdom. On milk, he preferred action through the price but, if a quota/super levy system were to be introduced, it should be accompanied by a price freeze for a period and there should be no exceptions (as proposed, for example, for the Republic of Ireland in the Presidency text). The quantity above which the super levy should apply should be 97.2 million tonnes of milk and the base year should be 1983 - 6 per cent. Some flexibility would be needed for hard cases; the most satisfactory method would be to have a small margin available in each Member State. He would be extremely concerned if there were any suggestion that the United Kingdom would accept the super levy at Athens other than in a complete package. The normal co-responsibility levy could be tolerated for a further period but it should in no circumstances be increased. There were also three items (intensive levy, partial suspension of intervention for skimmed milk powder and phasing out of the butter subsidy) which should be struck out of the Athens package. On cereals the text on prices was reasonable but there should be no reference to export standards. There were disagreed views within the Community on imports of cereal substitutes. Discussions should continue but a unilateral decision to unbind the tariffs would be likely to lead to direct retaliation by the United States. On monetary compensatory amounts no Franco/German solution was at present in sight and we should have to see how this developed. In any event he could not accept that the European Council should decide on the technical and prejudicial proposals about the method of calculating certain specific monetary compensatory amounts.

In discussion it was pointed out that the pressures for some separate treatment of the Republic of Ireland on the milk super levy would be very strong and that we should need to think carefully about the interests of farmers in Northern Ireland. The Prime Minister, summing up the discussion said that on the individual proposals, she intended to follow the line on which she had been briefed. She confirmed that, if there were no agreement on the whole package, she would not agree to the milk super levy in isolation.

The Chancellor of the Exchequer said that the key element of the Athens package was a successful conclusion on the safety net. He had set out in the annex to his minute of 29 November an assessment of the various packages which might be suggested at Athens. On control of agricultural and other spending (strict financial guideline) the French proposal was certainly helpful. It would require that each year Finance Ministers would have to decide by qualified majority what, within the overall VAT ceiling, would be the specific VAT rate to which the budget must conform. Within this system there would be a guideline for agricultural spending on a three year moving average. While showing caution publicly about referring to an amendment of the Treaty, the French did agree that their proposal implied a legal and binding commitment. In some respects this was an improvement on our original proposal. In discussion it was agreed that on the control of expenditure we could take the revised French text and add some stiffening, in particular a definition of the agricultural guideline as a rate of growth of agricultural expenditure below the rate of growth of own resources. It seemed probable that this part of the package would now be less painful than we had thought earlier. Summing up the discussion the Prime Minister noted the possible progress on the control of expenditure. She reaffirmed her view that the key element at Athens was whether we could negotiate a lasting safety net arrangement which gave the United Kingdom adequate relief from the full burden.

I am sending copies of this letter to the Private Secretaries to the Ministers who attended the meeting and to Sir Michael Franklin, Sir Michael Butler, Mr. Gray (Department of Trade & Industry), Mr. Unwin (Treasury), Mr. Hannay (FCO), Dr. Walker (Alvey Directorate, Department of Trade and Industry) and Mr. Williamson (Cabinet Office).

(Room 1134, DTI, Millbank Tower)

You see

for Wls.

Roger Bone Esq
Foreign and Commonwealth Office.

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Qz.03475

Type letter pl.

A.S.C. 2/a

MR COLES

cc: Sir Robert Armstrong

EUROPEAN COMMUNITY: MAIN ISSUES FOR THE EUROPEAN COUNCIL
4-6 DECEMBER

--- I attach a draft record of the meeting which the Prime Minister held with Ministers principally concerned at 5.30 pm yesterday. You said that if you were content you would be circulating this.

D.F. Williamson
D F WILLIAMSON

2 December 1983

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*Letter to Roger Bone F/C.O.
Copied to private secretary of Minister
attending.*

Qz. 03475

EUROPEAN COMMUNITY: MAIN ISSUES FOR THE EUROPEAN COUNCIL,
4 - 6 DECEMBER

The Prime Minister discussed the main issues for the European Council of 4-6 December with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture, Fisheries and Food yesterday. The Minister for Trade and the Minister for Information Technology were also present for the discussion on trade and industry and on the proposed Community programme for information technology (ESPRIT). Sir Michael Franklin, Sir Michael Butler, Mr Gray, Mr Unwin, Mr Hannay, Dr Walker and Mr D F Williamson also attended.

2. The Prime Minister said that she had accepted the advice that she should send a message to Mr Papandreou making clear that it was important to launch discussion early in the European Council on the subjects which were least prepared, in particular those relating to the budget. This did not detract from the need for a global solution. It was now necessary to look at all the elements of a package.

3. On ESPRIT the Minister for Information Technology said that, if that programme was to be supported at the expense of the United Kingdom's own Alvey programme, he would not be prepared to support ESPRIT at all. There were, however, some other existing or planned research and development programmes within the Community which were of lower priority, some of which were set out in the annex to the Trade and Industry Secretary's minute of 30 November. Wherever feasible, savings should be made on these programmes in order to finance ESPRIT. In discussion it was argued, on the one hand, that there should be offsetting savings if the ESPRIT programme were to go ahead and that some of the planned research programmes on which savings were suggested were likely to be a dead letter. The position of public expenditure was bound to be different as a result of membership

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

From the Minister's Private Office

Roger Bone Esq
Foreign and Commonwealth Office
London
SW1

2 December 1983

A.J.C. ²/_a
f-a.

Dear Roger

MESSAGE FROM THE PRIME MINISTER TO MR PAPANDREOU

I was disappointed to learn from John Coles' letter to you of 1 December that this message was sent without the amendment we suggested. I agree that no one should be under any illusions about our position on the main CAP issues, but it would be unfortunate if the omission of any reference to these gave the Presidency an excuse for believing that we would have no sticking points on agriculture if a package met our other key demands; this in turn could make it more difficult for us to secure our aims on, for example, the oils and fats tax and the supplementary levy.

I note from your letter to John Coles that the Treasury and the Cabinet Office were consulted before the draft was circulated; I think that on similar issues in future it would be helpful if we could be included in such consultations.

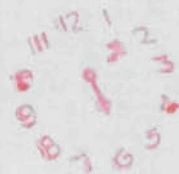
I am copying this letter to John Coles (No. 10), John Kerr (H M Treasury) and Richard Hatfield (Cabinet Office).

Yours ever

ICI

C I LLEWELYN
Private Secretary

- 2 DEC 1983



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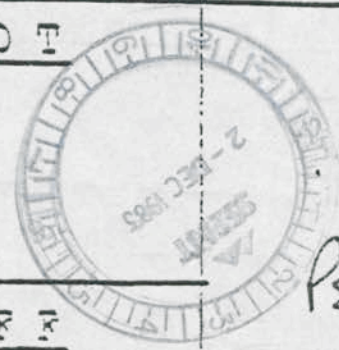
PLUS FCO

SABINET OFFICE
MR D WILLIAMSON
MR G STAPLETON
MR J N PEARSON
MR D R C DURIE

DOT

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MR P KENT
H M CUSTOMS
RECISS

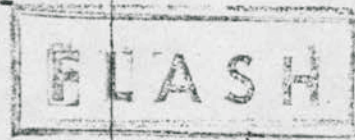


PS/No 10

H M TREASURY
MR J B UNWIN
MISS J B COURT
MR J G LITTLE
MR EDWARDS

MARK

PERMANENT SECRETARY



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FLASH

FM ATHENS 141315Z DEC 83

TO FLASH FCO.,

TELNO 719 OF 2 DECEMBER 1983.,

REPEATED AS IMMEDIATE DESKBY INFO TO UKREP BRUSSELS.,

REPEATED AS IMMEDIATE INFO TO OTHER EC POSTS.

ADVANCE COPY

pa

ms

YOUR TELEGRAM NO. 549: ATHENS EUROPEAN COUNCIL:

MESSAGE FROM THE PRIME MINISTER TO PAPANDREOU

1. I DELIVERED THE PRIME MINISTER'S MESSAGE TO PAPANDREOU THIS MORNING.
2. AFTER READING IT, PAPANDREOU SAID HE WAS GRATEFUL FOR THIS VERY IMPORTANT MESSAGE. HE NOTED THAT WE WERE ALONE IN SENDING A MESSAGE WHICH HE REFERRED DIRECTLY TO THE PROCEDURE AT THE COUNCIL. HE NOW HAD HIS OWN VIEWS ON THIS AND OURS.
3. I SAID THAT I SHOULD UNDERLINE EXACTLY THIS POINT. IT WAS VITAL TO GET THE BUDGET QUESTION STRAIGHT IF THE COMMUNITY WAS TO GO FORWARD. THERE WAS MUCH WORK STILL TO BE DONE. ALL THIS SPOKE STRONGLY FOR GETTING DOWN TO THE QUESTION AT THE OUTSET OF THE

OVERNIGHT ON THE QUESTION SO THAT HEADS OF STATE AND GOVERNMENT COULD FOCUS ON PROPERLY PREPARED POINTS FOR DECISION. OUR OWN EXPERIENCE UNDERLINED THE POINT WHICH I WAS MAKING.

4. PAPANDEOU RECALLED THAT THE BRITISH PROBLEM HAD BEEN TAKEN FIRST AT STUTTGART AND HAD OCCUPIED ONE AND A HALF DAYS. HE THEN SAID THAT HE FULLY RECOGNISED THE INJUSTICE OF THE SYSTEM UNDER WHICH WE, ALONG WITH THE GERMANS, WERE A MAJOR CONTRIBUTOR TO THE FINANCES OF THE COMMUNITY. OUR GDP WAS LOWER THAN THE GERMAN. THERE WOULD BE A PRESIDENCY PROPOSAL WHICH WOULD AMOUNT TO A SUGGESTION OF A GENERAL RULE GOVERNING CONTRIBUTIONS AND NOT APPLYING ONLY TO BRITAIN. HIS DISCUSSIONS WITH MITTERRAND HAD SHOWN THAT THE FRENCH WERE LIKELY TO OPPOSE THIS STRONGLY (SEMICOLON) HE WAS OPPOSED TO A PERMANENT ARRANGEMENT. BUT THE GREEK PRESIDENCY WOULD PUT IT FORWARD. THERE WOULD THEREFORE BE "STRONG" DISCUSSIONS. HE DID NOT FAVOUR CONFRONTATION ACROSS THE TABLE BUT THOUGHT THAT MUCH WORK WOULD BE REQUIRED IN THE MARGINS.

5. PAPANDEOU WENT ON TO SAY THAT THERE WERE A NUMBER OF VITAL POINTS FOR DECISION AT THE COUNCIL:

- (A) THE BUDGET (SEMICOLON)
- (B) THE ENTRY OF SPAIN AND PORTUGAL (SEMICOLON)
- (C) OWN RESOURCES. GERMANY WAS READY TO ACCEPT AN INCREASE (SEMICOLON)
- (D) AGRICULTURAL EXPENDITURE.

THERE WOULD OF COURSE BE OTHER IMPORTANT ITEMS FOR DECISION BUT (A) (B) AND (C) WERE VITAL.

6. I SAID THAT WHAT HE HAD SAID SEEMED TO ME TO ARGUE IN FAVOUR OF THE POINT UNDERLINED BY THE PRIME MINISTER ABOUT THE IMPORTANCE OF GETTING DOWN AT ONCE TO DISCUSSION OF THE BUDGET. IF THE FINANCIAL BASIS OF THE COMMUNITY WAS NOT PROPERLY ESTABLISHED, THE COMMUNITY WOULD FACE A VERY UNCERTAIN FUTURE. PAPANDEOU COMMENTED THAT IF THERE WERE NOT A SOLUTION TO THE FINANCIAL PROBLEMS, THE COMMUNITY WOULD COLLAPSE VERY SOON.

7. PAPANDEOU CONCLUDED BY SAYING THAT HE WAS NOT WITHOUT HOPE FOR SUCCESS AT THE COUNCIL.

COMMENT

COMMENT

8. IT WAS CLEAR THAT, THOUGH PAPANDREOU WAS IMPRESSED BY THE FACT THAT WE HAD A CLEAR UNDERSTANDING OF THE IMPORTANCE OF THE ORDER OF THE AGENDA, HE WAS KEEPING HIS OPTIONS OPEN. ENTRY OF SPAIN WAS HIGH IN HIS PRIORITIES. PORTUGAL WAS ONLY MENTIONED ONCE.

9. PLEASE SEE M.I.P.T. ON CYPRUS.

R H O D E S

NNNN



Foreign and Commonwealth Office

London SW1A 2AH

2 December 1983

John Stan,

Athens European Council: The Greek Memorandum

The brief we have provided (EHG(a)(83)8) suggests that in order to avoid having to make potentially expensive concessions to Greece in the Memorandum exercise, the Prime Minister should seek to dress up the benefits which Greece is already getting from the Community and those which she will get as a result of the decision to postpone for two years the introduction of VAT.

76% New figures which have reached us should make this presentation more convincing. It has emerged in Brussels that Greek receipts from the Community were up 76% for the first 8 months this year compared with the comparable period in 1982. And the Embassy has reported that the 1984 Greek budget, which was published by the Minister of Finance on 30 November, contains the following figures for Greek net receipts from the Community budget in 1983 and 1984.

Greece: Net Receipts from EC (figures in MECUs)

| | 1983 (forecast) | 1984 (budgeted) |
|--------------|-----------------|-----------------|
| Receipts | 1133.2 | 1275.01 |
| Payments | 315.06 | 417.07 |
| Net Receipts | 818.13 | 857.94 |

These amounts are very substantial of course but they do not bring out another point made by the Greek Minister that the 1983 figure represents a 65% increase over 1982.

If and when the Prime Minister comes to deploy the points to make in the brief, it may be worth while adding something along the following lines after the first sentence in paragraph 4:

/"Pleased

RESTRICTED



"Pleased to see that these are considerable. Understand that the Greek Minister of Finance recently announced that Greece's net benefits from the Community are up 65% in 1983 over last year to the very substantial figure of 818 MECUs. Quite right that the Community should be helping its least prosperous Member State. But does strengthen my point that the Community is already making a major effort to assist Greece."

I am copying this letter to David Williamson (Cabinet Office).

Yours

A handwritten signature in cursive script, appearing to read 'R B Bone'.

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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file K50

10 DOWNING STREET

From the Private Secretary

2 December 1983

EUROPEAN COUNCIL : BILATERAL MEETINGS

The Elysee this morning suggested that the Prime Minister should have a bilateral meeting with President Mitterrand over a breakfast on Tuesday, 6 December. This has been agreed. The details will be arranged on arrival.

With the Prime Minister's agreement I have suggested to Herr Neuer of the Federal German Chancellery that Mrs. Thatcher should have a bilateral meeting with Chancellor Kohl either before or after dinner on Sunday, 4 December - depending when the afternoon session ends.

I have noted the suggestion you made to me on the telephone that the Prime Minister should make an effort to take Signor Craxi aside early on because of Italian sensitivities to concertation of positions between France, Germany and the United Kingdom.

Finally, the Prime Minister has agreed to have a bilateral meeting with Mr. Papandreou about Cyprus. We shall arrange the time on arrival.

ALCOLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

*0245/0900
C. STUBS.*

B.T.

②

PRIME MINISTER

Community Aid

mt

Community aid is divided into two parts. First there is the European Development Fund, which is not part of the budget and which is financed separately. The key for contributions is different, our share being about 17½% compared with our average contribution to the main budget of 22-23% or 20-21% at the margin. There is pressure from some countries to "budgetise" the EDF but this would cost the UK more and it is opposed by some other countries because it would put pressure on the own resources ceiling.

Aid is also provided from within Chapter 9 of the main budget. This is spent principally on food aid. This component of aid is financed from own resources and VAT in the normal way with our share being around 22%.

In total the UK contributes £179 million to Community aid of which £71 million goes to the EDF and £108 million goes to Chapter 9.

AS



File No

10 DOWNING STREET

From the Private Secretary

1. December 1983

MESSAGE FROM THE PRIME MINISTER TO
MR. PAPANDREOU

Thank you for your letter of 30 November.

As I told you on the telephone earlier today, the Prime Minister has approved the proposed message. I enclose the signed version and would be grateful if you would arrange for its delivery.

The Prime Minister approved the text when in her room at the House of Commons this afternoon. I regret that it was only after I had asked that the reply should be despatched that I saw Ivor Llewelyn's letter of 1 December. The message as sent does not, therefore, take account of the Minister of Agriculture's suggested amendment - though I doubt that anyone can be under any illusions that it will be necessary to reach agreement at Athens on the main CAP issues.

I am copying this letter and its enclosure to John Kerr (H.M. Treasury), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

SUBJECT

PRIME MINISTER

PERSONAL MESSAGE

SERIAL No. 202/83



10 DOWNING STREET

cc M. O. S.

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File RM

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FW
MATT

TSY

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THE PRIME MINISTER

1 December 1983

Dear Prime Minister

I greatly welcomed the opportunity we had last month to discuss together the main issues which we will need to resolve at next weekend's European Council in Athens. As I told you then, I attach great importance to our making decisive progress on that occasion. Your own role as the chairman of our meeting will be a crucial one and I thought it might be useful to let you have my views on a few key points in advance of the meeting.

First on a point of procedure, I do think it is most important that we get to grips straight away with the linked issues of budget imbalances, the effective control of agricultural and other spending and the Community's future financial requirements. My own experience when I chaired the European Council in London in 1981 was that a failure to face up to the main issues in these fields on the first day of the meeting damagingly undermined the prospects for overall success. So I hope you will schedule a discussion of these points for our Sunday afternoon session.

I do not need to remind you how important for my country the discussion of budget imbalances will be. We need once and for all to put behind us the annual haggles of recent years and to take this opportunity to set the Community's finances on a sound, lasting and equitable basis. But if this is to be achieved, it will be essential to address the whole of the problem

/which

which arises from the budgetary burden we currently bear, not just part of it. I do not see any solution being agreed which only takes account of part of the problem; and it is only when this problem and that of the control over expenditure have been resolved that a decision on the future financial requirements will be possible.

As to the other key issue of the control of expenditure, I have been much encouraged by the ideas put forward at the Special Council this week by the French Minister of Finance. I believe that these, together with the ideas we ourselves and the Netherlands Government have earlier put forward for a specific control over the rate of growth of agricultural spending, provide material from which satisfactory decisions could be fashioned.

Finally I attach great importance to our taking a limited number of decisions in the field of new policies as part of a satisfactory overall package, together with sending a clearly positive signal to Spain and Portugal about their negotiations for accession. You know our priorities on new policies. I hope we will be able to register real progress on the internal market, on insurance services, on transport, on energy, on the environment and on research and development.

I look forward to seeing you in Athens; and I send you my very best wishes for a successful meeting.

Yours sincerely
Nguyen Thant

His Excellency Mr. Andreas Papandreou

26



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

From the Minister's Private Office

A J Cole Esq
10 Downing Street
London
SW1

1 December 1983

Dear John

with ASC?

ATHENS EUROPEAN COUNCIL: MESSAGE FROM THE PRIME MINISTER TO
MR PAPANDREOU

I am writing to confirm my telephone message that my Minister would like an additional sentence, on the CAP, added to the draft attached to Roger Bone's letter to you of 30 November. This sentence should be added to the second paragraph on the second page of the draft, so that the final part of this paragraph would then read:

".... satisfactory decisions could be fashioned. If, as I hope, these issues can be agreed at Athens, we shall of course still need to reach agreement as well on the main CAP issues, including milk."

I am copying this letter to Roger Bone (FCO), John Kerr (H M Treasury) and Richard Hatfield (Cabinet Office).

Yours Sincerely
C I Llewelyn

C I LLEWELYN
Private Secretary



With the compliments of


THE PRIVATE SECRETARY

ROGER BONE

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h.c.

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

OUT TELEGRAM

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| | 9 | INFO SAVING IMMEDIATE UKREP BRUSSELS, NICOSIA, ANKARA, WASHINGTON |
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| | 11 | UKDEL STRASBOURG, ISTANBUL |
| | 12 | YOUR TELNO 711: CYPRUS |
| | 13 | 1. Please tell Capsis that the Prime Minister agrees to |
| | 14 | Papandreou's request for a private meeting on Cyprus in the |
| | 15 | margins of the European Council. Place and timing could perhaps |
| | 16 | be left for Private Secretaries to sort out sur place. |
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| Comcen reference | Time of despatch | |



RECORD OF A CONVERSATION BETWEEN THE CHANCELLOR AND M. JACQUES CHIRAC:
4.30PM, 30 NOVEMBER 1983, NO 11 DOWNING STREET

Present:

Chancellor
 Mr Kerr

M. Chirac
 M. Kosciusko-Morizet

Community Issues

M. Chirac asked about the prospects for the European Council in Athens. Had he been correct to detect in London signs of some willingness to compromise?

2. The Chancellor said that what he had detected was some convergence of views between London, Bonn and Paris. All agreed that the problem of budgetary imbalances must be solved, though views still differed on the appropriate form of the solution. All agreed too that substantial improvements in expenditure control, particularly on agriculture, were required, and the French paper tabled at the Special Council in Brussels on 28 November had shown that French views on the nature of the system were now closer than before to those of the United Kingdom. But there might be a substantial gulf at Athens between the views of France, Germany and the United Kingdom, on the one hand, and their other partners, on the other. We still hoped for an overall settlement - or failing it agreement on the principles and outline of an overall settlement - at Athens. And without a satisfactory overall settlement, we were clear that there could be no increase in own resources.

3. M. Chirac thought that too much was being asked of Heads of Government in Athens. The package of issues for decision had grown much too big. And, given the current plight of the French economy, it would be very difficult for M. Mitterrand to make many



concessions at Athens. He wondered whether the UK Government really favoured enlargement: there was a major groundswell of opposition in Southern France to Spanish and Portuguese accession.

4. The Chancellor confirmed that HMG did still favour enlargement. We however thought it very important to impose an effective discipline on the CAP before Spanish accession.

5. M. Chirac then asked about the chances of the United Kingdom joining the EMS exchange rate mechanism. The Chancellor said that this was certainly not excluded, for there was no UK objection in principle, and the matter was kept continually under review. However there were two problems. First, sterling remained a petro-currency, for the markets exaggerated the extent to which oil price changes affected the UK economy. Perhaps the market's perception might change when North Sea production peaked within the next couple of years: for the present, however, it remained the case that developments, eg. in the Middle East, which could have an effect on world oil prices, produced diametrically opposed movements in sterling and in the other EMS currencies. Secondly, sterling was still a widely-traded international currency. The extent of movements in sterling across the exchanges could put some strain on the EMS, and it was debatable whether the EMS was now well placed to cope with new strains. The Chancellor added that one great merit of the EMS was that it imposed an external financial discipline, which could be very valuable in affecting domestic economic policies in some countries. Such an external discipline was not however necessary in the United Kingdom in current circumstances: we had, since 1979, imposed our own discipline, internally.

6. M. Chirac agreed, and assumed that the Chancellor's reference was to France. The RPR were firmly opposed to the idea of France leaving the EMS.



UK and French Economies

7. M. Chirac then referred to "impressive evidence" of UK recovery. The Chancellor confirmed that we had seen growth of approximately 2½ per cent a year since the trough of the recession in early 1981. We expected 3 per cent this year and next. Inflation was down from 20 per cent to 5 per cent, and the future prospect remained good - perhaps 5½ per cent in the first half of 1984, and 4½ per cent in the second half. Employment was rising, and unemployment appeared to have stabilised. Investment was up, and a further 4 per cent increase was expected next year.

8. M. Chirac said that he had been struck by the change in the UK's overall economic climate. Kirkland of AFL/CIO had recently stressed to him how well-justified had been the UK Government's firm approach to the trade unions. Privatisation too seemed to be a considerable success: he had been particularly struck by the NFC management buy-out.

9. In France, M. Chirac said, it was clear that the Delors plan was failing. Inflation over the year would come out at 10 per cent, rather than 8 per cent. Unemployment was rising steeply, and the true figure was nearer 13 per cent than the Government estimate of 10 per cent. The balance of payments deficit had been reduced, but a surplus of FF 18 billion would be required each year merely to service outstanding debts. At the end of his own term as Prime Minister, France's overseas debt amounted to some FF 32 billion: the figure now was FF 515 billion. And the domestic economy was stagnating - which of course explained why major concessions at the European Council in Athens were simply not possible for France. The Chancellor commented that since Government and Opposition alike in France now argued for stricter public expenditure control, agreement on a proper Community spending control system would be



consistent with, and indeed helpful to, the aim the RPR shared with M. Delors.

10. M. Chirac added that he had only one criticism of the policies which the UK Government had followed since 1979. Would it not have been desirable, and indeed possible, to reduce the overall burden of taxation? And had not raising VAT in 1979 had damaging inflationary consequences?

11. The Chancellor agreed that it would be highly desirable to reduce taxes. The first priority in 1979 and since had however been to reduce the large and rising budgetary deficit which the Government had inherited. Ideally one would reduce both borrowing and taxes, and in the lifetime of this Parliament he hoped that both might be possible; but the first priority after 1979 had had to be reducing the PSBR, now down to some 3½ per cent of GDP from an inherited figure of some 5½ per cent. The VAT increase in 1979 had indeed had some inflationary effect, but only in the short term.

12. M. Chirac agreed that getting borrowing down had to be the number one priority. It would be the number one priority for the next French Government. The opinion poll experts suggested that the combined Opposition Parties now commanded the support of 58 per cent of the French electorate, and local elections were going well for the RPR. But of course the elections need not happen before March 1986, and in the interim the Government planned changes in the election laws and the press laws which would be greatly to their benefit. The political situation in France would continue to hot up.

13. The meeting ended at 5.20pm.

JOK.



Distribution:

Chief Secretary
Economic Secretary
Mr Littler
Mr Unwin
Mr Fitchew
Mr Lavelle
Mr Ridley
Mr Bottrill

Mr Coles, No 10
Mr Fall, FCO
Sir John Fretwell, British
Embassy, Paris
Mr Williamson, Cabinet Office

ATHENS

Our main aims are:

1. Reform of the Budget so that no country bears an unfair burden and expenditure is effectively controlled.

The new arrangement:

- must be ^{durable} ~~double~~ and implemented on the contribution side
- must properly measure the imbalance and the ability to pay
- must give the United Kingdom enough money

2. Reform of the CAP:

- strict control of expenditure
- a ^r vigorous price policy
- the cutting of milk production plus a ~~low~~ ⁺ year price freeze ^{for several years}
- narrowing the gap between EC and other cereal prices.

ASU(?)

1 December 1983

COVERING CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

30 November 1983

Type letter pl.

A.S.C. 1/12.

Dear John,

Athens European Council: Message from the Prime Minister to
Mr Papandreou

Sir Michael Butler has recommended that the Prime Minister send a message to Mr Papandreou, who will now be getting down to preparing to chair the European Council in Athens, 4/6 December.

The Secretary of State agrees with Sir Michael that a message would be valuable. As he has pointed out, there is an opportunity for the Prime Minister to play on Papandreou's desire for success, and to build on the useful talks which took place last month. He therefore recommends that the Prime Minister should write to Mr Papandreou in the terms of the attached draft. It is particularly important to get our view about the agenda order across to the Greeks, given the evidence that is beginning to come in about Franco-German attempts to push the item on budgetary imbalances off until the end of the proceedings.

The draft has been approved by Treasury and Cabinet Office officials, but I am copying this letter to John Kerr (HM Treasury), Ivor Llewelyn (MAFF) and Richard Hatfield (Cabinet Office).

Yours ever

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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DSR 11 (Revised)



DRAFT: ~~XXXXXX~~ letter ~~XXXXXX~~ ~~XXXXXX~~ ~~XXXXXX~~ ~~XXXXXX~~ ~~XXXXXX~~

TYPE: Draft/Final 1+

FROM:

Reference

THE PRIME MINISTER

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret

MR PAPANDEOU

Secret

Confidential

Restricted

Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

I greatly welcomed the opportunity we had last month to discuss together the main issues which we will need to resolve at next weekend's European Council in Athens. As I told you then, I attach great importance to our making decisive progress on that occasion. Your own role as the chairman of our meeting will be a crucial one and I thought it might be useful to let you have my views on a few key points in advance of the meeting.

First on a point of procedure, I do think it is most important that we get to grips straight away with the linked issues of budget imbalances, the effective control of agricultural and other spending and the Community's future financial requirements. My own experience when I chaired the European Council on London in 1981 was that a failure to face up to the main issues in these fields on the first day of the meeting damagingly undermined the prospects for overall success. So I hope you will schedule a discussion of these points for our Sunday afternoon session.

Enclosures—flag(s).....

/I do ...

I do not need to remind you how important for my country the discussion of budget imbalances will be. We need once and for all to put behind us the annual haggles of recent years and to take this opportunity to set the Community's finances on a sound, lasting and equitable basis. But if this is to be achieved, it will be essential to address the whole of the problem which arises from the budgetary burden we currently bear, not just part of it. I do not see any solution being agreed which only takes account of part of the problem; and it is only when this problem and that of the control over expenditure have been resolved that a decision on the future financial requirements will be possible.

As to the other key issue of the control of expenditure, I have been much encouraged by the ideas put forward at the Special Council this week by the French Minister of Finance. I believe that these, together with the ideas we ourselves and the Netherlands Government have earlier put forward for a specific control over the rate of growth of agricultural spending, provide material ^{from} ~~for~~ which satisfactory decisions could be fashioned.

Finally I attach great importance to our taking a limited number of decisions in the field of new policies as part of a satisfactory overall package, together with sending a clearly positive signal to Spain and Portugal about their negotiations for accession. You know our priorities on new policies. I hope we will be able to register real progress on the internal market, on insurance services, on transport, on energy, on the
/environment...

environment and on research and development.

I look forward to seeing you in Athens; and I send you my very best wishes for a successful meeting.

A. J. C. $\frac{1}{12}$

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Qz.03465

POST-STUTTGART NEGOTIATIONS: MEETING OF MINISTERS AT
5.30 pm ON 1 DECEMBER

Brief for the Prime Minister

Objective

This meeting is intended to discuss and, where appropriate, decide the United Kingdom's line on certain major points for the European Council in Athens on 4-6 December.

Arrangements and handling

The Ministers present will be the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food and the Minister for Trade. Each Minister will be accompanied by one official. Sir Michael Butler and I will also be present. Your staff are consulting you whether for the agricultural part of the discussion the Secretaries of State for Northern Ireland, Scotland and Wales should be present.

The papers before the meeting should be:-

- (i) "European Community: the main questions for the European Council" (memorandum by the European Secretariat, Cabinet Office, distributed on 28 November).
- (ii) "European Community Budget Negotiations: Contingency Plans" (updated memorandum by the European Secretariat, Cabinet Office, distributed on 28 November).
- ✓ (iii) Minute of 29 November to you from the Chancellor of the Exchequer about the budget imbalance.
- ✓ (iv) Minute of 22 November from the Foreign and Commonwealth Secretary to you about ESPRIT.
- (v) Minute of 25 November from the Minister of Agriculture, Fisheries and Food to you about milk.

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These briefs
are not
necessary for
Thursday's
meeting.
A.F.C. 20.
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The full set of briefs for the European Council will be available this evening. One further brief commenting on the Presidency's text will be prepared on 1 December, since we do not expect to receive the revised Presidency text until the morning of 1 December.

Although there were further developments in the Special Council which the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer will report orally, you are strongly recommended to base the discussion of the Athens package on the separate elements listed in the conclusions (paragraph 11) of the European Secretariat's paper of 25 November on the main questions for the European Council. There are so many interlocking subjects on the table that this schematic approach does now seem necessary. If so, the main points are the following:

1. the budget inequity (conclusion (i)). You may wish, first, to invite the Foreign and Commonwealth Secretary to give an analysis of the present negotiating situation, taking account of the discussions in the Special Council this week. You may then wish to invite the Chancellor of the Exchequer, who was also present in the Special Council, to elaborate on his views in his minute of 29 November. The principal issues are not perhaps as complicated as they may at first appear. They are:

- confirmation that we should hold our safety net proposal on the table unchanged so long as there is not a fully satisfactory alternative available;
- we expect that a composite solution in two parts will enter into the negotiation at Athens. If so, we shall need to decide there our attitude to each part;
- on part A (relief for our disproportionately small payments from the Community budget) the payments share/VAT share gap is a water-tight formula (it appears, for example, in the Chancellor's packages

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alpha 2 and beta 1 and 2). In certain circumstances the payments share/GDP share or payments share/population share formulas could be acceptable. It is important to keep in mind that these formulas measure the gap but, before we could get adequate relief, we also need to agree whether the compensation is total or not. It is certain that other member states will ask that some part of the gap remaining above the limit should be charged to the United Kingdom, so that in effect the compensation would not be total;

- on part B (relief for our disproportionately large share of contributions to the Community budget) this is the crunch of the negotiation. We could accept either of the ways of dealing with this problem in the Chancellor's package alpha 2 or its variant, since de facto this would cover the whole of the net contribution. The only other forms of solution on the table are the Commission's modulated VAT and variants of that.

e You may wish to conclude the discussion on the basis that we must maintain our safety net proposal on the table unless and until we are fully satisfied with any other two part solution. On such two part solutions, we could aim for a formula based on payments share/VAT share (without ruling out other measurements of the top of the gap), with the objective that the relief should be as near to total compensation as possible. It will also be necessary to have a second mechanism to deal with our excessive contribution to the Community budget; we should aim for formulas on the lines of those in the Chancellor's package alpha 2 and variant. The combined effect, in terms of reduction in our net contribution, must be close to that resulting from our safety net proposal.

/2.

2. Financial control and strict financial guideline for agricultural spending. You may wish to invite the Chancellor of the Exchequer to report on the latest proposals put forward by the French Finance Minister in the Special Council. These involve, inter alia, setting a VAT figure below the maximum VAT call-up, to which the total budget would have to conform. It is now possible that the French ideas, which would in the end require an amendment of the Treaty or a regulation which could only be changed by unanimity, would meet our main objective. It would also be sensible to define precisely the financial guideline for agricultural spending within the total and to include in the package the Commission's ideas on this, as strengthened by the Dutch and Germans. It would be an additional safeguard if the Commission undertakes not to put forward any agricultural proposals which would breach the guideline.

You may wish to sum up that we cannot take a definite view until we see how this is worked out at Athens. The drafts presented there will be important. It is reasonable, however, to hope that we can get elements which give the effective control of spending which we require.

3. Agriculture. You may wish to invite the Foreign and Commonwealth Secretary to report on the discussion in the Special Council and to invite the Minister of Agriculture, Fisheries and Food to comment. The United Kingdom objectives remain as set out in the European Secretariat's memorandum. The Minister of Agriculture, Fisheries and Food will report considerable nervousness among farming circles about the super-levy for milk (the Milk Marketing Board is running a campaign against it but the National Farmers Union does not rule it out) but unfortunately no solution for milk can be painless.

You may wish to sum up that we should follow the negotiating objectives set out in the European Secretariat's memorandum and, at the present time, since the Franco/German disagreement persists, we cannot tell what result might come forward for monetary compensatory amounts.

4. Other policies. You may wish to invite the Foreign and Commonwealth Secretary to report on the latest discussions in the Special Council and to invite the Minister for Trade (who is representing the Trade and Industry Secretary) to comment. It is suggested that this part of the discussion should deal separately with other policies generally and ESPRIT. On other policies generally, the United Kingdom's line on finance for the regional fund, on the integrated Mediterranean programmes and on our own objectives for Community action does not give rise to any dispute between United Kingdom Ministers. On ESPRIT, however, there is a dispute, first about the size of the programme and, secondly, about the effect on departmental budgets (this question is being discussed in E(A) at 11.30am on 1 December). Taking account of the E(A) discussion, it will be necessary at this meeting to take a view on the size of the ESPRIT programme, for which the Foreign and Commonwealth Secretary's minute of 22 November is relevant.

You may wish to sum up:

- the United Kingdom's approach to new policies should be followed through, particularly as it is putting pressure on other member states. The specific points which we have requested would be beneficial to us. On the points in dispute, we should follow the line set out in paragraph 5(v) of the European Secretariat's paper and in the briefing.
- what should be the maximum size of the ESPRIT programme which we could accept, on the assumption that, as recommended by the Chief Scientific Adviser, there should be a review during the course of the operation of the total programme.

5. Own resources. The question of own resources does not arise unless and until all other conditions are met. You may wish to invite the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer to comment on this point. The technical advice of officials is that an increase of 0.2% would cover foreseeable needs for enlargement etc at least into the 1990s but that, if the United Kingdom budget relief were financed within the VAT

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arrangements, an additional 0.1 or 0.2% might be required in order to allow other member states to finance our relief.

6. Contingency planning. There is a separate paper headed "Contingency plans" from the European Secretariat of the Cabinet Office. You may wish to invite commends from the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary. Our advice is that it is unlikely that, as a result of an inconclusive or disagreed European Council at Athens, other member states will deliberately block our 1983 refunds but that the European Parliament, later in December, might throw out the whole budget or block these refunds. The options on 1983 refunds and on the 1982 risk-sharing are set out in paragraphs 11 and 12 of the memorandum. Subject to the discussion, you may wish to conclude on those lines.

D F Williamson

D F WILLIAMSON

30 November 1983

CONFIDENTIAL

Qz.03460

MR COLES

cc: Sir Robert Armstrong

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12
h.a.

EUROPEAN COUNCIL, 4-6 DECEMBER: PREPARATION OF THE
UNITED KINGDOM POSITION

I have spoken to Mr Barclay and I now confirm, in response to your minute of 17 November to Miss Wilkinson, that:

- at the Ministerial discussion of our negotiating situation which the Prime Minister is holding at 5.30pm on 1 December, the Ministers whom you have already invited (Foreign and Commonwealth Secretary, Chancellor of the Exchequer, Minister of Agriculture, Fisheries and Food and Minister of State, Department of Trade and Industry) will be accompanied by one official each. Sir Michael Butler and I will also be present. This meeting is intended to establish the main lines of our negotiating approach for the European Council. For this purpose the European Secretariat of the Cabinet Office has already submitted two papers, under cover of my minute of 28 November. I understand that the Chancellor of the Exchequer is submitting a minute about the various solutions being proposed by other member states for dealing with the budget inequity and that the Foreign and Commonwealth Secretary may submit a minute bringing up-to-date the situation following the meeting of the Special Council which ended today;

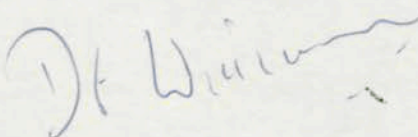
- in addition to the major negotiating issues we recommend that at this meeting a decision on the size of the ESPRIT programme could be taken (the other major question relating to ESPRIT and similar programmes, namely the /effect

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effect on departmental budgets, will have been dealt with at the meeting of E(A) at 11.30am on 1 December);

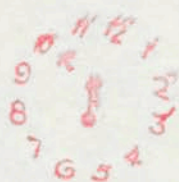
- we assume that this discussion will cover all the major issues on which the Prime Minister needs to be briefed and that it will therefore replace any other formal briefing meeting.



D F WILLIAMSON

30 November 1983

30 NOV 1983



Euro PD : Council in
Athens Pt 13



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

PRIME MINISTER

ATHENS EUROPEAN COUNCIL: UK NET CONTRIBUTION

We are to meet on Thursday to discuss the Cabinet Office paper on our approach to the Athens European Council. However, in the light of developments at the Special Council in Brussels yesterday I should like to set down what I now believe our priorities and tactics should be, in particular on the question of the UK's net contribution. I enclose with this minute an analysis of various possible solutions and non-solutions, including our own safety-net; it also contains a diagram illustrating the various measurements of budgetary burden which have been suggested.

2. We approach Athens against a background of increasingly vocal criticism, not just from the Opposition but also from many of our own supporters, both inside and outside Parliament, of the workings of the Community and in particular the increasingly heavy level of expenditure on CAP surpluses. Many of our own people sincerely believe that the only way to remedy the Community's defects is to sit tight on the one per cent VAT limit and use that to enforce reform. This message emerged clearly when Ian Stewart appeared before the Scrutiny Committee early last week. We shall therefore need to be able to demonstrate convincingly to Parliament that any package that emerges from Athens will protect us against any future Community spending excesses.



3. Against this background our overriding objective must be to achieve a really satisfactory "safety-net" for budgetary imbalances. By this I mean an arrangement which:-

- (a) measures our budgetary burden correctly, ie our excessive gross contributions as well as our inadequate receipts;
- (b) provides relief for both sides of the problem on a scale reflecting our ability to pay. This means a limit (subject to (c) below) on our net contribution as close as possible to 0.1 per cent of our GDP (480 mecu (£280 million) for 1982);
- (c) involves as low as possible a rate of contribution at the margin to increases in our uncorrected net contributions;
- (d) can be relied upon to work, and produce satisfactory results, over time, without significant risks for the UK.

4. If these requirements are to be met, we must have a solution either along the lines of our own safety-net or one of the other "alpha-class" variants described in the note below. If, because of the sensitivity of our partners to the "net contributions" concept, the solution has to be dressed up, that can be done, as long as the entirety of the problem is dealt with (see alpha 2 in the note).

5. If we can achieve our objective, as defined above, of an alpha-class solution on budgetary imbalances, I believe that we could settle for a financial guideline for agricultural spending that does not match up precisely to our own strict guideline proposal. The



most promising possibility here seems to be the French proposal, tabled in Brussels by Jacques Delors yesterday, for an overall expenditure control (imposed by Finance Ministers setting a maximum VAT call within the overall ceiling at the beginning of each year) provided, as seems to be the French intention, it incorporates a rigorous agricultural spending control. But we should not trade in our demands on the safety-net even for an improved version of the strict financial guideline. We can explain to our supporters that a really good safety-net solution is also the best way to ensure agricultural reform, because the main burden of financing the CAP will be transferred to other member states.

6. I feel strongly that, if we are to contemplate conceding any increase in own resources, the package described in the previous paragraph must be our minimum requirement. However, as the Cabinet Office note suggests, we may be offered a "solution" based on compensation for the gap between our share of receipts from the Community Budget and our share of Community VAT, possibly with the addition of some measure of relief on the own resources side (the Commission's original "modulated VAT" proposal was a possibility here, but I doubt whether it is any longer a runner).

7. I do not think we should be prepared to concede any increase in own resources for this or any other "beta-class" solutions that do not deal adequately with the problem of our excessive payments of customs duties and agricultural levies (some 350 mecus (£200 million) a year on average over the past few years). Although modulated VAT happens to give a good result for 1982, that is because our share of VAT was particularly high in that year. There can be no security that it would consistently produce a satisfactory result, over time, for our net contributions. The same applies to a solution based on the expenditure/VAT share gap with no additional measure of relief on the own resources side, even though, if this



were sufficiently generous (ie guaranteeing that we should pay no more than around 100-150 mecu (£60-90 million) on top of our 'excess' payments of levies and duties) the outcome could be similar, in the short-term at least, to that from an "alpha-class" package. As table 3 to the note shows, our share of contributions of customs duties and levies has risen recently and the absolute amounts remain very substantial. If we were to accept a solution on these lines we would run the risk of finding ourselves back in an unacceptable situation in a few years' time.

8. As I see it, if we were offered such a "beta-class" safety net at Athens, together with an acceptable agricultural spending control, it only would be worth taking it provided we did not concede any increase in own resources. To refuse to trade an own resource increase for such a second class package would be entirely consistent with the position you clearly defined at Stuttgart. In such circumstances the onus would be on our partners to decide whether to accept no early increase in own resources, or to concede an "alpha-class" safety net as the price of one.

9. To get a satisfactory "alpha-class" solution as early as Athens will be extremely difficult. But I am sure that without it there should be no question of our giving up the leverage of the one per cent VAT ceiling. We should agree to neither the timing, nor the amount of any increase in the own resources ceiling, nor even the principle. Any statement of our readiness to move on own resources would have to be quite clearly conditional on the details of the safety-net and other parts of the package being satisfactorily and simultaneously put into place: otherwise I foresee major problems in the House and the country.

10. My judgement is that the key to success at Athens - ie either an "alpha-class" solution, or a broad agreement on the principles of



one, with the details to be worked up later - will lie in keeping close to the French and the Germans. The Germans, as the other net contributors, have been our natural allies throughout, and the French have moved a long way, as Delors' proposal yesterday showed. If this tripartite alliance holds - and Geoffrey Howe has done much to cement it - the problems for you will be greatly eased, and it is relevant that neither the French nor the Germans are pressing for an early increase in own resources.

11. If we cannot get agreement at Athens (whether in detail or in principle) to a satisfactory solution to the budgetary imbalances problem, then I believe we should give no ground whatsoever and hold out for the March European Council. In such a situation it would of course be necessary to consider how to deal with the question of our 1983 refunds. A judgement on this will depend on the precise circumstances at Athens. My own inclination is to suggest that you should make clear to our partners that we expect to receive the bulk of our Stuttgart refunds for 1983 by March (the end of our financial year), in accordance with the precedents of recent years. If this is challenged, eg by President Mitterrand, I believe that it would be right to warn that, if we have to do so, we will take the necessary action to protect our financial position from the 1st April.

12. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Minister of Agriculture and Sir Robert Armstrong.

J.D.S.

pp.

N.L.

29 November 1983

BUDGETARY IMBALANCES

This note and tables illustrate some of the budgetary imbalances packages which might feature at the Athens European Council. The actual outcome for the UK and other member states would, of course, depend critically on the measurement of burden, the limits formula, the parameters and the financing shares chosen.

Measurements of budgetary burden

2. The bar-chart at the end illustrates the relationship between our net contribution and the rival measurements of budgetary burden suggested by others. The net contribution can be defined as either (a) our gross contribution to , less our receipts from, the allocated budget or - which comes to the same thing - (b) the 'gap' between our percentage shares in Community expenditure and own resources, multiplied by the allocated budget total. The rival measures suggested by others all substitute a different share (VAT share, GDP share or population share) for our share of the Community's own resources. They all understate the true burden on the UK, since no account is taken of our net trading losses outside the budget.

Limits formulae or 'thresholds'

3. The UK's 'safety-net' formula would limit our budgetary burden to a percentage of our GDP, that percentage being an increasing linear function of relative prosperity in the enlarged Community. All the packages illustrated in the tables assume a formula of this kind, which the Germans and the Commission took over in their proposals. Others have suggested different formulae which would reimburse us a given percentage of the budgetary burden, as measured. These other formulae are unsatisfactory: they do not measure ability to pay and would expose us to any increases in our uncorrected net contribution.

Financing of reliefs

4. There are two important points. First, we should not contribute to our own reliefs or anyone else's . This would require us to contribute to increases in our uncorrected net contribution at a marginal rate of 20 per cent or more. Second, we need to find a pattern of sharing the cost of our reliefs that is acceptable for other member states. Financing in accordance with VAT shares would put heavy burdens on Germany and France. An alternative would be for

NB : 1 ecu = £0.58

the more prosperous member states to contribute to the reliefs by a key based on 'headroom' inside their safety-net limits - ie the difference between their actual budgetary positions and their safety-net limits or thresholds. The less prosperous countries would have to contribute rather heavily under such a key and might contribute instead in accordance with their VAT shares.

Package Alpha 1 (Net contribution and safety net)

6. The only type of package fully satisfactory for the UK would be one close to our safety-net proposal, like package alpha 1. It differs from our earlier proposal only in providing that member states would make small contributions at the margin to excesses in their net contributions over their safety-net limits.

7. These marginal contributions could, like the safety-net itself, reflect relative prosperity, rising from some 5 per cent for a country with 103 per cent of average prosperity in the enlarged Community (the UK) to some 25 per cent for a country with 135 per cent of Community average prosperity (Germany). (Example; if our uncorrected net contribution rose by 1 billion ecu (£580m) we would contribute in round terms an extra 50 mecu (£30 million).) To compensate for this, package Alpha 1 makes the safety-net limits formula more favourable to the UK. It would have left us with a corrected net contribution of 485 mecu (£280m) for 1982 (almost exactly 0.1 per cent of our GDP). Using a 'headroom' financing key, the UK and France would have had similar corrected net contributions for that year, though this would not necessarily be repeated in later years.

Package Alpha 2 (Net contributions for UK, expenditure/VAT for others)

8. This would go some way to meet the objections of other member states to the net contributions concept by basing the generalised relief system on the gap between member states' receipts and VAT shares, while giving the UK additional relief to cover the whole of our net contribution.

9. Member states with an unfavourable expenditure/VAT shares gap would be allowed to add to their measured burden their own resources/VAT shares gap (ie their excess of levies and duties over VAT), where this too was unfavourable. In practice only the UK would qualify. So the arrangement would cover net contributions for the UK but VAT/expenditure shares for everyone else. It could be called 'transitional' in the same sense as the Commission's modulated VAT purports to be transitional. If and when the levies and duties problem fades away, it would cease to have any significance.

10. An arrangement on these lines would have the same advantages for the UK as alpha 1. For other member states, it could be presented as being essentially an expenditure/VAT shares arrangement; the fact that the UK's relief would be based on the whole of our net contribution would be somewhat disguised; and France in particular would benefit from the fact that her budgetary burdens would be substantially overstated on an expenditure/VAT gap basis of measurement, because French levies and duties are so low.

11. A variant of this package would be one which placed a limit on our expenditure/GDP shares gap and allowed us to add to our measured burden the difference between our shares of GDP and own resources, on the precedent of the 1975 'Dublin' financial mechanism (but without the small print which debarred us from qualifying).

Packages beta 1 and beta 2 (Expenditure/VAT gap with Commission's modulated VAT)

12. These packages are less satisfactory than the alpha class packages. They would not provide any relief for our levies and duties payments: the Commission's modulated VAT would be intended as a substitute for this. The gains to the UK from modulated VAT are compared in the table below for the past four years with the losses from scoring levies and duties as if they were VAT. As the table shows, we would have gained on balance from such an arrangement over the past four years; but the results for 1980 and 1981 would have been unfavourable and the average result over the four years depends importantly on 1982, when our ordinary VAT rate was unusually high.

| | mecu | | | |
|---------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|
| | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> |
| Gains from modulated VAT | +408 | +335 | +318 | +537 |
| Losses from measuring burden as VAT/ expenditure gap (ie scoring levies and duties as if they were VAT) | -364 | -442 | -350 | -251 |
| Net gains (*), losses (-) | + 44 | -107 | - 32 | +286 |
| | (£m) 25 | - 62 | - 19 | 166 |

13. The attraction of such a package for other member states would be that it would avoid the net contributions concept and meet their desire not to compensate us for levies and duties. But several member states (including France and Italy) have opposed modulated VAT strongly and it now seems an unlikely runner.

14. For the UK, the main problem would be that, although it could be so constructed as to provide enough compensation in the short term to cover the levies and duties, it would do so by accident, rather than design. We could not be sure, therefore, that it would provide an acceptable result over time in terms of our net contribution. Things might go 'right'! But they might also go wrong and the problems if they went wrong would doubtless exceed the satisfaction if they went right.

15. The main risk is that while levies and duties are likely to remain substantial (as table 3 illustrates), our gains from modulated VAT could diminish considerably if the Community's non-agricultural expenditure rose faster than agricultural expenditure (as is possible); or our share of the Community's agricultural production rose; or our net operating surplus rose. If, as is possible, our share of the latter rose to the same level as our share of Community GDP, our net gains from modulated VAT could be halved.

16. As tables 1 and 2 illustrate, coupling modulated VAT with a safety-net limits formula similar to those under packages alpha 2 but applied to the expenditure/VAT shares gap, would have produced a rather favourable outcome for the UK for 1982. For 1981, on the other hand, the outcome would have been substantially less favourable.

17. In practice, other member states would doubtless react to the favourable result for 1982 by seeking to make the modulated VAT formula less favourable to the UK. Package beta 2 illustrates accordingly a formula with a higher budget percentage threshold which would have produced the same outcome for the UK for 1982 as packages alpha 1 and alpha 2. With this formula the relatively bad result for 1981 would have been accentuated.

Package beta 3 (very generous limits on expenditure/VAT gap alone)

18. Another less satisfactory package would be one which gave us a more favourable limits formula, applied to the expenditure/VAT gap, without any relief for levies and duties. This, too, could in principle provide an outcome in the short term similar to that from the alpha-class packages, and the uncertainty over the amount of benefit we would receive from modulated VAT would be removed. However, in order to give us an outcome on our net contribution close to 0.1 per cent of our GDP, the limits formula would have to give us an extremely low limit of 100-150 mecu (£60-90 million).

'Unattractive' packages

19. The lower part of table 1 shows the effects of applying less generous safety-net limits, similar to those at alpha 1 and alpha 2 above, to measures of the budgetary burden which do not fully cover the net contribution.

20. Package gamma 1 is a less generous version of package beta 3, which would apply to the expenditure/VAT gap, without the Commission's modulated VAT. The excess of our levies and duties relative to our VAT share would not qualify for relief. Package gamma 2 would apply to the expenditure/GDP gap (the Danish measurement of burden). The excess of our levies and duties and VAT, compared with our GDP shares, would not qualify for relief.

21. The signs are that other member states will urge the UK to accept packages along these lines. As table 1 shows however, the outcome for the UK would be likely to be far above 0.1 per cent of our GDP and distinctly less favourable even than the 66 per cent of our uncorrected net contribution formula which underlay the 30 May 1980 arrangements.

ILLUSTRATIVE PACKAGES : NET CONTRIBUTIONS AFTER CORRECTION

| | | mecu | |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|-------------|
| <u>ALPHA PACKAGES</u> | | <u>1981</u> | <u>1982</u> |
| $\alpha 1$ | Safety-net limits on net contributions, with surcharge | | |
| | UK | - 185 | - 485 |
| | Germany | -1820 | -2157 |
| | France | 121 | - 537 |
| $\alpha 2$ | Safety-net limits on expenditure/VAT shares gap plus any positive own resources/VAT gap (where earlier gap is unfavourable) with surcharge | | |
| | UK | - 185 | - 485 |
| | Germany | -1962 | -2166 |
| | France | 226 | - 447 |
| <u>BETA PACKAGES</u> | | | |
| $\beta 1$ | Safety-net limits on expenditure/VAT shares gap, with surcharge, plus Commission's modulated VAT | | |
| | UK | - 294 | - 266 |
| | Germany | -1687 | -2058 |
| | France | 104 | - 421 |
| $\beta 2$ | Less generous version of $\beta 1$ | | |
| | UK | - 416 | - 485 |
| | Germany | -1711 | -2063 |
| | France | 194 | - 346 |
| $\beta 3$ | Very generous safety-net limits on VAT/expenditure gap alone, with surcharge | | |
| | UK | - 402 | - 477 |
| | Germany | -1803 | -2144 |
| | France | 320 | - 282 |
| <u>GAMMA PACKAGES</u> | | | |
| $\gamma 1$ | Less generous safety-net limits on expenditure/VAT shares gap alone, with surcharge | | |
| | UK | - 612 | - 803 |
| | Germany | -1967 | -2045 |
| | France | 329 | - 603 |
| $\gamma 2$ | Safety-net limits on expenditure/GDP shares gap alone, with surcharge | | |
| | UK | - 392 | -1171 |
| | Germany | -2003 | -1849 |
| | France | 242 | - 524 |
| $\gamma 3$ | Safety-net limits on expenditure/population shares gap alone | <u>Less favourable to UK, after enlargement, than $\gamma 2$ if our prosperity is above average</u> | |
| <u>MEMORANDUM ITEM</u> | | | |
| Original UK safety-net proposal | UK | -219 | -440 |
| | Germany | -1784 | -2095 |
| | France | +124 | -551 |

ILLUSTRATIVE PACKAGES : EFFECTS ON OTHER MEMBER STATES

(Corrected net contributions, mecu)

| | Uncorrected net contri- butions | α_1 (Headroom financing) | α_2 (Special key financing) | β_1 (Headroom financing) | β_3 (Headroom financing) | δ_1 (VAT financing) | δ_2 (VAT financing) |
|-------------|---------------------------------------|---------------------------------------|---------------------------------------------|--------------------------------------|--------------------------------------|----------------------------------|----------------------------------|
| <u>1981</u> | | | | | | | |
| Belgium | 276 | 163 | 156 | 181 | 134 | 236 | 221 |
| Denmark | 279 | 169 | 207 | 111 | 185 | 258 | 251 |
| France | 576 | 121 | 226 | 104 | 320 | 329 | 242 |
| Germany | -1684 | -1820 | -1962 | -1687 | -1803 | -1967 | -2003 |
| Greece | 173 | 148 | 148 | 175 | 153 | 156 | 151 |
| Ireland | 582 | 57- | 571 | 566 | 572 | 574 | 571 |
| Italy | 788 | 581 | 581 | 653 | 617 | 653 | 605 |
| Luxembourg | 239 | 181 | 209 | 223 | 194 | 237 | 237 |
| Netherlands | 190 | 72 | 49 | -81 | 30 | 136 | 117 |
| UK | -1419 | -185 | -185 | -294 | -402 | -612 | -392 |
| <u>1982</u> | | | | | | | |
| Belgium | 253 | 109 | 53 | 126 | -15 | 167 | 178 |
| Denmark | 295 | 118 | 160 | 36 | 98 | 244 | 251 |
| France | -19 | -537 | -447 | -421 | -282 | -603 | -524 |
| Germany | -2086 | -2157 | -2166 | -2058 | -2144 | -2045 | -1849 |
| Greece | 685 | 654 | 649 | 661 | 654 | 644 | 650 |
| Ireland | 732 | 712 | 708 | 706 | 712 | 707 | 710 |
| Italy | 1616 | 1345 | 1297 | 1104 | 1343 | 1266 | 1313 |
| Luxembourg | 256 | 161 | 197 | 225 | 158 | 251 | 252 |
| Netherlands | 304 | 81 | 34 | -113 | -47 | 172 | 190 |
| UK | -2036 | -485 | -485 | -266 | -477 | -803 | -1171 |

TABLE 3

CUSTOMS DUTIES AND AGRICULTURE LEVIESAmounts collected in UK

£ million

| | <u>Customs Duties</u> | | <u>Agriculture Levies</u> | | <u>Total</u> | |
|----------|-----------------------|----------------------------------------|---------------------------|----------------------------------------|--------------|----------------------------------------|
| | <u>Cash</u> | <u>Constant 1973-74 prices</u> | <u>Cash</u> | <u>Constant 1973-74 prices</u> | <u>Cash</u> | <u>Constant 1973-74 prices</u> |
| 1973-74* | 437 | 437 | 25 | 25 | 463 | 463 |
| 1974-75* | 501 | 466 | 25 | 24 | 526 | 490 |
| 1975-76* | 513 | 375 | 45 | 33 | 558 | 408 |
| 1976-77* | 676 | 436 | 53 | 34 | 729 | 470 |
| 1977-78 | 682 | 392 | 178 | 102 | 860 | 494 |
| 1978-79 | 736 | 381 | 230 | 119 | 966 | 500 |
| 1979-80 | 937 | 412 | 241 | 106 | 1178 | 518 |
| 1980-81 | 817 | 304 | 220 | 82 | 1037 | 386 |
| 1981-82 | 959 | 325 | 238 | 81 | 1197 | 406 |
| 1982-83 | 1028 | 325 | 200 | 63 | 1228 | 388 |

UK shares in EC totals

| | <u>Customs duties</u> | <u>Agriculture levies</u> | <u>% Total</u> |
|------|-----------------------|---------------------------|--------------------|
| 1978 | 24.3 | 18.1 | 22.4 |
| 1979 | 25.9 | 21.0 | 24.7 |
| 1980 | 24.4 | 26.1 | 24.7 |
| 1981 | 24.3 | 27.6 | 24.8 |
| 1982 | 26.2 | 31.3 | 27.1 |
| 1983 | 26.1 | 21.5 | 25.6 |

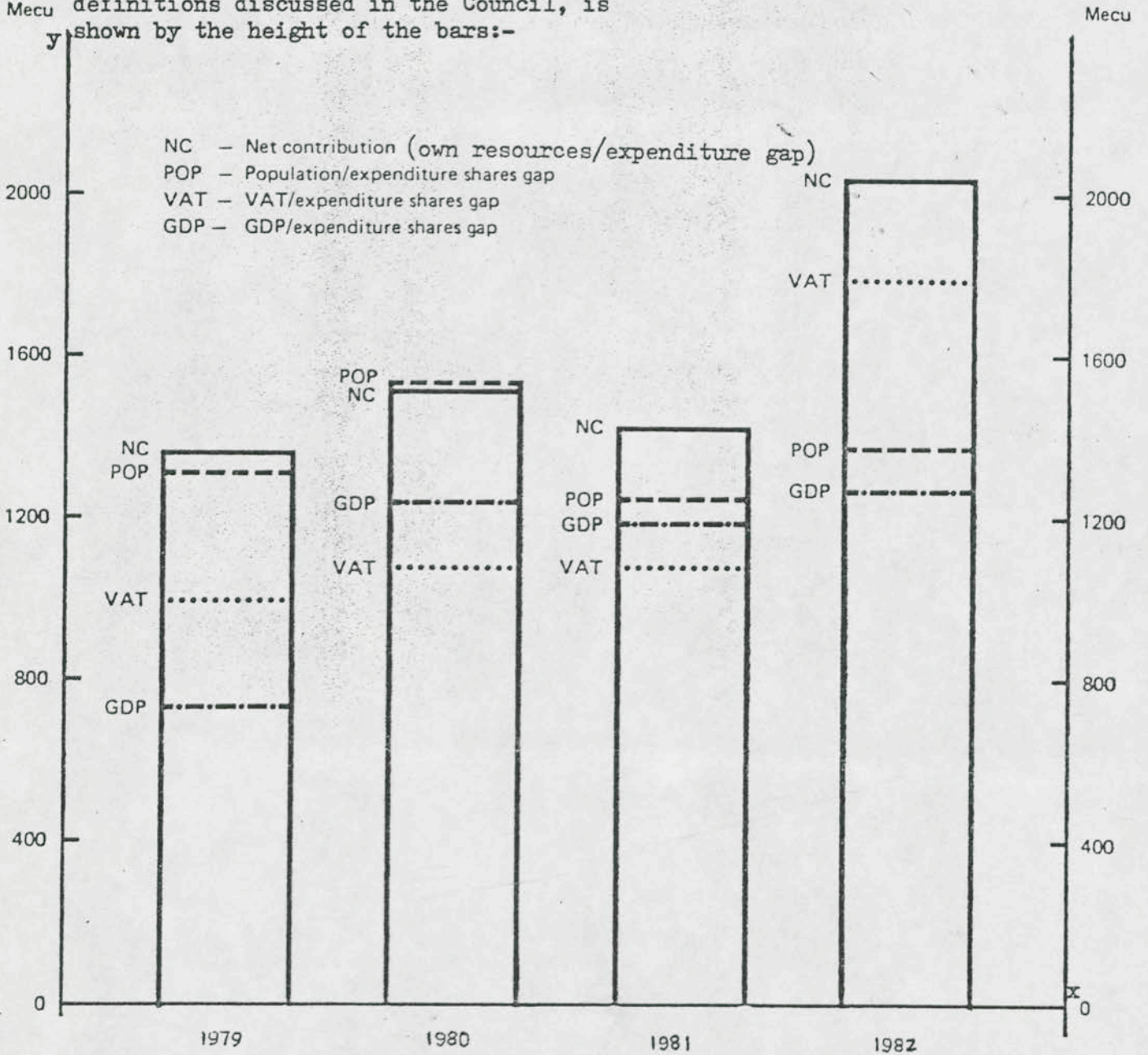
Source: Customs and Excise Annual Reports, Commission figures.

Constant price figures use GDP deflator

*For these years, less than 100 per cent of the duties and levies were paid over to the Community.

RIVAL MEASUREMENTS OF UK'S BUDGETARY BURDEN

The UK's budgetary burden, on the various definitions discussed in the Council, is shown by the height of the bars:-





The National Archives

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|
| LETTERCODE/SERIES <i>PREM 19</i> | Date and sign |
| PIECE/ITEM (one piece/item number) <i>1025</i> | |
| Extract/Item details: <i>European Community Budget Negotiations: Contingency Plans. Memorandum by the European Secretariat, Cabinet office 25 November 1983</i> | |
| CLOSED FOR <i>35</i> YEARS UNDER FOI EXEMPTION | <i>31/1/2013</i> <i>S. Gray</i> |
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| PIECE/ITEM <i>1025</i> (one piece/item number) | |
| Extract/Item details: <i>European Community: The Main Questions for the European Council.</i> <i>Memorandum by the European Secretariat, Lubinell office</i> <i>25 November 1983</i> | |
| CLOSED FOR <i>35</i> YEARS UNDER FOI EXEMPTION | <i>31/1/2013</i> <i>S. Gray</i> |
| RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958 | |
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/04605

HUGHES - Distribution

Miss Lambert
Mr Wall - ECD(1), FCO
Mr Heald - ECD(1), FCO
Mrs Badger

EUROPEAN COUNCIL BRIEFS

1. The next European Council is on 4 - 6 December. As usual, it falls to the Cabinet Office to circulate the briefs for non-FCO personnel. The full distribution list and a check-list of briefs is attached.

This time round, the briefs will come over in two batches as follows :

- the FCO will deliver a first set on Friday morning (25 November). The copies for No. 10 (including Mr Owen's) should go immediately by hand; the copies for other recipients can be circulated on the normal 1.00 or 5.00 pm distributions.
- The bulk of the briefs will be delivered in the course of Wednesday 30 November. The FCO will aim to get as many as possible here by 4.00 pm so they can go on the 5.00 pm circulation but some will not be ready until later in the evening. We spoke earlier today about arrangements for delivering these late briefs and you indicated that any received before 9.00 pm could be delivered by hand to No. 10 and those recipients marked * on the distribution list, copies for other recipients can await the normal 8.00 am circulation on the following day. Any briefs which miss that circulation should go 'immediate - by hand' to all recipients in the course of the morning.

The usual number of revised briefs will no doubt appear in the course of next week, particularly after the PM's briefing meeting on the afternoon of 1 December. Needless to say, any revises which do appear should be circulated as quickly as possible. This applies particularly to those received on 2 December when recipients marked * should again have priority.

Please let me know if you have any queries.


S D SPIVEY

23 November 1985

Cabinet Office Distribution

| Copy Nos | Recipient | Deliver to Distribution Section for dispatch to: |
|----------|-------------------------------------------------|-------------------------------------------------------|
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| 12 | Mr G Stapleton | Cabinet Office |
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| 17 | Mr J B Unwin | Treasury |
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| 33 | Sir Anthony Rawlinson | Department of Trade and Industry 1 Victoria Street |
| 34 | Mr R W Gray | Department of Trade and Industry 1 Victoria Street |
| 35 | Sir Brian Hayes | Department of Trade and Industry 1 Victoria Street |

Priority recipients for briefs delivered after 4.00 pm on 30 November

23/11

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EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER 1983

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 - * 8.5 CAP
 - * 8.6 Other Policies
 - * 6.7 Review of the Structural Funds/IMPs
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 - 10.11 Economic and Social Situation
 - 11.12 Political Co-operation

Contingency Briefs

- 12.13 International Trade Issues
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- 14.15 Institutional Implications of Enlargement
- * 15.16 Environment
- 16.17 Annual Report on European Union

Foreign and Commonwealth Office
23 November 1983

- * Briefs affected by FAC (inc. Special Council) & Environment Council
on 28/29 November (i.e. to be submitted on 30 November)



file 44

10 DOWNING STREET

From the Private Secretary

MISS WILKINSON
CABINET OFFICE

European Council: Prime Minister's
briefing

Thank you for your minute of today's date.

I am content that those whom you list should be invited to the meeting. Whether the meeting should take the form of a briefing or, as I had rather envisaged, a Ministerial discussion of, and decisions upon, our policy should perhaps be settled nearer the time. In our absence in India could I leave it to the Cabinet Office to decide, in consultation with the Departments principally concerned, what form the meeting should take and what papers, if any, should be prepared for it.

JC

17 November 1983

TWP



Ref. A083/3276

MR COLES

Ms. A02 12/11.

Prime Minister's Briefing for European Council in Athens:
5 and 6 December 1983

I should be grateful for your agreement to the following Ministers and officials being invited to attend the meeting of Ministers on Thursday 1 December at 5.00 pm to brief the Prime Minister for the European Council:

- Foreign and Commonwealth Secretary
- Chancellor of the Exchequer
- Minister of Agriculture, Fisheries and Food
- Sir Michael Butler UKREP
- Mr D H A Hannay FCO
- Mr J B Unwin Treasury
- Sir Michael Franklin MAFF
- Mr D F Williamson Cabinet Office

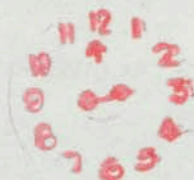
Lindsay Wilkinson

LINDSAY WILKINSON

17 November 1983



17 NOV 1983



SG SE PE MK NR ICF CT
~~NR~~

File

CONFIDENTIAL FILING

c. Mr. Owen

Mr. Owen in the Policy Unit would like to receive copies of all papers relating to the Athens negotiations. Could you please arrange for him to receive copies of the papers which will be prepared in due course for the Ministerial meeting on 1 December, together with such Ministerial correspondence on these matters as we receive between now and then.

A.S.C.

14 November 1983

Have told Lindsay
PE 15/11

EC Athens

CONFIDENTIAL

de JK



RAF

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

CONTACTS WITH FRANCE AND GERMANY ON EC ISSUES

Before I received your minute of 26 October, the Prime Minister had indicated to me that she wished to appoint Mr. Williamson as her representative to carry forward discussions with the French and the Germans prior to the European Council at Athens. I have ascertained that the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer are content with this.

It will be for consideration whether the Prime Minister should send a message to President Mitterrand and perhaps Chancellor Kohl about this matter - or whether we should adopt some alternative procedure. My own feeling, subject to any views which you or other recipients of this minute may have, is that the important thing now is to move quickly.

I am copying this minute to Mr. Fall (FCO) and to Mr. Kerr (HM Treasury).

Cabinet office
discussed
with ASK
- no message
to be sent
3/11/83

E. J. COLES

27 October 1983



520
Ref. A083/3042

MR COLES

I have been discussing with Mr Williamson how to handle our private contacts with the President's office in France and the Chancellor's office in Germany on the Community issues that will arise at the European Council at Athens in December.

2. I understand that you agreed with President Mitterand that there should be private contacts of this kind between his representative and your representative. I provisionally agreed with Monsieur Attali, when he was here last week, that, when he comes over for the meeting of Personal Representatives on 5 and 6 November, his colleague Monsieur Morel of the Elysee would come over at the same time for discussions with Mr Williamson. Monsieur Morel and Mr Williamson would then report the outcome of their discussions to Monsieur Attali and me before Monsieur Attali and Monsieur Morel returned to Paris on 6 November. This could set a line for future contacts with the French, if the Prime Minister is content.

3. I believe that it was also agreed between the President and the Prime Minister that there should be contacts of a similar nature with the Chancellor's representative in Germany. We do not at present have a ready made contact for this purpose. What I do propose to do, therefore, is to send a message to the State Secretary in the Federal Chancellery, Dr Waldemar Schreckenberger, with whom I discussed these matters during his visit to London earlier this month, proposing that there should be discreet contacts between the Prime Minister's representative and the Federal Chancellor's representative in the period leading up to the Athens Council, and inviting him to nominate somebody in the Federal Chancellor's office for this purpose. Mr Williamson would then make contact with the person so nominated.



4. I should be grateful to know if this way of proceeding is consistent with what the Prime Minister agreed with President Mitterand. If so, we will proceed accordingly.

A handwritten signature in black ink, appearing to read 'RA' with a stylized flourish.

ROBERT ARMSTRONG

26 October 1983

conqueror



10 DOWNING STREET

From the Private Secretary

MR. WILLIAMSON

CABINET OFFICE

THE ITALIAN VIEW OF THE GREEK PRESIDENCY

The Prime Minister has noted your minute of 6 October recording Mr. Craxi's remarks to Mr. Papandreou about the Greek handling of the EC Presidency.

A. J. GOLES

10 October 1983

24

...

ER

CONFIDENTIAL

Prime Minister

Qz.03344

MR COLES *ml 7/10*

cc: Mr Fall, FCO
Sir Robert Armstrong

THE ITALIAN VIEW ON THE GREEK PRESIDENCY

At a meeting yesterday Mr Badini, who is acting as Diplomatic Adviser to Mr Craxi, told me that Mr Craxi was taking the opportunity to say to Mr Papandreou that:

- it was important that the Greek Presidency should not once again fall into the error of representing Greek views but must respect its Community obligations;
- the Presidency must demonstrate more than ever its impartiality at the Athens European Summit and make a genuine effort to make some progress.

Mr Craxi understood that there was no way of reaching agreement by trying to push over the net contributors and that a genuine consensus was going to be necessary either at Athens or thereafter.

2. I had the impression that Mr Badini wanted this statement of Mr Craxi's position to be passed to the Prime Minister.

D F Williamson
D F WILLIAMSON

6 October 1983

CONFIDENTIAL

18 October 1982

GREEK PRESIDENCY: JULY-DECEMBER 1983

Thank you for your letter of 15 October.
The proposed dates of 5-6 December, 1983 for
the European Council in Athens are acceptable.

Miss Marsha Fenwick,
Foreign and Commonwealth Office.



10 DOWNING STREET

Caroline

Acceptable?

A. J. C. $\frac{15}{10}$

JC

Y or P.

C.S.

RESTRICTED

Ewo Pol



Foreign and Commonwealth Office
London SW1A 2AH

15 October 1982

Dear John,

Greek Presidency: July - December 1983: European Council Dates

The Greeks have proposed that the European Council during their Presidency should be held on 5 - 6 December 1983 in Athens.

Mr Pym is content with these dates. Could you please let me know if they are also acceptable to the Prime Minister?

Yours sincerely,

A handwritten signature in blue ink that reads "Marsha".

(Marsha Fenwick)
Assistant Private Secretary

A J Coles Esq
10 Downing Street

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