

Confidential Filing

European Council Meeting in  
Brussels. 21-22 March 1983 - Policy

EUROPEAN POLICY

Pt. 1.: Oct. 1979

Pt 15.: Feb. 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>10.2.83</del>							
<del>14.2.83</del>							
<del>11.3.83</del>							
<del>15.3.83</del>							
<del>21.3.83</del>							
<del>23.3.83</del>							
- At End -							
PREM 19/1027							

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808



File 82

Euro. Pol.

10 DOWNING STREET

*From the Private Secretary*

23 March, 1983

European Council

The Prime Minister has signed thank you letters to Chancellor Kohl and to the President of the European Commission. I enclose the signed versions and should be grateful if you would arrange for their immediate despatch.

I am copying this letter and its enclosures to John Kerr (Treasury) and Richard Hatfield (Cabinet Office).

A. J. COLES

R. B. Bone, Esq.,  
Foreign and Commonwealth Office

ce Mark  
019

FILE SW

SVR 1501

PRIME MINISTER



PERSONAL MESSAGE

cc: FCO

SERIAL No. T36/82 TO DOWNING STREET

THE PRIME MINISTER

23 March, 1983

Dear Herr Chancellor

I write to congratulate you on a successful European Council which made such good progress on the Budget problem, enlargement and the Middle East, as well as on other matters.

I am particularly grateful for your help in securing agreement on the procedure for reaching a conclusion on the UK's budget problem in the interim period leading up to a long-term solution.

I recognise that difficult negotiations lie ahead - but I feel that, under the German Presidency, we are now back on a constructive course.

Yours sincerely  
Margaret Thatcher

His Excellency Herr Dr. Helmut Kohl

SCD



FILE SW  
cc: FCO

10 DOWNING STREET

THE PRIME MINISTER

23 March, 1983

Dear Monsieur Thorn,

The European Council on 21/22 March has made useful progress towards a solution to the Budget problem and I am grateful for your own, and the Commission's, part in securing a satisfactory outcome. Of course, the real negotiations still lie ahead and the Commission will need all its skill to steer them to a successful conclusion. But I feel that we have now made a good start down the right road.

Yours sincerely

Raymond Thatcher

His Excellency Monsieur Gaston Thorn

SW.

Prime Minister

The Ethiopians have complained to us that we have been blocking EC assistance for their famine situation.

2. We shall make it clear that the opposite is the case. But it would be helpful if as a result of your initiative the Council's conclusions contained a sentence or two. The Presidency could be asked to draft.

A. S. C.  $\frac{22}{3}$

RESTRICTED

Qz.03056

*See my letter to F.I.C.O.*

MR COLES

*A.S.C. 23/73*

cc: Mr Bone, APS/Foreign and Commonwealth Secretary  
Sir Robert Armstrong

LETTERS TO KOHL AND THORN

As requested, I hereby submit:-

- (i) a draft letter to Chancellor Kohl; and
- (ii) a draft letter to Monsieur Thorn.

I have, as instructed, made the former warmer than the latter. I have also taken the opportunity to remind Monsieur Thorn that our expectations of the Commission are not yet fully discharged.

*D.H.*

D J S HANCOCK

22 March 1983

RESTRICTED

Draft letter to Chancellor Kohl

I write to congratulate you on a successful European Council which made such good progress on the Budget problem, enlargement and the Middle East, <sup>as well as on other matters.</sup> I am particularly ~~I~~ grateful for your help in securing agreement <sup>on the ~~final~~ procedure for reaching</sup> ~~to~~ a conclusion on the UK's Budget problem in the interim <sup>leading up to a long-term solution</sup> period. I recognise that difficult negotiations lie ahead - but, I feel that, <sup>under</sup> ~~we are,~~ <sup>in a degree</sup> ~~thanks to~~ the German Presidency, ~~we are~~ now back on a constructive course.

Draft letter to Monsieur Gaston Thorn

The European Council on 21/22 March has made useful progress towards a solution to the Budget problem and I am grateful for your own, and the Commission's, part in securing a satisfactory outcome. Of course, the real negotiations still lie ahead and the Commission will need all its skill to steer them to a successful conclusion. But I feel that we have <sup>now</sup> made a <sup>good</sup> start down the right road.



A.S.C.  $\frac{22}{3}$ 

Mr A J Coles

The Prime Minister asked to see figures on our trade in agriculture and food with the rest of the Community.

Total food and feed (excluding alcohol)

1982 Estimates

UK imports from EC	£3.2 billion cif	
UK exports to EC	£1.44 billion fob	
<hr/>		
UK imports from Netherlands	£850 million of which	
	oil seeds and oil cakes	£85
	bacon and ham	£75
	fresh and frozen veg.	£65
UK exports to Netherlands	£240 million	
<hr/>		
UK imports from Denmark	£680 million of which	
	bacon and ham	£250
	processed meats	£ 85
	butter	£ 85
UK exports to Denmark	£25 million	
<hr/>		
UK imports from Germany	£250 million	
UK exports to Germany	£210 million	
<hr/>		
UK imports from France	£364 million of which	
	maize	£ 65
	apples	£ 60
UK exports to France	£403 million	
<hr/>		
<u>If alcohol is included:-</u>		
UK imports from France	£564 million	
UK exports to France	£479 million	

D H Andrews

D H Andrews

22 March 1983

CENTROFORM LDNESTING TO ALL AGENCIESLINNM  
NR TEN LDN  
CENTROFORM LDN

FOLLOWING FOR URGENT ATTENTION OF IAN KYDD

(PLEASE NOTE - THIS IS FIRST PART OF PARKER BISHOP WHICH  
STILL COMING IN WILL LET YOU HAVE SECOND PART AND ANY  
SUBSEQUENT PARTS AS AND WHEN THEY APPEAR TKS )

PLEASE PASS FOR THE URGENT ATTENTION OF MIKE WELLS

FOR ON-PASS TO NO.10

MRS. MARGARET THATCHER: LADIES AND GENTLEMEN, MAY I PICK

OUT THREE SUBJECTS FROM THIS PARTICULAR SUMMIT BECAUSE  
AS WELL AS DISCUSSING THE BROAD GENERAL ECONOMIC BACKGROUND  
AND THE APPROACH TO WILLIAMSBURG SUMMIT AND PREPARING A NUMBER OF  
THINGS FOR THE NEXT CONFERENCE, WE DEALT IN PARTICULAR WITH THREE  
THINGS HERE: FIRST AND MOST IMPORTANT TO US, OUR OWN BUDGET  
PROBLEM. YOU WILL RECALL THAT WE HAVE BEEN PROMISED THAT WE SHOULD  
GET A FORMULA BY LAST NOVEMBER FOR THE REFUNDS THIS YEAR. THAT  
PROMISE IN FACT WAS NOT .... DID NOT COME TO FRUITION AND AFTER  
THE END OF THE LAST YEAR, WHEN THE PARLIAMENT INDICATED THAT IT  
DID NOT WANT ANY PARTICULAR ANNUAL SETTLEMENTS, IT WANTED A LONG-  
TERM BUDGETARY SETTLEMENT, THERE WAS A CONSIDERABLE AMOUNT OF  
DISARRAY BECAUSE MUCH AS WE WANT A LONG-TERM SETTLEMENT WE WERE ALL  
VERY MUCH AWARE THAT WE WERE NOT GOING TO GET IT IN TIME TO GET OUR  
BUDGETARY REFUNDS THIS YEAR. SO WE, THEREFORE, HAVE A FUNDAMENTALLY  
NEW SITUATION TO TACKLE, WE'VE BEEN DOING QUITE A LOT OF WORK ON IT,  
BUT WE DID GET A CONSIDERABLE AMOUNT OF SUCCESS, BOTH IN A  
TIMETABLE AND AN UNDERTAKING TO INCLUDE THE BUDGETARY REFUNDS  
IN THE 1984 BUDGET WHICH OF COURSE IS ALREADY BEING PREPAR

OR IF YOU HAVEN'T SEEN IT, IT'S DIVIDED INTO TWO PARTS -  
- THAT THE LONG-TERM SETTLEMENT SHOULD TAKE INTO ACCOUNT THE

DEVELOPMENT OF COMMUNITY'S POLICIES, THE PROBLEMS CONNECTED WITH  
ENLARGEMENT, BUDGETARY IMBALANCES AND THE NEED TO STRENGTHEN  
BUDGETARY DISCIPLINE AND PROPOSALS FOR THE LONG-TERM SETTLEMENTS  
WILL BE PREPARED IN THE FOREIGN AFFAIRS COUNCIL THROUGH THE  
COMMISSION AND THE FOREIGN AFFAIRS COUNCIL SHOULD REPORT ITS  
CONCLUSIONS TO THE JUNE EUROPEAN COUNCIL. IN ADDITION TO THAT

LONG-TERM, THAT SAME FOREIGN AFFAIRS COUNCIL SHOULD DEAL WITH  
THIS YEAR'S SITUATION, THE BUDGETARY REFUNDS THIS YEAR, IN FACT  
SHOULD MAKE .... ACCEPTABLE DECISIONS ON THE MATTER, REPORT THEM  
TO THE NEXT EUROPEAN COUNCIL AND THEN THE CONSEQUENTIAL FIGURES  
FOR THIS YEAR WILL BE INCORPORATED IN THE DRAFT EEE DRAFT  
COMMUNITY BUDGET FOR 1984. IT'S BEEN A BIT OF A BATTLE, RATHER  
UPHILL WORK, WE HAD GREAT SUPPORT FROM THE PRESIDENCY, FROM  
CHANCELLOR KOHL, THE DANISH AND THE GREEKS AND THE IRISH PUT  
IN RESERVATIONS ON THE PHRASE 'BUDGETARY IMBALANCES'. I SAID, WELL,  
IF NO-ONE LIKES THAT WE COULD REPLACE IT WITH 'UNACCEPTABLE

915444 COILDN G

PARKER BISHOP - WE WERE CUT OFF, R U RECEIVING ME OK PSE?

RESTRICTED

Qz.03057

MR COLINS

*WJ* 24.  
3

cc: Mr Bone, APS/Foreign and Commonwealth Secretary  
Sir Robert Armstrong

DRAFT STATEMENT ON EUROPEAN COUNCIL

I attach a draft statement which has been agreed by  
officials of the Departments concerned.

*D.H.*

D J S HANCOCK

22 March 1983

RESTRICTED

EUROPEAN COUNCIL, BRUSSELS, 21/22 MARCH

Draft statement to the House

With permission, Mr Speaker, I will make a statement on the European Council in Brussels on 21st and 22nd March which I attended with my rt hon Friend the Foreign and Commonwealth Secretary. Copies of the conclusions have been placed in the library.

The most important developments at this Council concerned the Budget, enlargement and the Middle East.

On the Budget, it was agreed that the Commission would now make specific proposals about the long-term future financing of the Community to include a lasting solution to the British budget problem. The Foreign Affairs Council will examine these proposals and report its conclusions to the next meeting of the European Council in Stuttgart in June.

Meanwhile, the Foreign Ministers will take decisions on the interim period until the lasting solution can be implemented. This will also be done by June. Provision for the refunds in respect of the Budget year 1983 will be incorporated in the draft Community Budget for 1984.

/Progress

Progress was also made on unblocking the obstacles that stand in the way of the accession of Spain and Portugal. The Council considered that the arrangements for olive oil should include a long transitional period and that the measures affecting fruit and vegetables should pay proper regard to the trading interests of countries outside the Community, while ensuring that free trade within the Community was safeguarded. The Agriculture Ministers have been asked to take early decisions on these matters.

On the Middle East, the European Council agreed that all parties must seize the present opportunity to achieve the two most urgent objectives: the withdrawal of all foreign forces from the Lebanon and a resumption of negotiations aimed at a comprehensive peace settlement. A declaration by the Palestinian people and the PLO that they were in favour of such negotiations would be a major step forward. The Arab states, the United States and, above all, Israel also have their parts to play. The ten member countries will continue to use their influence in this direction.

The Council discussed the Economic Summit in Williamsburg in May which some of us will be attending. The Community is anxious to ensure an expansion of world trade without renewed inflation. So far as the recent difficulties over trade in agricultural products are concerned, the Community looks for a

/genuine

genuine dialogue with the United States based on mutual respect for the relevant international agreements.

The European Council stressed the need for decisions before June on the Community's internal market and noted with satisfaction that the Council of Ministers also intends to deal with insurance and other services.

In all, this was a useful Council which took place just after the European Monetary System realignment conference at which my rt hon Friend the Chancellor of the Exchequer played a distinctive part. The Council made satisfactory progress on a number of issues including the Budget problem. It was uphill work, and the really tough negotiations on the Budget still lie ahead. But we have made a start and we are determined to succeed.

DRAFT

The Council will also comment with the same priority

THE PRESIDENCY'S CONCLUSIONS ON THE PROCEEDINGS OF THE EUROPEAN COUNCIL BRUSSELS, 21/22 MARCH 1983

Commission's proposals relating to new joint commitments of common trade policy

THE ECONOMIC AND SOCIAL SITUATION

The European Council discussed the continued implementation of the Community's comprehensive strategy for achieving a marked improvement in the employment situation through the creation of durable jobs.

In particular it agrees that all Member States and the Community must now continue to take effective action to improve the employment situation of young people. It notes the intention of the Commission to submit concrete proposals and invites the Council to submit a report to the European Council in June on progress made both nationally and at Community level.

The European Council welcomes the report from the General Affairs Council on the implementation of the priority goals laid down by it at its meeting in December 1982 in Copenhagen.

Concerning the internal market the European Council notes the progress made. It stresses the need for decisions before June in all the priority areas as defined in Copenhagen. The European Council notes with satisfaction that the Council's work programme includes also the areas of insurance and other services.

The European Council notes that further progress must also be achieved between now and the European Council meeting in June on energy policy, research and development policy.

It considers that development of the productive capacity of European industry in conditions of international competitiveness is a major priority of the Community.

Calls on Council to pursue its work on development of investment.

reducing re-employment of young hands

Can we find...

A

1

Protection

The European Council discussed a number of specific areas where more effective Community action is urgently needed:

- It agrees that mutual recognition of diplomas is an important step in creating satisfactory conditions for the exercise of a number of professions.

The European Council invites the Ministers of Education to speed up their work in order to create the necessary conditions for tangible results in this field.

- The European Council further invites the Council to speed up the examination of a number of proposals for directives concerning the right of establishment and freedom to provide services in order to bring this work to a successful conclusion as soon as possible.

- The European Council agrees that the damage done to the forest environment by acid rain makes effective ~~trans-~~ <sup>joint</sup> ~~national~~ action urgently necessary. It therefore invites the Council to give rapid and positive attention to proposals <sup>to be</sup> announced by the Commission both for action in the Community and in the framework of the ECE. It requests the Council to make an interim report on the situation concerning this problem for its meeting in June.

In addition to these specific questions, the European Council notes the views expressed in the discussion that work in certain other fields, such as that of transport policy, should be accelerated.

The European Council stresses the importance of decisive progress towards the successful implementation of its employment strategy ~~(also in view of the election of the European Parliament next year)~~. The Council should contribute to a constructive dialogue on this subject between it and the European Parliament.

- the European Council calls for the Council to expedite the <sup>joint</sup> ~~provision~~ of a common transport policy - will further ~~provision~~.



on condition that the text  
is to remain 3

THE ECONOMIC SUMMIT IN WILLIAMSBURG IN MAY 1983

The European Council asks the Council to prepare Community positions for the Williamsburg Economic Summit which will permit the Community to make a substantial contribution to efforts to ensure that the recovery of the international economy, which is now appearing, will be supported through the concerted policies of the Summit participants.

Accepted

reduction in primary products  
the moderate

which

The European Council considers that the falling oil prices constitute a positive contribution to world economic recovery, provided that this development does not get out of control. It is also important that steps are taken to ensure that this development does not jeopardize the successful continuation of efforts to ensure rational use of energy resources.

Further

And here the EC attaches great  
importance to the maintenance of  
a world wide less integrated policy  
of high standards for the  
renewed of which. - Accepted -

~~Special attention to competition~~

Agricultural Trade - Fourth Pt



*11/2/85*

In the olive oil sector, as with other agricultural sectors, the Community must assure the maintenance of producers' incomes whilst assuring at the same time, a proper financial control of expenditure.

This objective should be obtained, in the first place by increased efficiency of present market mechanisms and, in the context of Community enlargement, by the choice of an appropriate transitional period for the application by the new Member States of the Community régime for vegetable oils other than olive oil.

In addition, the Community will review closely the possibilities of a reform of internal and external aspects of the market organisation whilst taking account of the principles set out above and of the Community's international obligations. The European Council asks the Commission to submit a report on this review, together with any necessary proposals, as soon as possible. It agrees that decisions must be taken before April, 1985.

In the fruits and vegetables sector, the European Council agrees in principle with the approach of the Commission which is to adapt the present regulations in order to ensure a greater efficiency of the market organisation. The European Council is of the opinion that the adaptations made to the present régime should be implemented in such way that the free circulation of goods is safeguarded. T(\*)

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(\*) Text proposed by the Commission.

THE COMMUNITY'S FINANCIAL RESOURCES AND RELATED PROBLEMS

The European Council notes the report on work done on the Commission's Communication on the future financing of the Community. The European Council further notes the Commission's intention to submit specific proposals as soon as possible. It expects these proposals "to take account of" the development of the Community's policies, the problems connected with enlargement, budgetary imbalances and the need to strengthen budgetary discipline. It invites the Council (General Affairs) to discuss those proposals and to report its conclusions to the June European Council.

*Monna*

The European Council agrees that this report will contain conclusions also concerning the ~~so-called~~ "subsequent solution" in accordance with the undertaking made by the Foreign Affairs Ministers on 26 October 1982 <sup>21-22 May</sup> regarding compensation to the United Kingdom. Consequential figures for 1983 will be incorporated in the draft Community Budget for 1984.

*Frank  
Green  
Mish.*

*Members or imbalances*

*Below 12 VAT income*

*Receipts / expenditure  
expenditure / budget's structure*

*Bj. budget  
LOS expenditure  
C.A.P.*

*Long term trend revised,  
France & Portugal  
From Committee within the Community*

European Commission at 12:15  
is inceptible or speaking slowly

He goes through his notes  
as though burning his boats

And sinks back in his chair all holy.

20 minutes (I have no idea what he said.)

Letters I do along with Arditi.

As to priorities, EC in Williamsburg (W) should  
stress the importance of trade. Anti protectionists  
EC has a major role at Summit.

Trade with Third World v. important.

Can we increase trade with NICs? Good  
if we can, 87 countries to benefit.

Maintain control over market.

EC policy based on growth

Economics stimulated by reduced oil prices.

E should maintain its energy self-sufficiency  
(? pipeline).

Minimum price for energy.

Schluter

oil price drop a major advantage to EC.

Increase demand. Reduce inflation.

Important for us - for the price drop to have an effect throughout EC -

EMS decision this am. brings calm & stability - helpful to confidence.

Close cooperation with us  
Those present should convey EC views.

PM, People strain after interest. fin. stability  
- even today one EMS has to redisk.  
Differences between economies, even with E  
only set stability if all economies run properly.

There must be illusion that what can be achieved at w.

Interest rates - difficulties partly due to people's fears about future.

Increase in domestic demand does not necessarily lead to increased output - inputs absorbed.

So different attitude - do not look at econ. indicators only. Have you got the enterprise? the innovation? the efficiency?

Countries in difficulty - bailed out by IMF & commercial banks.

You have to do a certain amount or bail out, but must not make it too easy.

NOT fair to increase IMF facilities just for these countries.

Must not encourage private banks to lend outside limits of prudence.

oil prices - welcome so far.

Difficult if they start to tumble again - could be deflationary.

Export market is not E look.

Doubt you can fix world oil prices.

Project for oil to prevent price falling too far.

Versailles for it right.

pre-emptive to innovation - we've lost edge of it.

EMS redipment - take same line in public tariff

1505 local time, 21/3.

Apéritif

Cherisa

Thank you very much for your interview with  
Le Monde

P.P.

Was it all right?

Cherisa

That is not for me tonight!

Sorry you have had no reply yet about  
your official visit yet.

Our political critics are in 2/3 days

with I am still in my job!

Will contact you immediately.

Preamble

Foreign Secretaries should be cast in the role  
of Temporary Secretaries as yet to be given

Some instructions in the act or the

Technique - about which this are

know nothing.

Look at this space!



1515.

Kohl

Conclude a E.C. & Soc. matters this form.

Revert FRG elections:

the people voted a national issues.

They voted also for Europe  
& solidarity

Today's decision may not be understood by the people  
of FRG.

Lay aside - rambling description.

European elections next year - take seriously.

EC needs new powerful political thrust.

FRG wants strong Community - of this

Can we remain strong in world, guarantee  
peace & freedom, maintain relations

with other regions & with USA.

EC can not have weight if contradicted  
internally.

FRG stand up for our national interests

- but can all be defused together.

not a cleaning house for national interests.

Issue message of international partnership.  
Cannot exist if compartmentalised ourselves from rest of world.

Transatlantic relationship of fundamental importance.

First steps today of economic recovery.

we should show signs of confidence

to tackle job unemployment.

Should move together in same direction.

Recept. my wife: job unemp. Research Technology

Environment

Outlook

v. difficult to do Community Budget -

Recognize all European interests.

Establish cohesion of Community.

Introduce various practical new policies.

Gre

Capital.

What role subjects require?

Kohl

Intro. to Rom.

Eca & Soc.

Re latest discussion on job unemployment environment budget etc.

Phon.

importance of next to take decision - Time.

Kohl

Can we have 2 full working days at Stuttgart?

Please decide between now + tomorrow.

Phon.

We have 10/12 items - all important & inter-related.

Internal market first  
- Enlargement, with all implications  
incl. Acquis Communautaire

Environment

Budget - revenue expenditure (hardly)  
resources.

Short/medium problem of FR position on budget

Summary:

- 3 items:
- Internal market
- Strengthening Community
- Budget

Also Williamsburg  
CAP & Ag. expenditure.

Discussions with U.S.

Comment - a 'waffly' start, the opposite of decisive.

~~7/11/92~~  
~~1/1/93~~

10/10

(5)

Kohl decides a complete internal market by June.

My - MI consider external matters too.

Leibers . Agree.  
Also insurance.

Martens our bigger complaint is cross-frontier procedures.

Agreed

Kohl so we can now begin with enlargement

(Comment: This has not been taken in account)  
with the discussion so far.

1505 local time, 21/3.

Appetit

Chessa

Thank you very much for your interview with  
Le Monde

F.P.

Was it all right?

Chessa

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your official visit yet.

Our political critics are in 2/3 days,  
with I am still in my job!  
Will contact you immediately.

Preamble

Foreign Secretaries should be cast in the role  
of Temporary Undersecretary as per  
some instructions in the act or the  
Technique - about which this are  
known nothing.

Let check this space!

1515.

Koh

Caught a E.C. & Soc. matters this pm.

Rebut FRG elections:

the people voted a national issue.

They voted also for Europe  
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Today's decision may not be understood by the people  
or FRG.

Lay aside - rambling description.

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Outlook

v. difficult to see Communist Budget -

Recognise all European interests.

Could date cohesion of Community.

Introduce various practical new policies.

Gre Contract.  
What role of subjects require?

Kohl Intro. to Atom.

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importance of next to take decisions - June.

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- Enlargement, with all implications  
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Environment  
Budget - revenue & expenditure (hardly)  
resources.

Short/medium problem of FR power as before

Summary: 3 items:  
Internal market  
Strengthening Community  
Budget

Also Williamsburg  
CAP & Ag. expenditure.

Discussions with U.S.

Comment - a 'waffly' start, the opposite of discipline.



~~7/1/76~~  
~~1/1/76~~ ~~1/1/76~~

(5)

Kohl decides a complete internal market 9 June.

My - MI consider external matters too.

Libbers . Agree.  
Also insurance.

Martens our bigger complaint is cross-frontier procedures.

Agree

Kohl so we can now begin with enlargement

(Comment: This has not been taken in account)  
with the discussion so far.

re-employment - Geyse.

New members given - Geyse, at present modest

As the biggest problem

except if Co. of some phallos approved Spain Portugal.

Then interpretation to begin early & possible - be before accession.

As Co. has not been able to find solutions despite lengthy talks.

Do all we can to buy what a promise.

A good thing if Commission can file a compromise proposal.

on Nothing to add.

Critical moment = June Summit, when we must assess progress and decide to give the green light.

Final decision in the following month.

∴ v. urgent to start at once:

Commission given ~~the~~ mandate: Geyse - to be done or keep to it.

- description of outstanding problems of acquis numbers & complicated - est.

Member countries want assurance they will not be left behind as a result of enlargement.

limited capital -  
to extend product regime and sp... L... cost  
£ 500 m euros + £ 700 m euros = £ 1 1/2 bn euros

we support  
the... products competitive + sp...  
their accession because ① the wish of the people  
involved, wh. shd be respected, and ② the  
applicant co. have a political reason. New democracy  
are young & need support.  
A large pre-accession transitional period desirable  
further on (out).

in favour, for political & practical reasons.  
we want largest possible internal market.  
EAC failed to solve crisis.  
For other... substantial transit. period - 10 years  
at least.  
enormous problem - scope rise  
& cautious approval necessary  
SDA not reject sp... just because the side  
funds required.  
Caution on pre-accession arrangements - of five to

India.

oil - the problem is not so much the volume, but the fact that there are so many substitutes readily available.

PM

A Commission to draw attention to the fact that conditions can be interpreted to the prejudice of the Corporation.

How solve this here - or pre-detailed guidelines. or instructing him or try to solve by June. technical instruction today, the Commission to help.

we must not cause split in the peninsula. how practical - we at least 7/8 years before recession possible.

transitional period of half - decade under important points here.

oil v. expensive to produce - in competition with other oils

Can it not be used for certain industrial purposes? Can we still do something to this? not at all.

Chegssa (Pros in class).

we want accession - rapidly. In political terms the  
situation is deteriorating in Spain.

Problems to be dealt with before accession -

Inst. political

Relations + 3rd countries

Budget + financial implications.

Policy -

Cannot solve problem by trying to alter the  
oil price - & alter habits of consumer.

Forget it!

Markers

1) Advocate - of accession, but I feel powerless dealing  
with this issue.

Agree Lubbers - oil price issue, & to rest technology

2) Ask Hq. think again to find solutions.

We cannot solve here.

Strictly permit to Hq. think

Plan

We are examining French home. hope to report by  
end of April. Clear by time of the meeting.

● Lubber's reservation & why: - ~~submit to~~ ~~by~~ ~~this~~ not successful because of the nature of the difficulties. Can this G. give some directions? + 10 minutes more.

Kohl An ~~have~~ ~~street~~ political crisis. Give instruction to ~~by~~ ~~this~~ & Foreign Affairs. Submit to ~~part~~. Another of the crisis or ~~indicated~~ ful - so Support our ~~by~~ ~~this~~.

Lubbers Don't object to ~~summing~~ up. Uneasy feeling our ~~by~~ ~~this~~ crisis with ~~felt~~ mind further.

Thom Prepared draft conclusion. We should give instructions to ~~by~~ ~~this~~.

PM We are not able to give instructions. No paper before. If blocked by next meeting, should have a paper dealing with ~~both~~ internal & external problems.

Kohl That is why I summed up to 184.

Libbers Apr T night.

I understand show favour instructions to try this  
to come up with EC solutions (i.e. limit change  
to minimum). But look at long term proposal  
for olive oil.

Phon - Circulate ideas first to Jenke.

Kuhl - Agree text sent around.

Decide tomorrow morning if acceptable  
or not.

Kuhl

Joint unemployment -

Propose <sup>text</sup> that Lab. this have begun shd be expedited

Report at Stuttgart.

Phy This is the third time we have come back to  
this.

Putting too much a Stuttgart.

Discuss today.

Essence = new technologies

→ training

Can we get better communication this time

Kuhl Doubtful

Phon in discuss before next meeting = specialised Com.

Mentel concl.

PM there are no new solutions.

- Danger of job loss & pressure.
- Learn from each other's policies & programmes.

Mon. Soc. Co. to consider 23 June, just before the next E. Co.

to set papers out before Williamsburg.

Prepared force experiments with studies for jobs from to jobs.

Kohl as he proposed.

Kohl Ecological movement. Forest is central E of almost mythical importance.

should tackle at European level.

Mon. More important than baby seats. International problem - pollution spreads very widely.

Scientists being brought together - ~~Sept~~ <sup>Seminar</sup> Sept.

Committee to make proposals.

Fanfani What is the scope? - refference to pollution.

PM Cause - pollution from power stations. From coal & oil - fired - not nuclear.



Kohl

1 article open.

Also exhaust funds

Who is prepared to pay? All in favour of clean air  
we can see it in Black Forest in Stuttgart.

Issue in Bechtelbucher & PDR

Report a this in advance seminar at Stuttgart

Mutual recognition of Diplomas —

Encourage educa minist.

Budget -

Phon. Delicate. Important.

Intro. as clearly recommended & 1 ca.

Training element too.

Committee propose paper in May, after final discussions

& make choice out of free paper & discussions there

Hope FAC will indicate preferences, esp. a resource.

There is a lengthy Parl. procedure.

know recourse to shut the pellichino - 1983 &

prohibit its before lay ten schotic in place.

E. Parl. reaction know. ~~is~~ NOT wide to force E. Parl.

Start with a layman - The easier to convince are short term. (14)

● I visited capitals, & heard concerns.

Mr T wants progress a short term - but a need to respect E-Parl's position too.  
Must take broad view & fix dead line.

Jeuster • Impressive intro. done Commission  
First discussion - 3 points:

1. Level VAT - some need to increase some not.  
c) save a ap. raise that money elsewhere

2. Learning 1% source. with & fixing other No direct sympathy.

3. shd new system correct the various imbalances between member states

UK - favour - & water agreement for 83 by June.

My - Stress importance for UK - Layman aspect - & the immediate. Trying for some time to deal with laymen - beginning at Lanc. Ho.  
↳ Laymen public not a reward

v. und wat to see by the side.

But also short the problem. First year we have had no proposal for agreement by the

Figures show my FRP & UK net contributions. This imbalance relieved in end of last 3 yrs.

Now - worst position since becoming PM. Permitted last yr. a solution by Nov. Cost for - did not happen.

I held back - other problems like CFP FRP election etc.

Now, gov. v. protect for UK. Com. to electi. what any relief is prospect

Propose proceed in parallel - by ten items

a long term - Com. to make proposals etc. p. after Easter for FAE to consider in April.

By next instruct Com. to make specific propo. (immediately) after Easter, & ask FAE to take decisions.

Meet decision & need it quickly.

Have by period wait for Communiqué tomorrow

- Peperdew Set away for 1%. Progressivity. (16)  
Can or fixed criteria to govern on policy.  
● Community move the Customs Union - which means  
common responsibility for non-convicted regions.  
Must bring in balance.

Luhter ~~is~~

We cannot approach EC in methodical way.  
These sums talked of every year - <sup>we</sup> like to  
avoid that.

Aj. budget plays important role here -  
keep farm prices to minimum this year.

Sympathy for MPT - but "the figures are  
unreasonable".

DK. Must recognize ~~that~~ need to expand EC's  
resources.

Not just a Q about sp. of.

We prepared a negotiating package.  
We attach importance to basic principle of  
an resource.

Not level solution = increase in VAT ceiling.  
guaranteed method - all countries  
can cope with it.

Sceptical of ideas of basing budget on  
of production in the Third sector.

On UK - here take note PM's clear view.

Aprax there was a meeting to OK and plan (1)

2 basic considerations

1. liberal ed the solution must be short term.
2. ERM payment to UK to be included in solution

## Colombo

Affects development of EC for years

Have not had the courage to look for a real solution.

Help Commission of making proposals close to FAC view.

Raise VAT the simplest way forward.

Savings - Budget necessary - but it would be

Lead asphyxiation of EC if we do not increase

Relevant to problems of credit policy.

So try to increase resources. ~~Don't increase it~~

Balance revenue + expenditure.

On UK problem - prepared to examine short

term delay before new resource available

but like short term aspect included in long term.

## Fitzgerald

Near limit on resources

Vote Commission produce precise proposals for future financing.

Our job substantially done then UK

Difficult to assess options - present paper,

Some look repressive.

In favour 1% VAT ceiling being raised.

PM

Stress urgency - & great political impact or what I am saying. As to reasonableness of an attitude in real world.

Leaves are a budget tax - & 75% or more for a CAP. More money will go there - & exacerbate UK's case.

I cannot agree to raise 1% ceiling. Agree Libbers - keep up prices as low as possible.

No problem with our resources. Cannot solve UK problem by increasing soc. & rep. fund. To do so would require increasing ) £50 bn eu. - twice total budget.

1980 agreement for 3 years carried out strictly in accordance with agreement - UK still "net putters-in" even tho' less well off than many.

But we be prepared to put [it] with if satisfactory settlement/solution forthcoming.

A?

Still too much at.

● Output.

Have to answer in Part I the shares.  
We have to see if colleagues accept our  
proposal for 'Columbus'.

Phon -

- Some initial reactions -
1. Enlargement with require additional resources
  2. Close to exhaustion of resources  
but we control our exp. expenditure  
& exp. price.

Write a early decision on Jan price

3. What EC drive want?  
How shall we spend our money?

4. Who is going to pay more?  
An internal solution, perhaps by tax, or by  
some kind energy measure perhaps. Don't  
propose a kind of price.

5. Procedure - E-Par power.

Get a price with tax - with proposal  
after Easter.

If you say short-term first, never get  
 a long term. E.P.A. will reject other  
 proposals for long term - & to start to  
 at same time.

Mitterand

Understand Br. A. D'Amico - we have our own  
 Br. problem to be dealt with as a whole.  
 Jan Co. shared idea of Community which  
 to help problem.

- is, avoid proposals or transitional nature.

But that is what we are being asked for.  
 Shouldn't hesitate to deal as a p. with Q & R  
 EC's own resources

Supper - v. small supplement + ceiling  
 new policies for resources - eg. a energy  
 (? - at the moment)  
 v. thick.

Will not succeed if clashed EC force.  
 With our scope - we've been doing it for  
 like 40 years' fetters.



Letters. Clearly consider Part, + look toward

(21)

to new structural proposals.

Good thing if Committee has done correct + Part.

Issue as follows

\* Reprisal: ~~the~~ colleagues ~~of~~ involved for  
still not by v. high that account  
harmonisation.  
Some sacrifice for weaker members  
So - weaker members still be v. caught  
a price for production - keep  
to the  
Spread the sacrifice.

My

Comment on Mikeland -  
Oscar Repperteur 10/3 = E Part "....."  
as he brief.

Reg recognised inter-solution inevitable -  
UK, even after reform, ~~is~~ <sup>is still</sup> making entrenchment  
shall be a difficulty in that it is not (well)  
So communication v. important.  
Do not want to have to say things v.  
to make things more difficult for  
us all.

Repeat request for proposals in which  
at the time.

Kohl

AK feel - protest difficult possible.  
FR & cut in budget. (meaning presumably domestic).

Build confidence + Patience.

Layton solution must be found quickly.

had not want to embark a E. Par  
election campaign without solution.

∴ open FAE exam before June summit

1983 - 1 day promise given in '82.  
Impression from cabinet, difficult for  
people in UK to understand why EC  
was helping more.

Find form or word for tomorrow.

Refered to promise again.

1624 Not a lengthy discussion tomorrow -  
come to conclusion quickly.

Williamson

Thom

Ortolini - was paper etc.

Private Secretary (2 copies)

EUROPEAN COUNCIL: POLITICAL COOPERATION SUBJECTS

1. The Middle East (including Lebanon) is the only subject on which there is so far a draft text agreed by Political Directors. This is being circulated separately. It is also being telegraphed to the FCO with a request for urgent comments.
2. The French produced (very late) a draft on the Iran/Iraq war. This needs some amendment to make it more neutral. No text is ready yet.
3. The Presidency Political Director is consulting Herr Genscher, who will in turn consult other Foreign Ministers, about whether drafts are required on any or all of the following subjects.

East/West Relations (general)  
Soviet Policy  
Poland, including Polish debt  
CSCE Conference in Madrid  
Non-Aligned Summit in New Delhi

You may think that it would be enough to agree that the Presidency should tell the press that these subjects were discussed (if they are discussed), with only a very brief indication of the conclusions reached in each case. This could be extemporised by the Presidency at the end of the meeting tomorrow.

4. I should be grateful for any guidance the Secretary of State wishes to give me, whether on the Middle East item or on any of the others.

*J Bullard*

(Julian Bullard)

21 March 1983  
cc: Mr Butler  
Mr Coles (2 copies)  
Mr Ingham  
Sir R Armstrong  
Sir M Butler  
Sir J Bullard  
Mr Evans  
Mr Hannay  
Mr Goulden  
Mr Shepherd  
Mr Smith  
Mr Brenton

Changes undertaken  
~~Conclusion~~

EUROPEAN COUNCIL STATEMENT ON MIDDLE EAST

Doc 87 - 1100 hrs 22 March

The European Council discussed the situation in the Middle East, including Lebanon and the war between Iran and Iraq.

\*\*\*

The Ten are deeply disturbed by the continued lack of progress towards peace between Israel and her Arab neighbours. They are convinced that all parties must seize the present opportunity to achieve the two most urgent objectives: the withdrawal of all foreign forces from Lebanon and a resumption of negotiations aimed at a comprehensive peace settlement.

The Ten reaffirm their support for the sovereign and independent state of Lebanon and for its Government, which should urgently be enabled to <sup>re-</sup>establish without restrictions its authority over the whole of its territory. This requires the prompt withdrawal of Israeli, Syrian and PLO forces. The Ten support the efforts of the United States to achieve this objective. They call on all concerned to conclude negotiations without further delay. They continue to support the peacekeeping role of UN and Multinational Forces in Lebanon.

The principles which underlie the Ten's approach to wider peace negotiations, as set out in more than one previous statement, remain valid. A lasting peace can only be built on the right to a secure existence for all states in the region including Israel, and justice for all the peoples, including the right of the Palestinian people to self-determination with all that this implies. These rights must be mutually recognised by the parties themselves. Negotiations will have to embrace all the parties concerned including the Palestinian people; and the PLO will have to be associated with them. The threat or use of force must be renounced by all.

Additions  
prepared  
by H. H.  
Koull

President Reagan's initiative of 1 September 1982 indicated a way to peace, and the Arab Summit meeting at Fez demonstrated a readiness for it. The task now is to move beyond statements of principle and find a means to reconcile and implement the various peace proposals. The conclusions of the recent meeting of the Palestine National Council can and should contribute to the peace process. The Ten therefore welcome the discussions between Jordan and the PLO. The Palestinian people and the PLO should seize the present opportunity by declaring themselves in favour of peace negotiations. This would be a major step forward, to which the Ten would expect all concerned to respond constructively.

The Ten look to the Arab states to play their part by supporting those who seek a solution to the demands of the Palestinian people by political means.

The efforts of the US will continue to be indispensable to create the conditions in which negotiations can begin.

Above all the time has come for Israel to show that it stands ready for genuine negotiations on the basis of Security Council Resolutions 242 and 338, in the first place by refraining from enlarging existing settlements or creating new ones. ~~They reaffirm~~ that the settlements are contrary to international law and a major and growing obstacle to peace efforts.

The Middle East is a region with which the Ten have long been closely associated and in whose future they have a deep interest. They intend to maintain their contacts with all the parties and to use their influence to encourage movement towards compromise and negotiated solutions. They believe that this is in the best interest of the countries and the peoples of the region, of the Ten themselves and of their mutual relations.

\*\*\*  
The Ten expressed once again their growing concern at the continued conflict between Iraq and Iran, which constitutes an ever more serious threat to the security and stability of the entire region.

The Ten deeply regret that none of the peace initiatives organized hitherto has succeeded in bringing the fighting to an end. They call for a cease-fire, the cessation of all military operations and the withdrawal of forces to internationally recognized frontiers; and for a just and honourable settlement negotiated in accordance with the resolutions of the UN Security Council and acceptable to both parties.

ELARGISSEMENT

A  
B  
C

Le Conseil européen a pris acte des débats qui ont eu lieu sur l'aménagement du régime applicable à certains produits agricoles méditerranéens.

Après avoir réexaminé le dossier, il réaffirme que des décisions appropriées devraient être prises afin de permettre à la Communauté de faire de nouveaux progrès dans les négociations en vue de l'adhésion de l'Espagne et du Portugal.

C'est pourquoi le Conseil européen demande au Conseil des Ministres de l'Agriculture d'arrêter les décisions nécessaires d'ici la fin de mars, en tenant compte des éléments suivants.

*at least in principle*

Dans le secteur de l'huile d'olive, une longue période de transition doit être prévue. La Commission est invitée à soumettre ultérieurement des propositions visant à une réforme de l'organisation du marché à la lumière de l'expérience de son fonctionnement.

Dans le secteur des fruits et légumes, des compromis devraient être recherchés sur la base des propositions de la Commission, complétées par des dispositions assurant le maintien des courants d'échanges traditionnels avec les pays tiers et garantissant le respect de la libre circulation des marchandises.

Le Conseil européen exprime sa conviction que chaque Gouvernement doit être prêt à faire un pas dans la direction des autres pour dégager la voie à un compromis d'ensemble.

23 mars 1983

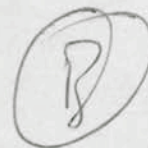
|| A l'ann. l'écrit. de Communauté  
produits à l'égard des pays tiers  
produits sont un

u

" Le Conseil Européen a pris acte des décisions prises le 21 mars par le Conseil des Ministres de l'Economie et des Finances afin que les MCM créés à l'occasion de ce réajustement monétaire ne mettent pas en danger l'unicité du marché commun agricole. Il invite le Conseil des Ministres de l'Agriculture à adopter à l'occasion de la fixation des prix pour la prochaine campagne des dispositions allant dans le sens de l'élimination, lors de la prochaine campagne et la suivante, des MCM existants ainsi que des MCM nouvellement créés".

not included - (France)



EEC-USA RELATIONS

Page 3 of the conclusions

- new paragraph to be inserted between the 1st and the 2nd

"The European Council requests the Council of Ministers to keep a particularly close eye on the problems of competition with the other countries attending the Summit on external markets, in both the agricultural and the industrial spheres. It considers in particular that a genuine dialogue between Europe and the United States on trade in agricultural products can be maintained only on the basis of mutual respect in accordance with the agreements concluded following the Tokyo Round."

(A) (Williamson).

in the context

~~the~~ the E.C. attacks (not) force

to the maintenance of the strength of the world trade - includes trade with the Third world -  
is an integral part of a policy ~~interest to~~

highly about a few. diverse to side

possibilities without renewed reflection.

(B)

France - (no cop).

E.C. - US relation.

Brussels, 21 March 1983

COMMUNIQUE

On 21 March 1983, the Ministers and Central Bank Governors of EEC Member countries have by mutual agreement, in a common procedure involving the Commission and after consultation of the Monetary Committee, decided on an adjustment of central rates within the European Monetary System.

Changes in central rates are the following :

- German mark : + 5.5 %
- Dutch guilder : + 3.5 %
- Danish krone : + 2.5 %
- Belgian franc : + 1.5 %
- Luxembourg franc : + 1.5 %
- French franc : - 2.5 %
- Italian lira : - 2.5 %
- Irish pound : - 3.5 %

The Ministers have requested that the agro-monetary consequences of this adjustment be examined immediately by the appropriate bodies.

Notwithstanding other provisions, Member States participating in the exchange rate mechanism of the EMS for whom Monetary Compensatory Amounts are created or modified by these central rate adjustments will not request changes in the Compensatory Amounts now introduced before the end of the current agricultural price fixing round, and the Commission will not make any proposal to that effect.

In view of the particular situation within the European steel industry the member States affected are recommended to act in such a way as to ensure that suppliers of steel in their countries will immediately bring steel prices into line with the orientation price level.

DRAFT SPEAKING NOTE FOR USE IF NO SATISFACTORY AGREEMENT IS REACHED  
ON THE COUNCIL CONCLUSIONS

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On 30 May 1980 the Member States pledged themselves to solve the Budget's problem by structural changes in time for the 1982 Budget year. This pledge was not honoured and the 30 May agreement had to be extended to its third year at a meeting in May 1982.

At that meeting the Foreign Ministers undertook to take a decision before the end of November 1982 on the subsequent solution to the problem and the Commission accordingly made suggestions to this end on 17 November. The undertaking by the Member States to take a decision was, once again, not honoured.

The European Parliament has rightly stressed the need for a lasting solution and we agree with the Parliament. But there is no chance of getting one in place this year as both the Commission and the Parliament have acknowledged. 1983 and any subsequent years of the interim period before the lasting solution is in place must now be dealt with.

I have not raised this issue in the period leading up to the German Election. I now face an Election in which <sup>debate on the</sup> Community Membership <sup>offer</sup> ~~will be an issue.~~ <sup>will be an issue.</sup> I am accordingly now asking my colleagues what the Community intends to do about the Budget problem for 1983 and <sup>the later years with a lasting solution in place.</sup> ~~in subsequent years of the interim period.~~ What answer am I to report to the House of Commons on my return?

THE PRESIDENCY'S CONCLUSIONS  
ON THE PROCEEDINGS OF THE EUROPEAN COUNCIL  
BRUSSELS, 21/22 MARCH 1983

THE ECONOMIC AND SOCIAL SITUATION

The European Council discussed the continued implementation of the Community's comprehensive strategy for re-establishing economic stability, encouraging productive activity and contributing to a climate of expansion of markets without renewed inflation and thus to the creation of durable jobs and the possible examination of the question of working time.

In particular it agrees that all Member States and the Community must now take effective action to improve the employment situation of young people. It notes the intention of the Commission to submit concrete <sup>on youth employment</sup> proposals and invites the Council to submit a report to the European Council in June on progress made both nationally and at Community level.

The European Council welcomes the report from the General Affairs Council on the implementation of the priority goals laid down by it at its meeting in December 1982 in Copenhagen.

Concerning the internal market the European Council notes the progress made. It stresses the need for decisions before June in all the priority areas as defined in Copenhagen. The European Council notes with satisfaction that the Council's work programme includes also the areas of insurance and other services.

It asks the Council to take a position, with the same degree of priority, on the Commission proposals on the strengthening of the instruments of the common external trade policy.

The European Council notes that further concrete decisions must also be taken between now and the European Council meeting in June on energy policy, research and development policy.

It invites the Council (ECO/FIN) to pursue its work concerning the development of investments.

The Council considers that the development of the productive capacity of European industry in the conditions required by international competitiveness must constitute a major necessity for the Community.

It notes that the Commission will in the near future make proposals enabling better conditions to be brought about for the development of new information technologies, telecommunications and biotechnology.

The European Council discussed a number of specific areas where more effective common action is urgently needed :

- It agrees that mutual recognition of diplomas is an important step in creating satisfactory conditions for the exercise of a number of professions.

The European Council invites the Ministers of Education to speed up their work in order to create the necessary conditions for tangible results in this field.

- The European Council further invites the Council to speed up the examination of a number of proposals for directives concerning the right of establishment and freedom to provide services in order to bring this work to a successful conclusion as soon as possible.
- The European Council agrees that the damage done to the forest environment by acid rain makes effective joint action urgently necessary. It therefore invites the Council to give rapid and positive attention to proposals announced by the Commission both for action in the Community and in the framework of the ECE. It requests the Council to make an interim report on the situation concerning this problem for its meeting in June.

- *Embargoes* - olive oil *fruit & veg.* .../...

- The European Council requests the Council to expedite the development of a Community transport policy; special attention should be paid to the improvement of frontier formalities in the formulation of decisions on the internal market.

The European Council stresses the importance of decisive progress towards the successful implementation of its employment strategy. The Council should contribute to a constructive dialogue on this subject between it and the European Parliament.

THE ECONOMIC SUMMIT IN WILLIAMSBURG IN MAY 1983

The European Council asks the Council to prepare Community positions for the Williamsburg Economic Summit which will permit the Community to make a substantial contribution to efforts to ensure that the recovery of the international economy, which is now appearing and which is particularly important for developing countries, will be supported through the concerted policies of the Summit participants. In this context the European Council attaches great importance to the maintenance and further strengthening of world trade including trade with the third world as an integral part of a policy intended to bring about a favourable climate of sales possibilities without renewed inflation.

It considers in particular that a genuine dialogue between Europe and the United States on trade in agricultural products can be maintained only on the basis of mutual respect of the agreements concluded following the Tokyo Round.

The European Council considers that the falling oil prices constitute a positive contribution to world economic recovery, provided that this development and its consequences are kept under control. It is also important that steps are taken to ensure that this development does not jeopardize the successful continuation of efforts to ensure energy savings and development of energy sources.



ENLARGEMENT

The European Council noted the report from the Council (General Affairs) on progress of work on the inventory presented by the Commission, and in negotiations with Spain and Portugal. It requests the Council to continue its work so that balanced decisions can be made.

The European Council is determined that negotiations with Spain and Portugal should now make substantial progress, and asks the Council to make every effort to this end.

The European Council expects the Council (General Affairs) to be able to report before June substantial progress both on subjects dealt with in the inventory and in the negotiations with Spain and Portugal.

The European Council intends to take stock of the situation regarding the enlargement negotiations at its next meeting and to give political orientation for the completion of the negotiations.

The European Council took note of the discussions that have taken place on the adaptation of rules applicable to certain Mediterranean agricultural products.

After re-examining the dossier, it reaffirmed its view that appropriate decisions should be taken in order that the Community can make further progress in the negotiations for the accession of Spain and Portugal.

The European Council therefore asks the Council of Agriculture Ministers to adopt the necessary decisions as soon as possible, taking account of the following factors:

In the olive oil sector a long transitional period must be foreseen.

In the fruits and vegetables sector compromises should be sought on the basis of the Commission proposals completed by provisions ensuring that traditional trade flows with the third countries are maintained and guaranteeing that the free circulation of goods is respected.

The European Council expresses its conviction that each Government must be ready to make a step in the direction of the others in order to clear the way before an overall compromise.

THE COMMUNITY'S FINANCIAL RESOURCES AND RELATED PROBLEMS

The European Council notes the report on work done on the Commission's Communication on the future financing of the Community. The European Council further notes the Commission's intention to submit specific proposals as soon as possible. It expects these proposals to take account of the development of the Community's policies, the problems connected with enlargement, budgetary imbalances and the need to strengthen budgetary discipline. It invites the Council (General Affairs) to discuss those proposals and to report its conclusions to the June European Council.

The European Council agrees that this report will contain conclusions also concerning the so-called subsequent solution in accordance with the undertaking made by the Foreign Affairs Ministers on 25 May and 26 October 1982 regarding compensation to the United Kingdom. Consequential figures for 1983 will be incorporated in the draft Community Budget for 1984.

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DRAFT

THE PRESIDENCY'S CONCLUSIONS  
ON THE PROCEEDINGS OF THE EUROPEAN COUNCIL  
BRUSSELS, 21/22 MARCH 1983

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THE ECONOMIC AND SOCIAL SITUATION

The European Council discussed the continued implementation of the Community's comprehensive strategy for achieving a marked improvement in the employment situation through the creation of durable jobs.

In particular it agrees that all Member States and the Community must now take effective action to improve the employment situation of young people. It notes the intention of the Commission to submit concrete proposals and invites the Council to submit a report to the European Council in June on progress made both nationally and at Community level.

The European Council welcomes the report from the General Affairs Council on the implementation of the priority goals laid down by it at its meeting in December 1982 in Copenhagen.

Concerning the internal market the European Council notes the progress made. It stresses the need for decisions before June in all the priority areas as defined in Copenhagen. The European Council notes with satisfaction that the Council's work programme includes also the areas of insurance and other services.

The European Council notes that further progress must also be achieved between now and the European Council meeting in June on energy policy, research and development policy.

It considers that development of the productive capacity of European industry in conditions of international competitiveness is a major priority of the Community.

The European Council discussed a number of specific areas where more effective Community action is urgently needed:

- It agrees that mutual recognition of diplomas is an important step in creating satisfactory conditions for the exercise of a number of professions.

The European Council invites the Ministers of Education to speed up their work in order to create the necessary conditions for tangible results in this field.

- The European Council further invites the Council to speed up the examination of a number of proposals for directives concerning the right of establishment and freedom to provide services in order to bring this work to a successful conclusion as soon as possible.
- The European Council agrees that the damage done to the forest environment by acid rain makes effective trans-national action urgently necessary. It therefore invites the Council to give rapid and positive attention to proposals announced by the Commission both for action in the Community and in the framework of the ECE. It requests the Council to make an interim report on the situation concerning this problem for its meeting in June.

In addition to these specific questions, the European Council notes the views expressed in the discussion that work in certain other fields, such as that of transport policy, should be accelerated.

The European Council stresses the importance of decisive progress towards the successful implementation of its employment strategy also in view of the election of the European Parliament next year. The Council should contribute to a constructive dialogue on this subject between it and the European Parliament.

THE ECONOMIC SUMMIT IN WILLIAMSBURG IN MAY 1983

The European Council asks the Council to prepare Community positions for the Williamsburg Economic Summit which will permit the Community to make a substantial contribution to efforts to ensure that the recovery of the international economy, which is now appearing, will be supported through the concerted policies of the Summit participants.

The European Council considers that the falling oil prices constitute a positive contribution to world economic recovery, provided that this development does not get out of control. It is also important that steps are taken to ensure that this development does not jeopardize the successful continuation of efforts to ensure rational use of energy resources.

## ENLARGEMENT

The European Council noted the report from the Council (General Affairs) on progress of work on the inventory presented by the Commission, and in negotiations with Spain and Portugal.

The European Council is determined that negotiations with Spain and Portugal should now make substantial progress, and asks the Council to make every effort to this end.

The European Council expects the Council (General Affairs) to be able to report before June substantial progress both on subjects dealt with in the inventory and in the negotiations with Spain and Portugal.

The European Council intends to take stock of the situation regarding the enlargement negotiations at its next meeting and to give political orientation for the completion of the negotiations.

The European Council took note of the discussions that have taken place on the adaptation of rules applicable to certain Mediterranean agricultural products.

After re-examining the dossier, it reaffirmed its view that appropriate decisions should be taken in order that the Community can make further progress in the negotiations for the accession of Spain and Portugal.

The European Council therefore asks the Council of Agriculture Ministers to adopt the necessary decisions before the end of March, taking account of the following factors.

In the olive oil sector, as with other agricultural sectors, the Community must assure the maintenance of producers' incomes whilst assuring at the same time, a proper financial control of expenditure.

This objective should be obtained, in the first place by increased efficiency of present market mechanisms and, in the context of Community enlargement, by the choice of an appropriate transitional period for the application by the new Member States of the Community régime for vegetable oils other than olive oil.

In addition, the Community will review closely the possibilities of a reform of internal and external aspects of the market organisation whilst taking account of the principles set out above and of the Community's international obligations. The European Council asks the Commission to submit a report on this review, together with any necessary proposals, as soon as possible. It agrees that decisions must be taken before April, 1985.

In the fruits and vegetables sector, the European Council agrees in principle with the approach of the Commission which is to adapt the present regulations in order to ensure a greater efficiency of the market organisation. The European Council is of the opinion that the adaptations made to the present régime should be implemented in such way that the free circulation of goods is safeguarded.7(\*)

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(\*) Text proposed by the Commission.



## THE COMMUNITY'S FINANCIAL RESOURCES AND RELATED PROBLEMS

The European Council notes the report on work done on the Commission's Communication on the future financing of the Community. The European Council further notes the Commission's intention to submit specific proposals as soon as possible. It expects these proposals to take account of the development of the Community's policies, the problems connected with enlargement, budgetary imbalances and the need to strengthen budgetary discipline. It invites the Council (General Affairs) to discuss those proposals and to report its conclusions to the June European Council.

The European Council agrees that this report will contain conclusions also concerning the so-called subsequent solution in accordance with the undertaking made by the Foreign Affairs Ministers on 26 October 1982 regarding compensation to the United Kingdom. Consequential figures for 1983 will be incorporated in the draft Community Budget for 1984.

## EUROPEAN COUNCIL CONCLUSIONS ON MIDDLE EAST

The European Council discussed the situation in the Middle East, including Lebanon and the war between Iran and Iraq.

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The Ten are deeply disturbed by the continued lack of progress towards peace between Israel and her Arab neighbours. They are convinced that all parties must seize the present opportunity to achieve the two most urgent objectives: the withdrawal of all foreign forces from Lebanon and a resumption of negotiations aimed at a comprehensive peace settlement.

The Ten reaffirm their support for the sovereign and independent state of Lebanon and for its Government, which should urgently be enabled to re-establish without restrictions its authority over the whole of its territory. This requires the prompt withdrawal of Israeli, Syrian and PLO forces. The Ten support the efforts of the United States to achieve this objective. They call on all concerned to conclude negotiations without further delay. They continue to support the peacekeeping role of UN and Multinational forces in Lebanon.

The principles which underlie the Ten's approach to wider peace negotiations, as set out in more than one previous statement, remain valid. A lasting peace can only be built on the right to a secure existence for all states in the region including Israel, and justice for all the peoples, including the right of the Palestinian people to self-determination with all that this implies. These rights must be mutually recognised by the parties themselves. Negotiations will have to embrace all the parties concerned including the Palestinian people; and the PLO will have to be associated with them. The threat or use of force must be renounced by all.

President Reagan's initiative of 1 September 1982 indicated a way to peace, and the Arab Summit meeting at Fez demonstrated a readiness for it. The task now is to move beyond statements of principle and find a means to reconcile and implement the various peace proposals. The conclusions of the recent meeting of the Palestine National Council can and should contribute to the peace process. The Ten therefore welcome the discussions between Jordan and the PLO. The Palestinian people and the PLO should seize the present opportunity by declaring themselves in favour of peace negotiations. This would be a major step forward, to which the Ten would expect all concerned to respond constructively.

The Ten look to the Arab states to play their part by supporting those who seek a solution to the demands of the Palestinian people by political means.

The efforts of the US will continue to be indispensable to create the conditions in which negotiations can begin.

Above all the time has come for Israel to show that it stands ready for genuine negotiations on the basis of Security Council Resolutions 242 and 338, in the first place by refraining from enlarging existing settlements or creating new ones. These settlements are contrary to international law and a major and growing obstacle to peace efforts.

The Middle East is a region with which the Ten have long been closely associated and in whose future they have a deep interest. They intend to maintain their contacts with all the parties and to use their influence to encourage movement towards compromise and negotiated solutions. They believe that this is in the best interest of the countries and the peoples of the region, of the Ten themselves and of their mutual relations.

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The Ten expressed once again their growing concern at the continued conflict between Iraq and Iran, which constitutes an ever more serious threat to the security and stability of the entire region.

The Ten deeply regret that none of the peace initiatives organised hitherto has succeeded in bringing the fighting to an end. They call for a cease-fire, the cessation of all military operations and the withdrawal of forces to internationally recognised frontiers; and for a just and honourable settlement negotiated in accordance with the resolutions of the UN Security Council and acceptable to both parties.

Prime Minister

The advice is that you should speak to this note but not table it. We can show it around in formally this evening.

A. S. C.  $\frac{21}{3}$

DRAFT COUNCIL CONCLUSIONS

The European Council agreed on the necessity for decisions on the future financing of the Community. In the light of the reactions to the Commission's communication of 4 February, the Council called on the Commission to make proposals as soon as possible after Easter. It invited the Foreign Affairs Council to discuss those proposals and to report its conclusions to the June European Council.

The European Council noted that these negotiations were unlikely to be completed in time to solve the problem for the budget year 1983 and therefore agreed that a further interim solution to the problem of budget imbalances was urgently needed. The Council called on the Commission to make specific proposals for an interim solution immediately after Easter, in the light of their communication of 17 November 1982 and the comments by the European Parliament on the necessary relationship between the interim and lasting solutions. The European Council called on the Foreign Affairs Council to study the Commission's proposals and take decisions in time for them to be reported to the June meeting of the European Council. The consequential figures will be incorporated in the draft Community Budget for 1984.

Prime Minister

This is the evidence that the European Assembly is not against an interim solution for 1983.

A.S.C.  $\frac{21}{3}$

## EUROPEAN PARLIAMENT'S ATTITUDE TO INTERIM SOLUTION

The Rapporteur for the Supplementary Budget [Robert Jackson] which provided for 1982 refunds said in the concluding debate in the European Parliament:

"....the Committee ~~intends~~ intends that the Draft Resolution [which was adopted] should be constructed as applying pressure for decisions on a middle and long term solution to be taken by end 1983. It cannot - and I say this with emphasis - it cannot be construed as intending to deny the need for a solution for the current year which is now in course".

(10 February.)

No speaker contradicted this statement. Herr Lange (Chairman of the Budgets Committee) had approved it. He himself said that if the Council had difficulties in finding a long term solution quickly, it should discuss the resulting problem with the Parliament.

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The Parliament recognises that a long term solution cannot be achieved overnight. In its preliminary guidelines for the 1984 Budget, it has stated:

"Considers that by implementing a policy consistent with the guidelines set out above, the budget for the 1984 financial year will pave the way for a reduction in imbalances and for the restructuring of the budget".

(10 March.)



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TO IMMEDIATE FCO

TELEGRAM NUMBER 1206 OF 20 MARCH 1983

INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS  
BONN LUXEMBOURG ATHENS

E.M.S. REALIGNMENT CONFERENCE

SUMMARY

1. MINISTERIAL MEETING ADJOURNED THIS AFTERNOON WITHOUT AGREEMENT. WILL RESUME AT 9 AM TOMORROW IN HOPE OF REACHING AGREEMENT BEFORE EUROPEAN COUNCIL IN LIGHT OF OVERNIGHT CONSULTATIONS. CENTRAL BANK GOVERNORS HAVE AGREED THAT WHEN MARKETS OPEN TOMORROW, THE OFFICIAL INTERVENTION RATES WILL BE DECLARED TEMPORARILY SUSPENDED AS ALSO THE OFFICIAL DAILY FIXING IN THOSE COUNTRIES WHERE THAT APPLIES. KEY ISSUE IN DISPUTE IS EXTENT AND DISTRIBUTION OF SPREAD BETWEEN FRENCH FRANC (FF) AND DEUTSCHE MARK (DM).

DETAILED REPORT

2. MONETARY COMMITTEE YESTERDAY MORNING IDENTIFIED FOLLOWING MAIN ISSUES FOR DECISION BY MINISTERS:-

- (I) EXTENT OF SPREAD BETWEEN FF AND DM CONSENSUS WAS FOR 7 - 9 PER CENT;
- (II) POSITIONS OF INDIVIDUAL COUNTRIES. GERMANS WERE PREPARED TO MOVE UPWARDS MORE THAN HALFWAY BUT FRENCH RESISTED ANY DOWNWARD MOVEMENT OF FF AT ALL. OTHER MEMBERS IN GENERAL PREPARED TO SLOT IN (BELGIUM, LUXEMBOURG AND DENMARK FOLLOWING DM IN PART; ITALY AND IRELAND MOVING TO BOTTOM OF SPREAD; AND DUTCH PROBABLY FOLLOWING DM);
- (III) BACK UP MEASURES TO MAKE REALIGNMENT CREDIBLE. NO SPECIFIC PROPOSALS EMERGED BUT FRENCH HINTED AT FURTHER MEASURES TO REDUCE DEMAND;
- (IV) WIDENING OF INTERVENTION MARGINS. NOT FAVOURED BUT OFFERED FOR CONSIDERATION AS TEMPORARY MEASURE (SAY, TO 4 PER CENT) TO SECURE LAST DITCH SOLUTION.

3. AT SERIES OF MINISTERIAL MEETINGS YESTERDAY (WITH STOLTENBURG IN CHAIR) FRENCH (DELORS) REFUSED ANY CONCESSION AND THREATENED TO WITHDRAW FROM E.M.S. UNLESS GERMANS WILLING TO BEAR COMPLETE BURDEN OF AT LEAST 8 PER CENT ADJUSTMENT. CORE OF ARGUMENT WAS

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PS

MR EVANS

MR HANNAY

CAB. OFFICE } PS MR R. ARMSTRONG  
MR HANCOCK

MAFF } MR. HAYES.  
MR ANDRESS

TREASURY } MR LITTLE  
MR HEDLEY-MILLAR  
MR MONCK  
MR PERETZ

BANK OF ENGLAND } PS/GOVERNOR  
MR GILL

NO 10.

DUTY OFFICER

D/B  
202000Z

R.C.

3. AT SERIES OF MINISTERIAL MEETINGS YESTERDAY (WITH STOLTENBERG IN CHAIR) FRENCH (DELORS) REFUSED ANY CONCESSION AND THREATENED TO WITHDRAW FROM E.M.S. UNLESS GERMANS WILLING TO BEAR COMPLETE BURDEN OF AT LEAST 8 PER CENT ADJUSTMENT. CORE OF ARGUMENT WAS THAT FOLLOWING JUNE 1982 REALIGNMENT FRANCE HAD TAKEN SERIES OF MEASURES TO RESTORE CONTROL OVER ECONOMY: THESE WOULD TAKE TIME TO WORK AND THERE WOULD STILL BE SUBSTANTIAL GAP BETWEEN FRENCH AND GERMAN INFLATION AT END 1983. FRANCE COULD NOT BE EXPECTED TO MAKE FURTHER SACRIFICES WHICH WOULD JEOPARDISE ATTEMPTS TO MASTER INFLATION. GERMANY MUST THEREFORE TAKE RESPONSIBILITY FOR ADJUSTMENT BY REVALUING DM. IF FRANCE LEFT E.M.S. PROTECTIONIST POLICIES WOULD ALSO BE INTRODUCED. DELORS MADE MUCH OF CURRENT CRITICISM OF E.M.S. AND COMMUNITY GENERALLY IN FRANCE, AND PRODUCED LIST OF UNRESOLVED GRIEVANCES, WHICH HE EVEN ARGUED IN HIS OPENING STATEMENT, WOULD HAVE TO BE RESOLVED AS A PRIOR CONDITION FOR CONTINUED FRENCH MEMBERSHIP OF THE EXCHANGE RATE MECHANISM. THIS WAS SEVERELY CRITICISED BY THE ITALIANS (GORIA).

4. GERMANS OFFERED TO GO MORE THAN HALF WAY BUT ARGUED STRONGLY THAT EXCESSIVE REVALUATION OF DM WOULD THREATEN INCIPIENT GERMAN ECONOMIC RECOVERY. RECENT INTEREST RATE REDUCTION HAD MADE SIGNIFICANT CONTRIBUTION TO EASING PRESSURE ON FF; AND MONEY SUPPLY HAD BEEN INCREASING AT EXCESSIVE RATE.

5. AFTER OVERNIGHT CONSULTATIONS DELORS CONFIRMED IN PLENARY THAT FRANCE INSISTED ON 8 PER CENT SPREAD AND GAVE SIGNS OF BEING WILLING TO ACCEPT SOME DOWNWARD MOVEMENT OF FF, POSSIBLY WITHIN WIDENING OF MARGINS FROM TWO AND A QUARTER PER CENT TO 3 PER CENT. HE ALSO GAVE NOTICE OF FRENCH REQUEST FOR 4 - 5 BILLION DOLLAR CREDIT FACILITY FROM 1981 COMMUNITY LOAN MECHANISM AND INDICATED THAT FRENCH GOVERNMENT WOULD ANNOUNCE TOMORROW OR TUESDAY NEW MEASURES TO RESTRAIN DOMESTIC DEMAND, WITH A VIEW TO ELIMINATING THE TRADE DEFICIT BY END 1984.

6. DISCUSSIONS THEN CENTRED ON SERIES OF NEGOTIATIONS ON POSSIBLE ALLOCATION OF 8 PER CENT SPREAD. (THESE WERE UNREAL IN AN ECONOMIC SENSE, BECAUSE THERE WAS NO FIXED REFERENCE POINT AGAINST WHICH THE VARIOUS COMBINATIONS WERE OR COULD BE MEASURED; BUT THEY ASSUMED ENORMOUS POLITICAL IMPORTANCE). CURRENT POSITION IS THAT GERMANS ARE UNWILLING TO INCREASE DM BY MORE THAN 5 PER CENT, AND FRENCH TO REDUCE FF BY MORE THAN 2 PER CENT, ALTHOUGH AT ONE TIME FRENCH SEEMED WILLING TO CONTEMPLATE 2.5 PER CENT. ALL ATTEMPTS TO COMPROMISE HAVE SO FAR FAILED (EG CHANCELLOR SUGGESTED DM + 75 PER CENT AND FF - 2.75 PER CENT) AND DELORS HAS ACCORDINGLY RETURNED TO PARIS TO CONSULT PRESIDENT.

7. IF AGREEMENT CAN BE REACHED BETWEEN FRENCH AND GERMANS, OTHERS SHOULD FIT IN FAIRLY EASILY. POSSIBLE REALIGNMENT ON BASIS OF DM + 5 PER CENT AND FF - 2.5 OR 3 PER CENT WOULD BE:-

DUTCH GUILDER + 3 PER CENT

BELGIAN FRANC, LUXEMBOURG FRANC AND DANISH KRONE + 1 PER CENT

ITALIAN LIRA WITH FF

IRISH PUNT - 4 PER CENT

8. IN VIEW OF MARKET REPERCUSSIONS CENTRAL BANK GOVERNORS (WITH GREAT RELUCTANCE AND APPREHENSION) AGREED THAT FROM OPENING TOMORROW AUTHORITIES WOULD TEMPORARILY SUSPEND THEIR OBLIGATORY BUYING AND SELLING RATES FOR THEIR PARTNERS' CURRENCIES (THOUGH RETAINING THE RIGHT, IF THEY WISHED, TO INTERVENE AT RATES OF THEIR CHOOSING) AND, WHERE APPLICABLE, CANCEL THE OFFICIAL FIXING IN THEIR MARKET. THIS MAY BE WRONGLY DESCRIBED AS 'CLOSING MARKETS', BUT COMMERCIAL TRANSACTION WILL, OF COURSE, CONTINUE.

9. MINISTERS AGREED THAT STOLTENBERG SHOULD INFORM PRESS BRIEFLY, WITHOUT MENTIONING ANY FIGURES, OF ADJOURNMENT OF DISCUSSION. BUT SEVERAL MINISTERS (NOTABLY DELORS) HAVE SPOKEN TO PRESS AND



9. MINISTERS AGREED THAT STOLTENBERG SHOULD INFORM PRESS BRIEFLY, WITHOUT MENTIONING ANY FIGURES, OF ADJOURNMENT OF DISCUSSION. BUT SEVERAL MINISTERS (NOTABLY DELORS) HAVE SPOKEN TO PRESS AND MAIN FIGURES SEEM WELL KNOWN.

COMMENT

10. PROSPECTS FOR EARLY AGREEMENT TOMORROW DIFFICULT TO ASSESS. DELORS PERSONALLY SEEMS TO WANT TO REACH AGREEMENT AND HAS MADE CONCESSIONS FROM OPENING POSITION BUT HAS SO FAR BEEN UNABLE TO GET NECESSARY BACKING TO CLINCH DEAL. REPORTS OF IMPENDING FRENCH GOVERNMENT RESHUFFLE COULD LEAD TO STRENGTHENING OF HIS HAND, BUT TIME IS SHORT IF DEAL TO BE STRUCK WITH GERMANS BEFORE TOMORROW MORNING. IF DELORS UNABLE TO GET BACKING OVERNIGHT, AGREEMENT BY FURTHER NEGOTIATION IN PCESENT MINISTERIAL GROUP TOMORROW MORNING SEEMS UNLIKELY AND BUCK MAY WELL THEREFORE HAVE TO BE PASSED TO EUROPEAN COUNCIL. NEGOTIATIONS HAVE NOT BEEN HELPED BY POOR CHAIRMANSHIP BY STOLTENBERG WHO, DESPITE DIFFICULTIES, COULD IN OUR VIEW HAVE MADE GREATER EFFORTS TO BRIDGE SMALL FINAL GAP.

11. CHANCELLOR WILL REMAIN IN BRUSSELS FOR RESUMED MEETING TOMORROW (BUT WILL HAVE TO LEAVE BY LATE MORNING IN VIEW OF COMMONS BUDGET DEBATE). FINANCIAL SECRETARY WILL, AS PREVIOUSLY PLANNED, ATTEND ECOFIN (WHICH IS DUE TO FOPLOW RESUMED MEETING). UNWIN WILL STAY ON IN BRUSSELS TO BRIEF EUROPEAN COUNCIL DELEGATION.

FCO ADVANCE TO:

FCO - PS/SOS: EVANS: HANNAY

CAB - PS/ARMSTRONG: HANCOCK

MAFF - HAYES: ANDREWS

TSY - LITTLER: HEDLEY-MILLER: MONCK: PERETZ

BANK - PS/GOVERNOR: GILL

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TO IMMEDIATE FCO

TELEGRAM NUMBER 698 OF 19 MARCH

AND TO IMMEDIATE UKREP BRUSSELS

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EC-US TALKS ON AGRICULTURE, 17-18 MARCH.

SUMMARY

1. THE TALKS ON WHICH THE COMMISSION WILL BE REPORTING TO THE EUROPEAN COUNCIL HAVE BEEN QUOTE A LIMITED SUCCESS. UNQUOTE THEY WILL BE RESUMED AT MORE TECHNICAL LEVEL (LYNG AND VILLAIN) AT THE END OF APRIL. THE COMMISSION DID NOT MAKE ANY SIGNIFICANT NEW PROPOSALS BUT THE ATMOSPHERE AT THE TALKS WAS GOOD AND WORKMAN-LIKE AND THE AMERICANS APPEAR TO BE MILDLY ENCOURAGED BY THE OUTCOME. IN A SEPARATE CALL ON SHULTZ, HAFERKAMP WAS ASSURED OF HIS PERSONAL INTEREST IN THE MATTER AND CONCERN TO PREVENT IT SPILLING OVER INTO WIDER TRADE AND ECONOMIC ISSUES AND DISRUPTING THE ALLIANCE. SOME ANXIETY REMAINS, HOWEVER, ABOUT THE INTENTION BEHIND BLOCK'S SCHEDULED VISIT TO FOUR N.AFRICAN AND MIDDLE EASTERN

THE ALLIANCE. SOME ANXIETY REMAINS, HOWEVER, ABOUT THE INTENTION BEHIND BLOCK'S SCHEDULED VISIT TO FOUR N.AFRICAN AND MIDDLE EASTERN COUNTRIES (INCLUDING EGYPT AND SAUDI ARABIA) AT THE END OF THE MONTH. BLOCK WAS NOT AT THE TALKS.

DETAIL.

2. HAFERKAMP AND DALSAGER BRIEFED EC AMBASSADORS AND AGRICULTURAL REPRESENTATIVES THIS AFTERNOON ON THEIR TALKS WITH MEMBERS OF THE ADMINISTRATION YESTERDAY AND VARIOUS CALLS TODAY. THE U S TEAM HAD BEEN LED BY BROCK (USTR) WITH LYNG AND AMSTUTZ (USDA) SMITH (USTR) MCCORMACK (STATE) AND VEST (US MISSION TO EC). ACCOMPANYING HAFERKAMP AND DALSAGER HAD BEEN FIELDING (DGI) VILLAIN (DGUI) AND DENMAN.

3. HAFERKAMP SAID THERE HAD BEEN QUOTE A CONSTRUCTIVE SPIRIT UNQUOTE ON BOTH SIDES IN THE TALKS AND A RECOGNITION THAT ALTHOUGH SOLUTIONS WOULD BE DIFFICULT TO FIND, THERE WAS A SERIOUS RISK THAT, WITHOUT RESOLUTION, AGRICULTURE WOULD EXACERBATE EC-US RELATIONSHIPS AND SPILL OVER INTO OTHER PROBLEM AREAS. THE COMMISSION HAD EMPHASISED ITS WILLINGNESS TO CO-OPERATE WITH THE U S TO PREVENT THAT HAPPENING BUT WARNED THAT IF THERE WERE A REPETITION OF THE WHEAT FLOUR SALE, FURTHER CO-OPERATION WOULD BE IMPOSSIBLE. IF THE AMERICANS WERE OBLIGED TO TAKE EXTRA MEASURES TO BOOST EXPORTS THEY SHOULD CONCENTRATE ON PRODUCTS AND MARKETS WHICH DID NOT DAMAGE THE EC.

4. SHULTZ HAD PERSONALLY ASSURED HAFERKAMP THAT HE WOULD USE HIS INFLUENCE TO PREVENT ESCALATION OF THE TENSIONS, BUT HAD WARNED THAT THERE WOULD BE STRONG PRESSURE FROM THE FARM LOBBY IN THE RUN-UP TO NEXT YEAR'S ELECTIONS AND UNDERLINED THE NEED FOR A CONSTRUCTIVE CONTINUATION OF THE TALKS INITIATED IN DECEMBER.

5. HAFERKAMP SAID THAT THE TALKS WOULD BE RESUMED AT THE END OF APRIL AT TECHNICAL LEVEL (IT WILL BE BY LYNG AND VILLAIN) AS THE DETAILED SCOPE FOR ACCOMMODATION ON INDIVIDUAL COMMODITIES NEEDED FURTHER EXAMINATION. A MEETING BETWEEN SHULTZ AND THORN WOULD NOT BE APPROPRIATE AT THIS STAGE.

6. DALSAGER SPEAKING FROM A PREPARED STATEMENT (TEXT BY BAG TO CROWE ECD(E)) AND HADLEY (MAFF) SAID THE AMERICANS HAD ACKNOWLEDGED THAT WITHOUT A SOLUTION, FURTHER ACTION ON THEIR PART COULD NOT BE LIMITED TO ONE PRODUCT OR MARKET AND WOULD LEAD TO QUOTE WAR UNQUOTE. ON WHEAT THE COMMISSION HAD REAFFIRMED ITS WILLINGNESS TO STABILISE ITS WORLD MARKET SHARE AND EXCHANGE DATA MORE COMPREHENSIVELY WITH THE MAIN EXPORTERS. ON DAIRY THE AMERICANS HAD ASKED THE EC TO DISPOSE OF MORE OF ITS SURPLUSES INTERNALLY RATHER

TO STABILISE ITS WORLD MARKET SHARE AND EXCHANGE DATA MORE COMPREHENSIVELY WITH THE MAIN EXPORTERS. ON DAIRY THE AMERICANS HAD ASKED THE EC TO DISPOSE OF MORE OF ITS SURPLUSES INTERNALLY RATHER THAN THROUGH EXPORT AND PROMISED IN RETURN RESTRAINT ON ITS OWN EXPORTS. THE COMMISSION HAD UNDERLINED THE DIFFICULTIES BUT POINTED TO ITS MODEST PRICE PROPOSAL FOR THE DAIRY SECTOR THIS YEAR AND OFFERED CLOSER TRI-LATERAL CO-OPERATION WITH NEW ZEALAND ON POULTY THERE HAD BEEN AGREEMENT ON THE NEED FOR TALKS WITH BRAZIL. THE COMMISSION HAD RAISED THE POSSIBILITY OF STABILISING EC IMPORTS OF MAIZE GLUTEN THE AMERICANS WILL CONSIDER.

7. IN ANSWERING QUESTIONS, DALSAGER SAID THAT WHILST THEY HAD RECEIVED NO COMMITMENT FROM THE U S NOT TO MAKE FURTHER SUBSIDISED SALES BEFORE THE NEXT ROUND OF TALKS THE COMMISSION HAD MADE IT QUITE CLEAR THAT ITS POSITION WOULD BECOME UNTENABLE IF THE AMERICANS WENT AHEAD. BOTH SIDES NOW RECOGNISED THE DANGER THAT, IF NOT DEFUSED BEFORE, AGRICULTURE COULD BECOME A DISRUPTIVE ISSUE AT THE WILLIAMSBURG SUMMIT. DALSAGER THOUGHT THAT THE AMERICANS HAD ONLY VERY RECENTLY DISCERNED THE EXTENT OF COMMUNITY CONCERN OVER DETERIORATING RELATIONS WITH THE U S ON AGRICULTURE. HE HAD SOUGHT AND GOT AN ASSURANCE THAT BLOCK'S ABSENCE FROM THE TALKS DID NOT MEAN THAT HE WAS DISSOCIATING HIMSELF FROM THE OUTCOME AND THAT LYNG HAD FULL NEGOTIATING AUTHORITY. HE HAD BEEN TOLD THAT BLOCK'S N.AFRICAN TOUR WOULD NOT BE QUOTE A SALES TOUR UNQUOTE. THE COMMISSION HAD ALSO BEEN ANXIOUS TO DISPEL ANY FEELING IN THE WHITE HOUSE THAT THE EC WAS NOT IN A POSITION TO RETALIATE AGAINST SUBSIDISED U S SALES. HIS CONCLUSION ON THE TALKS WAS THAT THE EC HAD GAINED A LITTLE MORE TIME AND THAT SHULTZ WOULD NOW BE ACTIVELY INVOLVED IN TRYING TO SECURE A RESOLUTION.

8. FIELDING HAS TOLD US IN CONFIDENCE THAT THE MEETING HAD BEEN QUOTE A LIMITED SUCCESS UNQUOTE (SHULTZ HAD SAID HE GAVE IT A SILVER RATHER THAN A GOLD MEDAL). THE COMMISSION HAD PUT ONE OR TWO MORE COUNTERS ON THE TABLE THOUGH NOT ALL THAT THEY HAD IN THEIR POCKET. THE AMERICANS HAD LISTENED MUCH MORE ATTENTIVELY TO THE DETAILED EC ARGUMENTS ON INDIVIDUAL COMMODITIES, THOUGH DAIRY REMAINED A MAJOR PROBLEM AREA. THE AMERICANS HAD NOT PRESSED THEIR CASE ON CITRUS AND RAISINS NOR SHOWN WILLING ON MAIZE GLUTEN FEED. HE EXPECTED, HOWEVER, THAT THERE WOULD BE RATHER MORE DAY-TO-DAY CO-OPERATION BETWEEN THE TWO SIDES ON MARKET AND PRODUCTION PROSPECTS AND POSSIBLY SOME CONSULTATION WITH NEW ZEALAND ON DAIRY. VILLAIN HAD TALKED TO THE FRENCH AMBASSADOR, TO PERSUADE HIM THAT THE DISCUSSION WERE ON TRACK. THE COMMISSION WERE COUNTING ON SUFFICIENT PROGRESS HAVING BEEN MADE TO KEEP MITTERAND QUIET AT THE EUROPEAN COUNCIL. HIS OWN VIEW WAS THAT THE SITUATION HAD BEEN CONTAINED FOR TWO MONTHS AND THAT THE ADMINISTRATION WAS BEGINNING

THE EUROPEAN COUNCIL. HIS OWN VIEW WAS THAT THE SITUATION HAD BEEN CONTAINED FOR TWO MONTHS AND THAT THE ADMINISTRATION WAS BEGINNING TO RECOGNISE THE COST OF A TRADE WAR E.G. TO ITS SOYA BEAN PRODUCERS AND THE DANGERS OF DISRUPTION WITHIN THE ALLIANCE. L yng WHO HAD BEEN VERY PESSIMISTIC BEFORE THE TALKS HAD PERFORMED WELL AND SEEMED TO BE ENCOURAGED BY THE OUTCOME.

9. L yng TOLD BRAITHWAITE THAT THE TALKS WERE MAKING PROGRESS IN THE RIGHT DIRECTION THOUGH THERE WERE NO QUICK SOLUTIONS AND THE FARM INTERESTS WERE BECOMING IMPATIENT. HE, LIKE THE COMMISSION, WAS DELIBERATELY BEING CAUTIOUS IN HIS PUBLIC STATEMENTS SO AS NOT TO ROUSE PARTICULAR COMMODITY LOBBIES. IT WOULD SIGNIFICANTLY BOLSTER THE POSITION OF THE MODERATES IN THE ADMINISTRATION IF THE COMMISSION COULD BE PERSUADED TO ANNOUNCE ITS INTENTION TO STABILISE WHEAT EXPORTS AND INCREASE ITS STOCK-HOLDING. THE EC MUST MAKE A BETTER RESPONSE ON DAIRY IF PRESSURE IN CONGRESS FOR SUBSTANTIAL DAIRY EXPORTS WAS TO BE RESISTED. HE THOUGHT THE AMERICANS WOULD BE ABLE TO LEAN ON THE BRAZILIANS TO TAKE PART IN TALKS ON POULTRY.

#### COMMENT

10. THE MOOD OF GUARDED OPTIMISM HERE MAY QUICKLY EVAPORATE WITHOUT CONTINUING SIGNS OF THE COMMUNITY'S CONCERN TO DEFUSE TENSIONS. BLOCK'S NORTH AFRICAN VISIT REMAINS AS A WORRYING CLOUD ON THE HORIZON. FOR DOMESTIC POLITICAL REASONS THE AMERICANS WILL CONTINUE TO PRESS THEIR CASE ON DAIRY WHERE THE COMMISSION HAVE SO FAR FAILED TO COME UP WITH A SUFFICIENT COUNTER OFFER, BUT THEY NOW APPEAR TO RECOGNISE THAT THE COMMISSION OFFER ON WHEAT EXPORT RESTRAINT IS IMPORTANT AND WORTH SECURING. THE AMERICANS ALSO APPEAR RELIEVED AT THE CLEAR EVIDENCE OF COMMUNITY CONCERN OVER AGRICULTURAL TRADE TENSIONS. EVEN THOUGH THEY BELIEVE THAT THIS WOULD NOT HAVE HAPPENED WITHOUT THE WHEAT FLOUR SALE, IT IS NOW CLEAR TO THEM THAT FURTHER SALES OF THIS KIND ARE NOT NECESSARY AS A WAY OF GETTING THE COMMUNITY'S ATTENTION. SHULTZ'S CLOSER PERSONAL INVOLVEMENT IN THE AGRICULTURAL ISSUE SHOULD ENSURE THAT THE DISRUPTIVE POTENTIAL OF A TRADE WAR IS NOT LOST SIGHT OF. ANY RENEWED IMPETUS WHICH THE EUROPEAN COUNCIL CAN GIVE TO THE SEARCH FOR A PRACTICAL ACCOMMODATION WILL BE TIMELY.

11. FCO RESIDENT CLERK PLEASE INFORM NO.10, AND ADVANCE TO DUTY OFFICER (MAFF). AND CROWE (ECD/E).

WRIGHT

Thorn. - Need to take decisions in June. (2)

- 1) Int. Product. - 9. - <sup>Patents</sup> Acid Rain.
- 2) Enlargement. - Agri. Community.
- 3) - Budget. - FRG. - UK. } Problem? <sup>Large. Little</sup> <sub>Gold</sub>

MEDIUM term sol<sup>n</sup>.

Williamsburg.

Economic Position.

Agricultural expenditure.

Internal Market - Europe

Enlargement - Commission file compromise proposal on Farm matters.

June summit - critical.

~~Look for Agri. Community~~

Need to adjust CAP for enlargement  
Farming income not to go down because of

Southern farming not well off.

Don't enjoy intervention etc.

Northern states worried about toll:

? opening price strings.

No reason to take measures to reduce  
farming income.

Readjust a major Prod. policy.

10 year transition

Lullum (2)

Some modest improvement in Fed products -  
not repeat Sp. Port - add'l funds that  
may be required.

Pre accession regime - not worth it  
of J. J. J.

- not in port restrictions

less

Fed policy.

Pre

Opposed to  
creating new  
reserves on C.A.P.

Returned to that it  
plus better prop - 7

budget

the 1 of

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Cheysson. Fed production -  
3rd countries -  
Industry Board Agreements.

the indicators

Drop in Oil Prices

Is converted auto-pollution



ENLARGEMENT

Speaking Note

I think we are all agreed that we need to make early progress to sort out the future arrangements for fruit and vegetables and for olive oil so that a basis can be established for our negotiations with Spain and Portugal. That was the sense of our discussion yesterday.

I therefore support the first page of the draft on enlargement except that the deadline of March in the last line is surely unrealistic.

The second page is far too detailed for Heads of Government and raises all sorts of difficult points. For example, I do not believe that the April 1985 deadline makes sense in relation to our negotiations with Spain. And the last paragraph prejudices issues which our Agriculture Ministers need to discuss.

I therefore suggest that we end the text at the first page, replacing March by April and deleting the words: "taking account of the following factors".

THE ECONOMIC AND SOCIAL SITUATION



p. 1.

Suggested Amendments

Replace paragraph 1 by the following: -

"The European Council discussed the continued implementation of the Community's comprehensive strategy for re-establishing economic stability, encouraging productive activity and contributing to <sup>a climate of expansion of markets</sup> economic recovery without renewed inflation, and thus to the creation of durable jobs."

In the second paragraph, second line, replace "must now take effective action" by "must continue to take effective action".

a climate of expansion  
of markets

[" One should also continue  
work on work-sharing."  
Letter States - ]

"

and possible circumstances of the  
problems arising from working hours.



Add change

THE ECONOMIC SUMMIT IN WILLIAMSBURG IN MAY 1983

Suggested Amendment

In paragraph 1, last two lines, replace "be supported through the concerted policies of the Summit participants" by "be sustained by the concerted non-inflationary policies of the Summit participants".

In the second paragraph amend the opening to read: "The European Council considers that a modest fall in oil prices constitutes ....."

4

ENLARGEMENT

OLIVE OIL AND FRUIT AND VEGETABLES

(Detailed brief on second page of conclusions for use as necessary)

First paragraph

We should want to replace the words "ensure the maintenance of producers incomes". This text could imply maintaining producers' incomes in the olive oil sector in real terms. This is a guarantee which is not given to producers in other sectors and is clearly unacceptable. We could accept instead the words in the Treaty of Rome, ie "ensure a fair standard of living for producers".

Line to Take

Not happy about the reference of assuring the maintenance of producers' incomes. This seems to go far beyond the guarantee given to producers in other sectors. Suggest we go back to the wording in the Treaty of Rome which speaks of "a fair standard of living for producers".

Second paragraph

Comment

The wording "increased efficiency of present market mechanisms" is dangerous and unacceptable. It could be interpreted (by the Italians and Greeks) as a commitment to increasing the efficiency of the consumption aid about which the Commission have made a proposal which we do not accept. The reference to "an appropriate transitional period" relates to a separate Commission proposal under which the Spaniards would continue their existing import regime for "vegetable oils (other than olive oil) and other oil seeds" for a 10 year period. We accept this proposal for a long transition on the Spanish import regime since it would reduce the /competition

competition for olive oil on the Spanish market.

Line to Take

The reference to "increased efficiency of present market mechanisms" is far from clear. We cannot be expected to accept such a vague form of words. I could accept instead a reference to "increased efficiency by improving the mechanisms for controlling expenditure".

Third and Fourth paragraphs

These two paragraphs need to be considered together. The first of them refers to a review of the "possibilities of a reform of internal and external aspects" of the olive oil arrangements. The reference to internal aspects would cover the suggestion for a flat rate aid; the external aspects would embrace ideas such as levies on imports or taxes on imports and domestic production. We cannot expect to prevent the French and others from continuing to press their arguments for levies or taxes. But we would prefer to avoid such a direct link with possible reforms of the internal mechanism.

The reference to April 1985 in the last sentence would effectively put off discussions of the olive oil regime for up to two years. And it would then be very difficult to take decisions without involving the Spaniards and Portuguese who would inevitably line up with the Italians and Greeks against any fundamental changes.

Alongside this uncertain prospect for securing reforms on olive oil, the last paragraph of the text invites the European Council to agree in principle the approach of the Commission on fruit and vegetables. This clearly implies that the European Commission would be effectively taking decisions on the proposals - which the Agriculture Council could hardly then fail to agree - on both the internal changes and on the increased protection against third countries.

Line to Take

Do not think that we can look at the last two paragraphs entirely separately. The first of these would be to leave over for up to 2 years any decisions on changing substantively the olive oil regime. I cannot see how we could justify this to the two countries with whom we are negotiating. On the other hand we are invited in the last paragraph of the draft on the Mediterranean products to endorse the approach of the Commission on fruit and vegetables. This hardly seems a balanced package.

1. FOLLOWING ARE DRAFT EUROPEAN COUNCIL CONCLUSIONS ON THE MIDDLE EAST AS AGREED BY POLITICAL DIRECTORS AT 1800Z ON 21 MARCH. PLEASE CONTACT THE NENAD DUTY OFFICER TO GET HIS COMMENTS HERE DESKBY 220600Z BUT PREFERABLY TONIGHT.

THE TEN ARE DEEPLY DISTURBED BY THE CONTINUED LACK OF PROGRESS TOWARDS PEACE BETWEEN ISRAEL AND HER ARAB NEIGHBOURS. THEY ARE CONVINCED THAT ALL PARTIES MUST SEIZE THE PRESENT OPPORTUNITY TO ACHIEVE THE TWO MOST URGENT OBJECTIVES: THE WITHDRAWAL OF ALL FOREIGN FORCES FROM LEBANON AND A RESUMPTION OF NEGOTIATIONS AIMED AT A COMPREHENSIVE PEACE SETTLEMENT.

THE TEN REAFFIRM THEIR SUPPORT FOR THE SOVEREIGN AND INDEPENDENT STATE OF LEBANON AND FOR ITS GOVERNMENT, WHICH SHOULD URGENTLY BE ENABLED TO ESTABLISH WITHOUT RESTRICTIONS ITS AUTHORITY OVER THE WHOLE OF ITS TERRITORY. THIS REQUIRES THE PROMPT WITHDRAWAL OF ISRAELI, SYRIAN AND PLO FORCES. THE TEN SUPPORT THE EFFORTS OF THE UNITED STATES TO ACHIEVE THIS OBJECTIVE. THEY [TEN] CALL ON ALL CONCERNED TO CONCLUDE NEGOTIATIONS WITHOUT FURTHER DELAY. THEY [TEN] CONTINUE TO SUPPORT THE PEACEKEEPING ROLE OF UN AND [INTERNATIONAL] FORCES IN LEBANON.

MULTINATIONAL

THE PRINCIPLES WHICH UNDERLIE THE TEN'S APPROACH TO WIDER PEACE NEGOTIATIONS, AS SET OUT IN MORE THAN ONE PREVIOUS STATEMENT, REMAIN VALID. A LASTING PEACE CAN ONLY BE BUILT ON THE RIGHT TO A SECURE EXISTENCE FOR ALL STATES IN THE REGION, INCLUDING ISRAEL, AND JUSTICE FOR ALL THE PEOPLES, INCLUDING THE RIGHT OF THE PALESTINIAN PEOPLE TO SELF-DETERMINATION [WITH ALL THAT THIS IMPLIES.] THESE RIGHTS MUST BE MUTUALLY RECOGNISED BY THE PARTIES THEMSELVES. NEGOTIATIONS WILL HAVE TO EMBRACE ALL THE PARTIES CONCERNED, INCLUDING THE PALESTINIAN PEOPLE: AND THE PLO WILL HAVE TO BE ASSOCIATED WITH THEM.

PRESIDENT REAGAN'S INITIATIVE OF 1 SEPTEMBER 1982 INDICATED A WAY TO PEACE, AND THE ARAB SUMMIT MEETING AT FEZ DEMONSTRATED A READINESS FOR IT. THE TASK NOW IS TO MOVE BEYOND STATEMENTS

OF PRINCIPLE AND FIND A MEANS TO RECONCILE AND IMPLEMENT THE VARIOUS PEACE PROPOSALS. 'SQUARE BRACKETS' THE TEN TOOK NOTE WITH INTEREST OF THE DECISIONS OF THIS RECENT MEETING OF THE PALESTINE NATIONAL COUNCIL IN ALGIERS AND EXPRESSED THE EXPECTATION THAT THEY WILL LEAVE THE DOOR OPEN FOR THE FORWARDING OF THE PEACE PROCESS. 'SQUARE BRACKETS OFF' 'SQUARE BRACKETS' THE CONCLUSIONS OF THE RECENT MEETING OF THE PALESTINE NATIONAL COUNCIL CAN AND SHOULD CONTRIBUTE TO THE PEACE PROCESS. 'SQUARE BRACKETS OFF'

THE TEN THEREFORE WELCOME THE DISCUSSIONS BETWEEN JORDAN AND THE PLO. THE PALESTINIAN PEOPLE AND THE PLO SHOULD SEIZE THE PRESENT OPPORTUNITY BY DECLARING THEMSELVES IN FAVOUR OF PEACE NEGOTIATIONS. THIS WOULD BE A MAJOR STEP FORWARD, TO WHICH THE TEN WOULD EXPECT ALL CONCERNED TO RESPOND CONSTRUCTIVELY.

THE TEN LOOK TO THE ARAB STATES TO PLAY <sup>THEIR</sup> THIS PART BY SUPPORTING THOSE WHO SEEK A SOLUTION TO THE DEMANDS OF THE PALESTINIAN PEOPLE BY POLITICAL MEANS.

THE EFFORTS OF THE <sup>UNITED STATES</sup> UK WILL CONTINUE TO BE INDISPENSABLE TO CREATE THE CONDITIONS IN WHICH NEGOTIATIONS CAN BEGIN.

ABOVE ALL THE TIME HAS COME FOR ISRAEL TO SHOW THAT IT STANDS READY FOR GENUINE NEGOTIATIONS ON THE BASIS OF SECURITY COUNCIL RESOLUTIONS 242 AND 338, IN THE FIRST PLACE BY ABSTAINING FROM SETTLEMENT ACTIVITY, WHICH IS CONTRARY TO INTERNATIONAL LAW AND A MAJOR AND GROWING OBSTACLE TO PEACE EFFORTS.

*colony  
enough  
not  
medi  
now*

THE MIDDLE EAST IS A REGION WITH WHICH THE TEN HAVE LONG BEEN CLOSELY ASSOCIATED AND IN WHOSE FUTURE THEY HAVE A DEEP INTEREST. THEY INTEND TO MAINTAIN THEIR CONTACTS WITH ALL THE PARTIES AND TO USE THEIR INFLUENCE TO ENCOURAGE MOVEMENT TOWARDS COMPROMISE AND NEGOTIATED SOLUTIONS. THEY BELIEVE THAT THIS IS IN THE BEST INTEREST OF THE COUNTRIES AND THE PEOPLES OF THE REGION, OF THE TEN THEMSELVES AND OF [RELATIONS BETWEEN THEM.]

*THEIR MUTUAL RELATIONS.*


ENDS.

NOTE:

THE TWO SENTENCES IN SQUARE BRACKETS ARE ALTERNATIVES. THE FIRST IS SUPPORTED BY THE FRG, NETHERLANDS AND (LESS STRONGLY) ITALY AND DENMARK: THE SECOND BY THE REMAINDER.

FCO ADVANCE TO:  
P/S S OF S PS/PUS NENAD





WILL BRITAIN BE EXCLUDED FROM ANY FOLLOW-UP MEETING  
CALLED BY THE FRENCH PRESIDENCY?

If the French Presidency call a further meeting to try to make progress towards an agreement, I am sure that Britain will be there.

DOES NOT THIS MORNING'S STATEMENT OF THE FRENCH  
SPOKESMAN MEAN THAT THE FRENCH ARE TRYING TO ORGANISE  
OUR PARTNERS AGAINST US?

We were ready to agree, yesterday, to a proposal put forward by the Presidency. Other Member States were not. What we must now do is work to get the agreement which so narrowly alluded us yesterday. That has to be an agreement of the Community as a whole. I am sure that it is on that basis that the Presidency will wish to call further meetings.

SPEAKING NOTE ON BUDGET IMBALANCES

1. Glad to see that some progress has been made since Athens. But unfortunately this item still seems to be in a much less advanced state of preparation than the others. Presidency text contains some useful elements, but requires to be clarified in some parts and changed in others if it is to provide a basis for agreement. There is also a German paper and President Thorn gave me a very useful paper from the Commission when he came to see me on Friday, and which I believe he has given to others.
2. I suggest that we ought now to have a discussion of substance, rather than look at texts, to establish how much common ground we have and to try to settle any outstanding points of difference.
3. First, it would be illogical and unwise to think that our main task at this meeting is simply to agree a correction for the UK based on 1982 figures. We must have a system which works consistently over time. So what we should do is to calculate the thresholds based on relative prosperity in a Community of 12, as the Presidency text suggests. *limits* The size of the correction will be a function of that.

THE GAP

4. So that brings me, secondly, to one of the most difficult problems, the measurement of the burden. The real burden for a Member State which is a net contributor, as everyone knows and as the discussion of the costs of enlargement shows, is the net outflow of funds to Brussels and on to other Member States. Without correction more than 160 million ecus a month would have flowed out of London into the allocated budget, *last year.* I cannot deceive the British Parliament and pretend the real gap is something less.

The Presidency paper is obscure on this point. It says that the part of the budgetary imbalance due to extra-Community trade will not be taken into account. If that meant excluding the tariffs and levies altogether, that would reduce the UK gap from about 2,000 million ecus to about 300 million ecus. I cannot think this is the Presidency's intention.

*VAT expenditure*  
The German and Commission papers suggest measuring the imbalance by the difference between expenditure shares and VAT shares, that is to say counting the tariffs and levies as though they were VAT. In the case of the UK, on the average of the four years up to 1982, our VAT/expenditure share gap has been 350 m ecus less than our real gap. So a threshold system based on VAT/expenditure share gap would have to produce a threshold 350 m. ecus lower than one based on the own resources/expenditure share gap if it was to leave us with the same budgetary burden.

Even from the point of view of other Member States, is it really sensible to try to pretend that the contribution we shall be making after correction is smaller than it is? As far as I am concerned, I shall have to tell my own Parliament the true figure.

TICKET MODERATEUR

5. Then, thirdly, there is the level of correction above the threshold. All three texts before us suggest in different words that it should be less than 100%. I will be frank. Whatever the system, I shall have to justify it to my own Parliament in terms of the net contribution which the UK will be paying. It is understandable that the Commission and other Member States should want us to make a very large contribution and should therefore want not only a high threshold but a percentage contribution beyond it.

I am not convinced of the case for this. But my attitude is strictly practical. It is the result that matters. If others prefer to fix a very low threshold, I should be prepared to consider a very low percentage contribution beyond it. If not, not.

ADMINISTRATIVE EXPENSES

6. Fourthly there is the question of administrative expenditure where proposals are made which will have the effect of increasing the UK's budgetary burden after correction. I see no justification for this. Under the existing allocated budget, 15% of administrative expenditure is already excluded. I strongly advise against any further attempts to make changes in the allocated budget. The text should say it will remain unchanged.

COST OF ENLARGEMENT

7. Fifthly on the cost of enlargement, **as I have** already said, I am prepared now to accept a system in which the UK's threshold limit is based on relative prosperity in a Community of 12; that will take account of enlargement. It would be contrary to everything that has been said about not hypothecating expenditure to "neutralise" the costs of enlargement as the Commission suggests.

DURATION

8. Finally, on duration, there are different formulations in the three papers before us, some more acceptable than others. ~~think~~ <sup>revised</sup> The system must continue as long as ~~no decision is taken~~ <sup>decision of which it will be an integral part.</sup> to ~~change the~~ <sup>own</sup> resources, ~~text on which we are now working.~~ The Presidency text is again a bit obscure on that. It will need to be clear.

CONCLUSION

9. Mr President, there remains much to be settled. There is also the question of the German request for a limit to be looked at. We cannot do it all at once. I welcome the Presidency's intention to produce a new paper which sets out the elements

of an arrangement on which we might all be able to agree.

10. In the light of that, I suggest we could take up the most difficult issue of all, the setting of the figures for the various parameters of the system we are agreeing.

If Mitterrand tries to organise pressure on us to accept a low refund

No rational arguments have been advanced in favour of the UK making a net contribution of 1,000 m ecus or more. [The average for the last four years has been ~~just over 500 m~~ <sup>about 600m</sup> ecus]. We shall only be just above the average in relative prosperity in a Community of 12 in 1986. If we get richer, absolutely and/or relatively, we shall have a higher limit. Four Member States much more prosperous than us will remain net beneficiaries. Each 100 m. ecu relief for the UK reduces their net benefits by very small sums - for example, 2 m. ecus for Denmark. So I must ask that the threshold, and ticket moderateur if there is to be one, be set at a level which produces a total net contribution for the UK of the order of 4-500 m. ecus.

Belgium  
Netherlands  
Luxembourg  
Denmark



BACKGROUND

After the French Cabinet Meeting today the French Government Spokesman said that consultations would take place over the next few weeks among either the six or the nine members of the Community - or more than that if it were possible. He added that nine out of ten members of the Community agreed on what should be done and Britain now found itself facing its responsibilities. There was no question of yielding to demands which would have risked undermining the building of Europe.

COMMISSION FIGURES FOR 1982 NET BALANCES.

1. On 28 January the Commission published estimates of Member States' unadjusted net budget balances for 1982. The figures (which exclude the effect of the UK refunds) are expressed as ranges, as follows:

	MILLION ECU		
BELGIUM	232	TO	292
DENMARK	276	"	312
GERMANY	-2177	"	-1993
GREECE	673	"	723
FRANCE	- 51	"	79
IRELAND	682	"	760
ITALY	1497	"	1675
LUXEMBOURG	233	"	263
NETHERLANDS	252	"	352
UK	-2108	"	-1972

*seen by AJC.*

RECORD OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND  
CHANCELLOR KOHL AT 12 NOON ON SATURDAY 19 MARCH 1983

PM: Good morning Chancellor Kohl. I'm sorry to bother you when you have so much else on your mind, but I wanted to have a word with you about the European Council Meeting and the position on the Agenda of our own Budget contribution.

CK: Of course it's absolutely natural that we must talk about this.

PM: Yes. Why I'm 'phoning particularly is that I've had a meeting with President Thorn on Thursday night which left me very deeply concerned and indeed dismayed because he virtually said that no-one in Europe was prepared to discuss the formula for this year except you yourself and he seemed to be unwilling to do anything about it, except to say that the long-term arrangements must come first. That will not do because it will take a long time to agree the long-term arrangements and it's absolutely vital that he puts up a proposition simultaneously for the long-term arrangements and an interim arrangement until we agree the long-term; that we start on that at this meeting and that the Foreign Ministers settle it at the May Foreign Affairs Council so we don't have to have it again at the June meeting.

CK: As you know from my letter I have expressly put this matter on the Agenda and it is my definite intention that the matter should be discussed at our meeting in Brussels on Monday and Tuesday and I will ensure that there will be a discussion.

PM: Yes, we have to be very firm about it Chancellor Kohl and come out with some instruction to the Commission and the Foreign Affairs Council. As you know I've been very patient and very reasonable about this for there are very good and political reasons in the belief that when those political reasons were settled that we should get a reasonable settlement and quickly. To my utter amazement there is no urgency in the Commission and I'm now in the position where for the first time since 1980 we have entered a financial year without any formula for understanding about our Budget refunds. I shall be closely cross-examined in Parliament on my return from the European Council and I must be in a position to make it perfectly clear that there has been an instruction both to the Commission and Foreign

/ Affairs



Affairs Council to settle this matter at the May meeting, so that we don't have to have a really public row which I should hate to have at the June meeting.

CK: I've spoken to President Thorn as well and I do indeed agree that the matter should be discussed at our meeting in Brussels next week. I am in favour, as you have suggested of the matter being put to the European Commission and then on to the meeting of the Foreign Affairs Council. I agree with you the problem is not going to go away. The European Parliament has taken up its position on this matter as well.

PM: Yes. I think what has happened is that the Commission is now frightened to death of the Parliament and therefore will not do what has to be done. That means that the Commission and I are on collision course and I know we can rely on you in the Chair Chancellor Kohl for your constructive help, for which I'll be very grateful. But I felt I should warn you of the problem and that it could give rise to a very difficult meeting unless clear instructions are given to the President of the Commission.

CK: Yes, Prime Minister I am clear about your difficulties and the importance of the problem for you and for all of us. But I must mention that we have other very difficult problems at the moment as well. I am thinking particularly of our current discussions with the French about currency realignment. I repeat that the matter of the British Budget contribution is on the Agenda for the meeting next week and I envisage an effective discussion of it.

PM: Good. Well so long as we have an effective and decisive discussion of it. I know you've got other things on your mind this weekend but of course I was promised a decision on the formula for this year last November. That was after a previous year's discussion on the long-term issue. And as I say I have been patient and reasonable and I am entitled to expect a little return for that now, and I shall therefore press my point very strongly indeed on Monday because I must have a decision because otherwise we're in the position this year where we have no understanding at all about the refunds for our enormous contribution. But I think we're fortunate that Chancellor Kohl is in the Chair because I think he understands our problem and

/ I look

I look forward to the meeting so long as he understands that I shall be extremely firm at that meeting.

CK: This has always been my position and that's what I said to President Thorn. I think the next step is that we get down to business on Monday.

PM: Good. Thank you very much. I'm very grateful to have the chance of a few words with you Chancellor Kohl and I hope that the EMS negotiations go as you would wish them this weekend. Thank you.

CK: Many thanks Prime Minister. I wish you a good weekend.

PM: Thank you. Look forward to seeing you on Monday. Goodbye.

✓cc PM, AJC  
RB  
BI  
DIC



DEPARTMENT OF ENERGY  
THAMES HOUSE SOUTH  
MILLBANK  
LONDON SW1P 4QJ

01-211 4391

SIR KENNETH COUZENS KCB  
PERMANENT UNDER-SECRETARY OF STATE

19 March 1983

Dear John

AR 18/3

EUROPEAN COUNCIL: ENERGY

p.a.

As arranged, I attach what is in fact a revised brief on energy which substitutes for (EHG(B)(83) 10. Revise). It takes account of the most recent developments and of Ministerial discussions. The Secretary of State for Energy's recent paper on Oil Prices and the UK Economy is also relevant.

2. I am sending a copy of this revision to David Hancock, Cab, Office, Richard Evans, FCO and Geoffrey Littler, Treasury.

Yours etc

Ken

John Coles Esq  
No 10 Downing Street  
SW1.

GRS 800



*H. G. G. Terminal*

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*PS.*

*No. 10* *COLES* *x7*

*M5*

*\**

*FCO - HANNAY  
DE FONBLANQUE  
CAS - HANCOCK, LAMBERT  
MAFF - ANDREWS  
TSY - COLLETT LINDIN.*

1. I CARRIED OUT INSTRUCTIONS IN YOUR TELNO. 063 TO ATHENS WITH DIRECTOR GENERAL, ECONOMIC AFFAIRS, AT MFA ON 18 MARCH. I GAVE BUCCI A SPEAKING NOTE BASED ON PARA 3 OF TUR AND EMPHASISED THE UNREALITY OF EXPECTING HEADS OF GOVERNMENT TO TAKE THE HALF-DIGESTED DOSSIER ON THE MEDITERRANEAN ACQUIS. BUCCI INTERRUPTED ME HALF WAY THROUGH TO SAY THAT HE FULLY SHARED THESE VIEWS, AND WAS SURE THAT COLOMBO WAS OF THE SAME OPINION. IT WAS QUITE UNREALISTIC TO EXPECT THE EUROPEAN COUNCIL TO BECOME INVOLVED IN THE DETAIL AT THIS STAGE. HE DID NOT RULE OUT REFERENCE OF THE DOSSIER TO THE FOREIGN AFFAIRS COUNCIL LATER WHEN MORE WORK HAD BEEN DONE ON IT.
2. COLOMBO ON WHOM I CALLED YESTERDAY EVENING, TOOK THE SAME LINE, AS BUCCI HAD SURMISED. BUT HE LAID GREATER STRESS ON THE NEED FOR SOLUTIONS TO THE ISSUES UNDER DISCUSSION IN THE ACQUIS NEGOTIATIONS IN LINE WITH ITALIAN OBJECTIVES. HOW COULD HE, AN ITALIAN FOREIGN MINISTER, AGREE TO MEDITERRANEAN REGIMES BEING TREATED DIFFERENTLY FROM NORTHERN PRODUCT REGIMES? HE COULD NOT ACCEPT SPECIFIC FINANCIAL RESTRICTIONS WHICH DID NOT APPLY TO NORTHERN FARM PRODUCE. I SAID THAT OUR POSITION WAS EQUALLY CONSISTENT: WE HAD LONG PRESSED FOR REFORM OF NORTHERN PRODUCT REGIMES AND WERE NOT SEEKING DIFFERENT OBJECTIVES FOR THE MEDITERRANEAN PRODUCE. IT WAS IMPORTANT THAT OUR TWO COUNTRIES SHOULD NOT END UP QUARRELLING UNNECESSARILY OVER MEDITERRANEAN AGRICULTURE: THERE WERE WIDER ISSUES TO BE CONSIDERED. COLOMBO AGREED, AND SAID THAT HE HAD IT IN MIND TO SEND TO HIS FOREIGN MINISTER COLLEAGUES A LETTER PROPOSING THAT THEY HOLD A SPECIAL MEETING DEVOTED TO THE SEARCH FOR A GLOBAL SOLUTION TO THE NEXUS OF ISSUES ON WHICH THE COMMUNITY WAS STUCK. THIS SHOULD ALSO INCLUDE A SURVEY OF COMMUNITY POLICIES, PRESENT AND FUTURE. HE FULLY UNDERSTANDS OUR OBJECTIVES AT THE COUNCIL AND IN THE SUBSEQUENT WEEKS.
3. ON OTHER ISSUES, COLOMBO DID NOT APPEAR WELL BRIEFED ON LATEST DEVELOPMENTS ON THE EMS. WE BOTH AGREED THAT AN UPSET OVER THE SYSTEM WOULD DO THE COMMUNITY NO GOOD AT THE PRESENT JUNCTURE. ON WILLIAMSBURG, COLOMBO HAD FOUND REGAN IN WASHINGTON RATHER MORE OPEN THAN HE HAD EXPECTED ON THE POSSIBILITIES OF SOME CLOSER COLLABORATION ON FINANCIAL QUESTIONS BETWEEN THE U S AND THE EUROPEANS AND HE MIGHT MENTION THIS TO HIS COLLEAGUES. ON EAST/WEST I SAID THAT THE U S APPEARED STILL TO HAVE VERY AMBITIOUS OBJECTIVES: I KNEW THAT YOU WERE CONCERNED ABOUT THIS, AND HAD MENTIONED TO SHULTZ THE RISK OF LOSING SOME EUROPEAN SUPPORT. COLOMBO AGREED.
4. FANFANI'S STAFF AT THE CHIGH TELL US THAT HE WILL BE GOING TO BRUSSELS EXPECTING THE SUMMIT TO CONCENTRATE ON ECONOMIC ISSUES.

4. FANFANI'S STAFF AT THE CHIGI TELL US THAT HE WILL BE GOING TO BRUSSELS EXPECTING THE SUMMIT TO CONCENTRATE ON ECONOMIC ISSUES, ALTHOUGH THE MIDDLE EAST, ESPECIALLY LEBANON (OVER WHICH THE ITALIANS ARE VERY CONCERNED) AND EAST/WEST RELATIONS WERE BOUND TO BE DISCUSSED. THE ITALIANS THOUGHT KOHL'S LETTER HAD NOT BROUGHT OUT HOW CONTROVERSIAL SOME OF THE CURRENT ISSUES WERE. THEY EXPECTED DISCUSSION TO DIVIDE INTO ITEMS ON WHICH THERE WOULD BE A BRIEF ORIENTATION DEBATE LOOKING TO SUBSTANTIVE PROGRESS AT STUTTGART (ENERGY, INDUSTRIAL POLICY, TECHNOLOGY), AND ITEMS REQUIRING URGENT ATTENTION. THESE WERE:

THE BRITISH BUDGETARY IMBALANCE

THE REFORM OF THE MEDITERRANEAN ACQUIS

THE ROW BETWEEN FRANCE AND THE FRG OVER THE EMS.

THERE WOULD ALSO BE DISCUSSION OF EC/US ECONOMIC RELATIONS: THE ITALIANS AS BEFORE WOULD URGE A CALM AND MEASURED ATTITUDE ON THE PART OF THE EC.

COMMENT

5. ON THE BUDGET ISSUE THERE IS UNLIKELY TO BE ANY CHANGE IN ITALIAN VIEWS, PERHAPS COLOURED NOW BY OUR LINE ON THE ACQUIS NEGOTIATIONS. YOU MAY WISH TO DRAW SOME OF THE STING BY SEEKING OUT COLOMBO AND MAKING IT CLEAR HOW DISTURBED WE ARE THAT OUR LINE ON THE ACQUIS, ESPECIALLY OLIVE OIL, SHOULD EVOKE SUCH ITALIAN HOSTILITY (TO OUR MUTUAL DISADVANTAGE) WHEN IT IS ENTIRELY CONSISTENT WITH OUR POSITION ON OTHER ASPECTS OF THE CAP.

6. FANFANI IS SAID TO BE CHIEFLY PREOCCUPIED BY THE POSSIBLE FALL-OUT FROM THE FRANCO GERMAN ROW OVER THE EMS AND THE DANGER THAT FRENCH MAY WITHDRAW SULKILY TO THEIR TENT. HIS STAFF EXPECT HIM TO EXERT HIMSELF TO ENSURE THAT THE FRENCH CONTINUE TO PLAY WHAT THEY DESCRIBE AS THE EUROPEAN CARD. HE WILL BE CONFRONTING HIS COLLEAGUES MORE CONFIDENT OF HIS DOMESTIC POSITION THAN AT THE LAST COUNCIL, AND, AFTER FULL BILATERAL MEETINGS SINCE WITH MANY OF THEM, INCLUDING THE PRIME MINISTER, MORE FAMILIAR WITH THEM AND THEIR OBJECTIVES. HE IS IN NO DOUBT ABOUT OURS.

7. RESIDENT CLERK PLEASE PASS TO PS/NO.10 AND PRIVATE SECRETARY.  
FCO PLEASE PASS SAVING ADDRESSEES

BRIDGES

NNNN



Qz.03054

MR COLES *AR 15/3* *Mr.*

cc: Mr Bone, APS/Foreign and Commonwealth Secretary  
Sir Robert Armstrong, o/r

EUROPEAN COUNCIL: PRESIDENT MITTERRAND

Mr Evans of the Foreign Office has just telephoned from San Diego to report on the talks that he and Sir Robert Armstrong have had with the French representatives there.

2. Monsieur Attali, President Mitterrand's senior advisor on international matters, did not in fact go to San Diego and the President was represented by Monsieur Pierre Morel of the Elysee staff. Both Monsieur Morel and Monsieur Jean Claude Paye of the Quai d'Orsay said that the line which the Prime Minister intends to take on the budget problem would come as no surprise to President Mitterrand. They were not able to predict how President Mitterrand would react but they did reveal that Monsieur Chandernagor's surprisingly forthcoming statement on the long-term solution to the Foreign Affairs Council on 14 March was quite deliberate and had been authorised by the President. (My minute of 15 March summarizes this statement.)

3. Monsieur Paye also told Mr Evans that he was hoping to get authority from his Ministers for a further round of bilateral discussions at official level with the United Kingdom. He indicated that the delay in arranging these discussions had not been caused by any ill-will but simply by the fact that French Ministers had been totally preoccupied by their elections.

4. We have not suggested that the Prime Minister should arrange a bilateral with President Mitterrand on this occasion. If they were to talk together the best subjects to discuss would probably be the preparations for Williamsburg and the danger of a trade war with the United States. On the budget issue, we would recommend that the Prime Minister confined herself to saying that:-

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- (i) for domestic political reasons she had to have a settlement of the immediate problem by June; and that
  
- (ii) on the longer-term solution she had noted with interest what Monsieur Chandernagor had said at the Foreign Affairs Council. She understood that French and British officials were discussing these matters and she hoped that these bilateral discussions would continue. It would of course be essential to keep the Germans fully informed.

D.H.

D J S HANCOCK

18 March 1983

PRIME MINISTER

cc: Mr. Flesher  
Duty Clerk

CHANCELLOR KOHL

We have arranged with his Office that you 'phone him at noon our time on Saturday. (The Duty Clerk should know that Chancellor Kohl's telephone number is Bonn: 562000). We shall need the usual interpretation and an interpreter will be available at No. 10 from 1145 onwards.

I attach a speaking note which you may care to use.

As agreed, I spoke to the Chancellor's Office first thing this morning and explained our attitude to him. This has been followed up with a telegram so your message will come as no surprise to the Chancellor.

A.S.C.

18 March 1983



TELEPHONE CONVERSATION WITH CHANCELLOR KOHL

Speaking Note for the Prime Minister

1. ~~Congratulations on your success in the elections.~~
2. Thank you for your letter about the way you intend to conduct the business at the European Council.
3. In general I agree with what you suggest. In particular I am sure it is right to dispense with the usual time-consuming discussion of the economic and social conditions in the individual member states.
4. I was, however, surprised that you referred to the budget problem as if it were just a British problem. It is, of course, a Community problem and, at the Foreign Affairs Council on 14 March, President Thorn agreed to introduce the discussion of it.
5. I saw President Thorn last night. He made me very apprehensive about the discussion on Monday. He said that, apart from the Federal Republic, the other member states were not ready to negotiate seriously about the problem of 1983 and later.

/6.

*Handwritten signature*

*With call.*

6. The European Council's decisions must reflect political realities. The United Kingdom did not raise the issue before the German Elections because we recognised that, to do so, would conflict with political realities in Germany. Now that the German elections are successfully out of the way, the Community must get down to the task.

7. Next week's European Council must agree that serious negotiations about both the long term solution and the interim period shall begin immediately after Easter. The Council should instruct Foreign Ministers to settle the problem of the interim period at the May Foreign Affairs Council at the latest so that it does not have to appear on the agenda of the European Council in June. We must also make progress on the long-term solution - the European Parliament are right to press for this.

8. I hope that I can rely on your help. I shall be closely questioned by the House of Commons next week on what happened at the European Council. I have done all I can to prevent a crisis in the Community and I must now look to colleagues for help.

Eno M Budget  
Sprengle

CONFIDENTIAL

Qz.03052

MR COLINS

*ML*  $\frac{15}{3}$   
h.a.  
cc: Mr Bone, FCO  
Mr Hatfield

MESSAGE TO CHANCELLOR KOHL

As agreed last night, I am sending you with this minute:-

- (i) a draft telegram to Bonn which incorporates a speaking note for you to use when talking to Chancellor Kohl's office; and
- (ii) a speaking note for the Prime Minister to use when she can find time to telephone Chancellor Kohl herself.

D.H.

D J S HANCOCK

18 March 1983

CONFIDENTIAL

CONFIDENTIAL

Draft telegram

To: FLASH BONN

Copied IMMEDIATE for information to UKREP BRUSSELS  
AND ALL EC COMMUNITY POSTS

EUROPEAN COUNCIL 21/22 MARCH

Following the Prime Minister's talk with President Thorn last night, Coles (No 10) telephoned [ Schreckenberger ] in the Federal Chancellor's office and spoke as follows on the Prime Minister's instructions. Please deliver a copy of the message to Kohl's office to ensure that there has been no misunderstanding and also that Chancellor Kohl will be properly briefed when the Prime Minister telephones him this afternoon or tomorrow.

2. Begins.

The Prime Minister was disturbed by her talk with President Thorn last night and would like to have a word about it with Chancellor Kohl as soon as this can be arranged - either this afternoon or tomorrow. The Prime Minister reminded President Thorn of the history of the negotiations on the solution to the budgetary problem for 1983 and later and, in particular, the fact that no solution was agreed last November despite the commitment by the Foreign Affairs Council to agree one by that date. She explained the political necessity for such a solution by June in the same terms as she used when Chancellor Kohl visited her in London on 4 February.

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3. President Thorn said that, although he understood the problem and sympathized with the Prime Minister's position, he did not believe that the other member states, with the exception of the Federal Republic, were ready to negotiate seriously on the interim solution. He was not confident that the European Council on Monday would agree to a timetable for the negotiations on the interim solution.

4. The Prime Minister wishes to be sure that Chancellor Kohl understands the seriousness of the problem that would arise if the European Council failed to deal with the issue of the interim solution. In view of the fact that no arrangement has been made for 1983 and that a lasting solution to the problem will obviously take time to negotiate, the European Council must address this issue.

5. It is, in the Prime Minister's view, essential that the European Council should invite the Commission to make proposals in time for them to be considered by the Foreign Affairs Council in April. The Commission's proposals must cover both a lasting solution to the problem, as requested by the European Parliament following discussion of their Green Paper, and also how the problem will be dealt with in 1983 and the subsequent years of the interim period before the lasting solution is put in place. The European Council must agree that the problem of this interim period should be settled before its next meeting in

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June. The negotiations on the future financing of the Community must be conducted in parallel with the negotiations on 1983 and later.

MESSAGE ENDS.

TELEPHONE CONVERSATION WITH CHANCELLOR KOHL

Speaking Note for the Prime Minister

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2. Thank you for your letter about the way you intend to conduct the business at the European Council.
3. In general I agree with what you suggest. In particular I am sure it is right to dispense with the usual time-consuming discussion of the economic and social conditions in the individual member states.
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18 MAR 1985

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Mr. Coles

A revised version of this note, giving the figures as a % of the normal adult wage, is being prepared by the Dept. of Employment.

D.H. 18/3.

QS/03213

MR HANCOCK

EMPLOYMENT SCHEMES FOR YOUNG PEOPLE : UK/GERMANY

There are currently two schemes in operation in the United Kingdom

1. Young Workers Scheme

This provides grants to employers employing school leavers in their first year of employment at less than the prescribed level of wages. At present employers paying less than £40 per week receive £15 for each employee: employers paying less than £45 a week receive £7.50.

2. Youth Opportunities Programme

Grants are paid to unemployed young people undertaking short courses geared to work preparation. Most courses are of 13 weeks but can be up to a year. Trainees are paid £25 a week.

From September of this year YOP will be replaced by the Youth Training Scheme (YTS). The scheme will cover 16 year old school-leavers who are employed or unemployed and some 17 year old school-leavers. The aim is to provide 460,000 places in 1983/4. Organisations which offer schemes will receive a grant of £1850 per trainee from the MSC and the trainees will be paid an allowance similar to that paid to YOP trainees (£25 a week).

Arrangements in Germany are very different, since around 80 per cent of German young people normally pass through apprenticeship schemes. Trainees are paid an average of around £150 a month: there is no direct government contribution.

How by?

A small-scale training scheme, run by the Federal Employment Institute, exists for young people who are unable to gain a place on a normal apprenticeship scheme. The government's payment to the students is 275 DM a month (around £78). This grant is means-tested.

*J C Mackenney*

J C MACKENNEY .

17 March 1983

Chargé d'Affaires a.i.  
DER-BOTSCHAFTER  
DER BUNDESREPUBLIK DEUTSCHLAND

London, 17 March 1983

Prime Minister

A.S.C.  $\frac{15.}{3}$

Dear Prime Minister,

I have just received the text of a letter addressed by Chancellor Helmut Kohl to his colleagues in preparation for the next European Council which I have been instructed to convey to you and which I hasten to transmit herewith.

I am, dear Prime Minister,  
very sincerely yours,

Jürgen Alten

Jürgen von Alten

The Rt.Hon. Margaret Thatcher, MP  
Her Majesty's Prime Minister and  
First Lord of the Treasury  
L o n d o n

9 Internal Affairs

26 Aid Plan

15 Youth Unemployment

6 - 6 Maycross

19 Agricultural Ministers

5 Budget

Dear Prime Minister,

since there is a very extensive list of topics to be covered at the forthcoming meeting of the european council in brussels on 21 and 22 march, we should together try to focus our consultations on several main points. accordingly, i should like to present a few suggestions prior to the meeting concerning the course of our discussions.

in considering the economic and social situation in the community, i think it would be sensible to dispense with the usual, time-consuming discussion of economic and social conditions in the individual member states and instead to concentrate immediately on those issues on which the heads of state and government may be expected to provide guidelines.

i am thinking primarily of the fight against unemployment among young people and issues regarding the internal market.

- ①
- ②
- ③
- ④

in this context we might direct our attention also to specific community problems, such as our energy and research policy, the topic of the budget which the united kingdom intends to bring up and the question of reciprocal recognition of diplomas. in addition, the pressing environmental problem of our dying forests should be given particular attention.

⑤

⑥

a further focal point of our meeting should be the negotiations with portugal and spain. the european council should clearly reaffirm the community's political commitment to expansion towards the south by underscoring its desire to achieve tangible progress in the negotiations on those countries' accession. this applies in particular to the sphere of agriculture. it is

Thema

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Int. Market.

Young Unemp.

Diplomas

Expansion.

Budget.

Knowe and Men

7) our task to ensure that the council succeeds without delay in making the necessary decisions for carrying out the copenhagen working programme. as you know, the council (agriculture) was unable to agree on an adjustment of the eksisting regulations concerning fruits and vegetables and olive oil. in these two issues, however, an agreement seems to me to be of foremost importance. we should therefore call upon the council (agriculture) and the general council to make strong and determined efforts to reach such an agreement regarding the problems at hand. this means that we must all be willing to take a step towards each other, clearing the way for feasible compromises.

i deeply hope that at the end of our deliberations we will clearly voice our will and readiness to make swift progress in the negotiations with spain and portugal, and thus lay the groundwork for the integration of those two new member states into the community, without allowing this to have unfavourable consequences for the community's further development. a thorough report on this will be necessary at our nekst meeting in june.

8) furthermore, i consider it important for us to discuss the relations between the community and the united states. i am thinking particularly of the current discussion concerning agricultural issues which we are carrying on in a spirit of partnership with the united states.

ende uebersetzung seite 1

folgt uebersetzung seite 2

9) finally, we should use this opportunity for a first ekschange of views regarding the forthcoming economic summit meeting in williamsburg. in this connection we might also discuss the focal points of the economic policy of our countries. as in the past, further preparation for williamsburg will be the responsibility of the council.

it should be possible for us to wrap up our discussion of the topics mentioned above during the afternoon of 21 march, so that we would not need to address these issues again the nekst morning. i would be gratified if the president of the commission would open the discussion on community affairs by giving a brief summary of the issues of central concern to the commission. the chairman of the council might give supplementary information, particularly about the progress that has been made so far in the working programme agreed upon in copenhagen.

at dinner we should, as usual, discuss the subjects which individual members consider especially important. particular significance might well be attached to issues of east-west relations.

10) on the second day of our meeting, i.e. on 22 march, we might begin by hearing a progress report from herr genschler on the current state of deliberations on the german-italian initiative. we should then discuss the subjects of european political

co-operation. two main areas to be dealt with in this connection are undoubtedly the east-west relationship and the middle east. i hope that these suggestions find your support. i would appreciate it very much if you would inform me of your thoughts on these matters.

our luncheon together before the opening of the meeting of the european council would offer an oppogptunity to do so.

i am very much looking forward to seeing you soon in brussels.

sincerely yours,

(sgd.) helmut kohl

chancellor of the federal republic of germany

Sehr geehrte Frau Premierministerin,

''fuer die bevorstehende tagung des europaeischen rats am 21. und 22. maerz in bruessel liegt uns eine sehr umfangreiche themenliste vor. wir sollten daher gemeinsam den versuch unternehmen, unsere beratungen auf einige schwerpunkte zu konzentrieren. dazu moechte ich ihnen vorab einige anregungen zum gang der diskussion uebermitteln.

bei der beratung der wirtschaftlichen und sozialen lage in der gemeinschaft erscheint es mir zweckmaessig, wenn wir uns, unter verzicht auf die sehr zeitraubende uebliche darlegung der wirtschaftlichen und sozialen lage in den einzelnen mitgliedstaaten, von vornherein auf die fragen konzentrieren, zu denen von den staats- und regierungschefs orientierungen erwartet werden koennen.

ich denke vor allem an die bekaempfung der jugend- arbeitslosigkeit und an fragen des binnenmarktes.

wir koennten uns in diesem zusammenhang auch einigen spezifischen gemeinschaftsproblemen zuwenden, der energie- und forschungspolitik, dem vom vereinigten koenigreich angekuendigten thema haushalt sowie der frage der gegenseitigen anerkennung der diplome. auch das draengende umwelt- problem des waldsterbens sollte von uns mit besonderer aufmerksamkeit behandelt werden.

ein weiterer schwerpunkt unserer tagung sollten die verhandlungen mit portugal und spanien sein.

der europaeische rat sollte das politische engagement der gemeinschaft zur suederweiterung sichtbar bekraeftigen, indem er seinen klaren willen zu merkbaren fortschritten in den beitriffsverhandlungen bekundet.

das gilt namentlich fuer den bereich der landwirtschaft.



es ist unsere aufgabe sicherzustellen, dass der rat zur erfuellung des arbeitsprogramms von kopenhagen rasch die erforderlichen entscheidungen trifft. wie sie wissen, konnte der rat (landwirtschaft) kein einvernehmen ueber die anpassung der bestehenden regeln fuer obst und gemuese sowie fuer olivenoel erzielen. eine einigung in diesen beiden fragen scheint mir jedoch vordringlich zu sein. wir sollten daher den rat (landwirtschaft) wie auch den allgemeinen rat auffordern, ueber die anstehenden probleme mit nachdruck und entschlossenheit eine einigung anzustreben. dies setzt unser aller bereitschaft voraus, aufeinander zuzugehen, um den weg fuer gangbare kompromisse frei zu machen.

ich hoffe sehr, dass wir am ende unserer beratungen deutlich unseren willen und unsere bereitschaft zum ausdruck bringen, die verhandlungen mit spanien und portugal rasch voranzubringen, damit die grundlage fuer die eingliederung der beiden neuen mitgliedstaaten in die gemeinschaft legen, ohne dass dies unerwuenschte auswirkungen auf die weitere entwicklung der gemeinschaft ausloest.

auf unserem naechsten zusammentreffen im juni wird hierueber ausfuehrlich zu berichten sein.

des weiteren erscheint es mir erforderlich, dass wir ueber die beziehungen zwischen der gemeinschaft und den usa sprechen. ich denke besonders an die aktuelle diskussion zu agrarfragen, die wir im geiste der partnerschaft mit den usa fuehren.

im uebrigen sollten wir die gelegenheit zu einem ersten gedankenaustausch ueber den naechsten wirtschaftsgipfel in williamsburg nutzen. hierbei koennten wir auch ueber die schwerpunkte in der wirtschaftspolitik unserer laender sprechen. die weitere vorbereitung fuer williamsburg wuerde, wie auch schon in der vergangenheit, in haenden des rats liegen.

es sollte uns moeglich sein, die bisher genannten themen am 21. maerz im laufe des nachmittags abschliessend zu behandeln, so dass eine wiederaufnahme der diskussion zu diesen themen am naechsten morgen nicht notwendig ist.

ich wuerde es begruessen, wenn der praesident der kommission die diskussion ueber die gemeinschaftsthemen mit einer kurzen darstellung der fuer die kommission zentralen fragen einleiten wuerde. der vorsitzende des rats koennte ergaenzend berichten, insbesondere ueber den stand der arbeiten zu dem in kopenhagen beschlossenen arbeitsprogramm.

bei unserem abendessen sollten wir wie ueblich diejenigen themen ansprechen, die der eine oder andere aus unserem kreis fuer besonders wichtig ansieht. ich koennte mir vorstellen, dass dabei fragen der ost-west-beziehungen einen wichtigen platz einnehmen.

am zweiten tag, d.h. am 22. maerz, koennten wir zunaechst

einen bericht von herrn genscher ueber den beratungsstand zur deutsch-italienischen initiative entgegennehmen. im anschluss daran sollten wir die themen der europaeischen politischen zusammenarbeit besprechen. ich denke, dass dabei namentlich das ost-west-verhaeltnis und der nahe osten gegenstand unserer beratungen sein werden.

ich hoffe, dass sie diesen anregungen zustimmen koennen. ich waere ihnen sehr dankbar, wenn sie mich ihre ueberlegungen dazu wissen liessen.

unser gemeinsames mittagessen vor beginn der tagung des europaeischen rats wird hierfuer gelegenheit bieten.

ich freue mich sehr, mit ihnen in kuerze in bruessel zusammenzutreffen und bin mit freundlichen gruessen  
ihr helmut kohl  
bundeskanzler der bundesrepublik deutschland'



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON S.W.1  
TELEPHONE: 01-~~XXXXXXX~~ EXT. 5310  
233 3000

CONFIDENTIAL  
D H A Hannay Esq  
Foreign and Commonwealth  
Office  
Downing Street (East)  
London SW1

16 March 1983

*David*

#### MEDITERRANEAN ACQUIS

In the light of this week's discussion in the Agriculture Council and other indications that the Italians are mounting an emotional resistance to the idea of a flat rate aid on olive oil, it seems likely that their Prime Minister will want to promote a substantive discussion of this at the European Council. We have thought it right to produce a rather fuller brief, the draft of which is attached to this letter so that it is available before tomorrow's briefing meeting. But we shall have to send round a final version on Friday.

There are two related procedural issues on the Mediterranean acquis, one of which is covered in the briefing and the other not.

On the timetable for settling the acquis, the steering brief speaks of an instruction to Agriculture Ministers "to complete their work and take the necessary decisions without delay". It has been suggested that we should go further than this and seek to lay down some new deadline (now that the end of March is clearly no longer realistic). It has been suggested that the end of April would be a suitable deadline. But I doubt whether a further deadline is going to influence developments in the Agriculture Council. More importantly, it would hardly seem to improve the credibility of the European Council to keep on laying down deadlines which are not observed.

The second related issue is the link with the price fixing. We do not consider that the Prime Minister should be briefed to go for a linkage, and there are a number of reasons for this. First, our main aim must be to get a satisfactory settlement on olive oil when we make concessions on fruit and vegetables. The problem, however, is that progress on the first dossier is much less advanced than on the second. So, if the Prime Minister were to press the linkage with the price fixing there is a danger that we would merely end up playing into the hands of the French, who want to deal with fruit and vegetables then, leaving the olive oil dossier unresolved if necessary, whereas our only prospect of getting a sensible settlement on olive oil would seem to be if we maintain the parallelism with the fruit and

vegetable part of the acquis. Second, the German Presidency are not making a link with the price fixing and, since they the Dutch and the Danes are our main allies in insisting on parallelism between the two acquis dossiers in order to get olive oil resolved, we want to avoid getting out of step with them. Third, if we make a strong link with the price fixing, we have to recognise (as we saw on wine) that at the end of the day we could not maintain that we had an important national interest which was at stake in these two dossiers. If we tried to do so, we could risk a replay of last May.

If you are still inclined to argue that we should go for a linkage between the acquis and the price fixing, I think that this point might be usefully brought out and aired at tomorrow's briefing.

I am copying this letter and the enclosure to John Coles (No. 10), Brian Unwin (Treasury) and David Hancock (Cabinet Office).

*ours*  
*Deuch.*

D H ANDREWS

Prime Minister

A. J. C. 15/8

Chargé d'Affaires a.i.  
~~DER BOTSCHAFTER~~  
DER BUNDESREPUBLIK DEUTSCHLAND

London, 16th March 1983

1. Copy ~~ASAP~~ to ECO (E)  
 Mr D. Stoddley ~~ASAP~~ 15  
 Private office ~~ASAP~~ 15/17. Hand  
 2. Mr Young - P. 10/11/83  
 PS/17/11/83  
 5-2. Zeller  
 D. Bouvier  
 Dr. Haug

Dear Secretary of State,

I have just received the text of a letter from Secretary Shultz to Foreign Minister Genscher which I have been instructed to convey to you and which I hasten to transmit herewith.

Yours, dear Secretary of State,  
very sincerely yours,

Jürgen von Alten  
Jürgen von Alten

The Rt. Hon. Francis Pym, MC, MP  
Her Majesty's Principal Secretary of State  
for Foreign and Commonwealth Affairs  
L o n d o n

march 14, 1983

dear hans-dietrich:

i want to ekspress my deep concern to you that the u.s. and the european community appear to be embarked on a collision course over the use of agricultural eksport subsidies. you surely share my concern about the danger that our differences over agriculture will spill over onto other issues and thereby damage the fundamental relationship between the united states and europe. i am raising ths issue with you now not only because i know we share that point of view, but also because germany, as the presidency country of the european community, has a specific role as interlocutor of the united states. this role was recognized by the other member states when they agreed to your sending me your letter of february 25.

this is not the time to discuss, much less debate, the trans-atlantic differences over the use of agricultural eksport subsidies. at this late stage in the dispute, we must, rather, seek to resolve these differences, or failing that, find ways to contain the harm this dispute can do to the alliance.

-2-

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on march 17, vice president haferkamp and commissioner dalsager will be meeting with bill brock and other senior figures in the u.s. government. i sincerely hope they will be bringing with them proposals that will offer the prospect of the composition of our differences. to achieve this, the commission proposals will have to be more imaginative for the short term, and far-reaching for the long term, than what the commission presented to us in january and february. i do not mean to intrude into the internal workings of the community, but since you raised this issue with me, i thought it appropriate to suggest that you consider whether, on the basis of our own understanding of this near-crisis, you wish to reinforce commission president thorn's effort to develop forthcoming proposals.

what happens after march 17 depends heavily on what the commission proposes at the meeting. if the commission makes meaningful new proposals, i shall argue for serious consideration of them within the u.s. government. given the political pressures that have developed here over this issue, we shall have to move very fast-- if there is a basis for movement.

i realize that there are similar pressures in europe, and i understand that this issue will arise at the european council meeting of march 21-22. i would hope that germany could, at that meeting, seek to mobilize support for commission proposals--assuming that these proposals at least create the basis for further us-ec discussion.

if the proposals do not provide a basis for a negotiated settlement of our agricultural differences in the near future, we then have a different set of responsibilities. if the community and the united states must differ over agricultural exports to third markets, let us at least try to restrict the dispute to such markets, and resist pressures for other kinds of actions.

again, i shall argue for such a position here, should that be the only option open (semi) and i hope that germany would resist the pressures that will probably arise within the community, perhaps as soon as the european council of march 21-22.

i hope we can come out with a better result than one of pure damage-limitation. i will bend my best efforts here to achieve a positive result.

with best regards,  
sincerely,  
george p. shultz.

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Qz.03048

SIR ROBERT ARMSTRONG

cc: Mr Stapleton  
Mr Durie

COMMUNITY BUDGET AND SAN DIEGO

I refer to my minute of 10 March. I delayed the submission of the brief for your talk with Monsieur Attali until after the discussion at the Foreign Affairs Council on 14 March.

2. The brief agreed by the Foreign Office and the Treasury is now attached. Also attached is a copy of UKREP tel No. 1103 of 14 March reporting the Foreign Affairs Council discussion.

3. It went remarkably well. I would call your attention in particular to the statement by Monsieur Chandernagor reported in paragraph 10. It is closer to our ideas than any statement by a French Minister that I can recall since I first dealt with the Community budget problem in 1972.

4. But we are a long way from getting what the Prime Minister needs - namely a solution for 1983, and the following years of the interim period, by June. Thorn and Genscher have committed themselves to introducing a discussion of the Green Paper at the European Council so that the fears expressed in paragraph 3 of my minute of 10 March were exaggerated. But you will note from the telegram that both the Germans and the Commission are tending to brush the problem of 1983 aside.

5. I hope therefore that you will take every opportunity in San Diego to impress on Attali, Paye, Fischer and Durieux the need for separate proposals by the Commission on both the lasting solution and the interim problem in time for the April Foreign Affairs Council.



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6. It may be necessary for us to compromise at the European Council itself along the lines of what Monsieur Davignon said to you in Brussels. But I think that it would be tactically unwise to drop any hint of that before we actually get to the European Council. Some contingency planning on forms of words is in hand.

D.H.

D J S HANCOCK

15 March 1983

bc: Mr Evans )  
Mr Hannay ) FCO  
Mr Spreckley )  
Mr Fry )

Mr Unwin )  
Mr Ingham ) H M Treasury

Sir Michael Butler, UKREP

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EC BUDGET PROBLEM

SPEAKING NOTE FOR SIR ROBERT ARMSTRONG'S MEETING WITH M ATTALI BETWEEN  
16 AND 19 MARCH

Bilateral contacts

1. Very encouraged to hear of the considerable contacts (list at annex) which have taken place between our countries on the EC Budget problem since the Anglo-French Summit last November.
2. The discussions M Cheysson had with the Foreign Secretary and with the Chancellor of the Exchequer at the beginning of February were particularly useful.
3. Hope that these will be followed up by further Anglo-French discussions. We are also talking to the Germans, as I expect you are. Hope that all these discussions will lead to the establishment of common ground between us on the answer to the very difficult problems we face.

Long-term solution

4. I believe that we can reach a meeting of minds on the nature of the problem of budgetary imbalances and on a basis for overcoming the problem in the long-term. [On the other hand, there is still a clear difference between us on the need for new own resources. We are not convinced of the need for any increase].
5. On imbalances, we both seem to be coming to the conclusion that, in an enlarged Community, France, Germany and the United Kingdom will all need some kind of safety net to limit the net transfers between member states.

Interim solution

6. But all this will take time. For political reasons the British Government must have a solution for 1983 and later by June. We cannot afford to delay agreement on the interim until a lasting solution is agreed and implemented.

March European Council

7. We must ensure that the March European Council sets the scene for a successful negotiation. Following this week's Foreign Affairs Council Monsieur Thorn and Mr Genscher will introduce the discussion in the European

/Council.

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- 2 -

Council. We expect the discussion to cover both the future financing of the Community and the interim solution. The conclusion of the Council discussion must be a request that Foreign Ministers make decisive progress on both issues by the time of the June European Council. If a solution to the immediate problem were reached by Foreign Ministers in May there would be no need to have a separate discussion about it at the June Council.

8. In order to ensure that this timetable does not slip, the European Council in March should ask the Commission to produce proposals on both (a) the lasting solution and (b) the interim problem in time for the April Foreign Affairs Council. Hope that you can agree to this way of proceeding.

Overpayments - if raised

9. [The United Kingdom cannot treat the question of overpayments separately from a further arrangement for 1983 and later. The two problems must be dealt with together because the United Kingdom's attitude to the overpayment question will be determined by the attitude of other member states to the solution of the underlying problem].

Follow-up

10. You and I will wish to remain in touch and it will certainly be useful for us to make contact before the June European Council. It would also be useful in the interval for Mr Williamson and M Morel to discuss these questions. Hope that they will be able to build up as good a relationship as Mr Hancock and M Morel have done.

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ANNEX

EC BUDGET: RECENT ANGLO-FRENCH BILATERAL CONTACTS

1983

19 January

Anglo-French "brainstorming" in London  
attended principally by:

Mr Evans, FCO

M Paye (Quai)

Mr Littler, Treasury

M Morel (Elysée)

Mr Hancock, Cabinet Office

M Legras (Quai)

Mr Hannay

M Blanchemaison (SGCI)

M Rigaud (Ministère de l'Economie et  
des Finances)

31 January

Foreign Secretary's discussion in London with  
M Cheysson.

1 February

Chancellor of the Exchequer's discussion in London  
with M Cheysson.

23 February

Discussions in London between officials arranged  
by Mr Edwards, Treasury, with Cabinet Office  
participation. The French were led by M Bouton  
(Ministère de l'Economie et des Finances), with  
SGCI participation (M Schrameck).

4 March

Mr Hurd's discussion in London with M Chandernagor.

RESTRICTED



Just  
Gnd. Pol

10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

YOUR VISIT TO BRUSSELS

Thank you for your minute of 14 March  
which the Prime Minister has read and noted.

A. J. COLES

15 March 1983

Ref. A083/0822

MR COLLES ✓

Prime Minister

Para. 13 might provide the way  
forward in the Budget.

A.J.C. 14/3

As you know, I paid a further visit to Monsieur Thorn in Brussels on Friday 11 March 1983 at 10.30 am.

2. I found Monsieur Thorn under the weather: suffering from an infection acquired from his wife who had brought it back from Moscow, and feeling sorry for himself about the amount of travelling he was doing (after seeing me he was going straight to Bonn for lunch, and then to Rome for dinner).

3. I said that we had been studying the European Commission's Green Paper with interest, and we thought that it contained some useful ideas for a lasting solution to the budgetary problem, which was something the Community needed for its own sake, quite apart from British needs. The idea of revenue related to agricultural indicators seemed well worth further study, though not all members might welcome it. We favoured the development of beneficial new policies. But neither of these courses seemed to be likely to meet the size of our problem, and it would be necessary to consider either some kind of financial equalisation system or something on the lines of the Chancellor of the Exchequer's VAT adjustment scheme as a safety net.

4. But all this would take time, and could not in any case offer a solution for 1983. I rehearsed once again the political reasons which made it necessary for the British Government to have by June a solution for 1983 and later years, until a lasting solution could be brought into effect. There was not much time. The Prime Minister therefore hoped that the European Council later this month would invite the Commission to work out proposals both for a lasting solution and for a solution for 1983 and later, so that decisions could be taken at the Foreign Affairs Council towards the end of May.

5. Monsieur Thorn renewed his expression of his desire to be helpful, and his understanding of the need for a solution by June. He was, however, very insistent that any interim solution must appear and be presented in the context of progress towards a lasting solution.



He clearly did not like the idea of being asked by the European Council in March to produce proposals for an interim solution as well as proposals for a lasting solution. He evidently feared that British insistence at the European Council upon immediate work towards an interim solution would be regarded by some other member states and by the European Parliament as evidence that the British were not interested in a lasting solution but only in getting their money back. An interim solution which was not seen as being in the context of progress towards a lasting solution was likely to be unacceptable to the European Parliament. It was evident that Monsieur Thorn was worried, not just that the Parliament might reject an interim solution, but that it might censure the Commission - with the result that he and his colleagues on the Commission would all be dismissed. That would not help the British or anyone else, he said.

6. Monsieur Thorn implied that members of the European Parliament would become easier to handle as their election came nearer. He spoke with derision of the Parliament's recent resolution in favour of a 7 per cent increase for 1983 in agricultural prices. He regretted that both the Americans and the Community were accumulating surpluses of agricultural products, for which there was in effect only one significant customer - the Soviet Union. He commented on the fact that the United Kingdom was among the member states increasing butter production. He thought that there would be pressure upon the Community to dispose of some of its surpluses into the Third World.

7. When I pressed him on the need to arrive by June at a solution of the budgetary problem for 1983 and later, and drew attention to the shortage of time if there was no request to the Commission at the March European Council to bring forward proposals for such a solution, Monsieur Thorn said that there would be no objection to there being bilateral discussions between the British and the Commission on an interim solution; but he would not want to open up the discussion of an interim solution until the Commission had put forward its proposals for a lasting solution. At the March meeting of the European Council he intended to give the Council a lengthy resumé of the position, on the basis of which he would seek instructions to make proposals for a lasting solution. He intended



that these proposals should be presented in April. It would then become evident that there was no possibility of working out the proposals in detail and reaching agreement in time for the discussions of the 1984 budget in May, and that therefore an interim solution was necessary. In that context, such a solution would be much easier to negotiate, both with the other member states and with the Parliament. He agreed that the timetable was tight, but he did not think it by any means impossible. He recognised the political importance for us of a solution by June; he also said that it would be important to get as many decisions as possible on this and any other Community matters taken by the end of June, so that the Community interests were set out before the Greek Presidency began. The decisions could be decisions in principle, subject to being worked out later.

8. Monsieur Thorn referred at one point to the arguments for new own resources over and above the 1 per cent VAT limit. I said that it remained the view of the British Government that there was no need for such an increase: if the growth of agricultural surpluses was controlled as it should be, the buoyancy of VAT revenue should give sufficient own resources to allow for the development of Community policies even after enlargement. Monsieur Thorn expressed the hope that our opposition to new own resources should not be expressed unconditionally: it would tactically be more helpful if we were able to say that we could contemplate no increase in own resources unless agricultural surpluses were controlled.

9. It was evident that Monsieur Thorn believed that, now that the German elections were over, the Federal Chancellor would not insist on arbitrarily limiting the German contribution to additional expenditure or to British refunds, if it was in the context of a package that was otherwise acceptable to the German Government. But he said that he thought that the German Finance Minister still needed to be persuaded of this.

10. I asked Monsieur Thorn about his recent visit to President Mitterrand. He said that he had found Monsieur Mitterrand in a strongly anti-American mood, which he feared was going to colour the French view on the Community's discussions with the Americans.





about agricultural matters and, later on, at the Williamsburg Summit. The fall in the value of the franc was also very much in Monsieur Mitterrand's mind. He would have liked to reach agreement with the Germans even before the second round of the French elections for a revaluation of the mark upwards in the EMS as well as some devaluation of the franc, but the Germans were playing very hard to get. Monsieur Mitterrand was clearly envisaging that there would have to be further economic measures in France, which would involve further reductions in expenditure, and Monsieur Mitterrand's attitude made it clear that he would be very difficult about paying more for Britain. Monsieur Thorn said that this made it the more important that the discussion of the budgetary problem should start from the lasting solution, and encompass an interim solution only in the context of some progress on that.

11. One of the matters Monsieur Thorn had discussed with Monsieur Mitterrand was enlargement. It seemed that the French Government had decided not to block the entry of Spain in 1985 - perhaps because it would be difficult for the French Government to be seen to be resisting the entry of Spain under a Socialist Government. Monsieur Mitterrand would, however, want the negotiations for enlargement to reach their crucial stage during the French Presidency in the first half of 1984. He realised that that was not likely to come about unless there was a definite commitment by the Community by the end of June 1983.

12. I also had some discussion with Mr Christopher Tugendhat. Sir Michael Butler was present during this discussion and is reporting on it by telegram. Mr Tugendhat took very much the same line, with me as he had taken with the Foreign and Commonwealth Secretary on 10 March; and I took very much the same line with him as Mr Pym had taken. Mr Tugendhat made much of the point that it would not be in the interests of the United Kingdom to press for an interim solution at the same time as calling for proposals for a lasting solution; any agreement in the Council of Ministers would, he said, be only half an agreement, because the Parliament would not endorse it unless it could be presented in the context of progress towards a lasting solution. I formed the view, however,



that Mr Tugendhat was at least as worried as Monsieur Thorn, not so much about the possibility of rejection by the Parliament, but at the possibility of censure on the part of the Parliament which would involve the Commission's dismissal and the loss of his job.

13. I also met Monsieur Davignon over lunch with Sir Michael Butler. Monsieur Davignon was a great deal less concerned about the possibility of the Commission being dismissed, no doubt because he confidently expects that in that event he would return, perhaps as President. He also, however, started by arguing that we should not address the interim solution until after the Commission had brought forward proposals for a lasting solution. When we pressed him on the shortage of time, he wavered a little, and began to think that we might be able to finesse the matter at the March meeting of the European Council, if the Council were to "confirm" its desire for a lasting solution, to invite the Commission to make early and specific proposals for such a solution, and to suggest that, if it appeared to the Commission that such a solution might not be available in the necessary time scale, to consider what interim arrangements might be appropriate and make proposals. Sir Michael Butler is reporting in more detail on this and other matters that arose in the course of the discussion with Monsieur Davignon.

14. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

A handwritten signature in dark ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

ROBERT ARMSTRONG

14 March 1983

**NOTE ON THE BUDGET OF THE EUROPEAN COMMUNITIES**

The Community Budget covers both expenditure and revenue and is required by Article 199 of the Treaty of Rome to be in balance. The Budget is concerned basically with making provision for, and setting the limits on, expenditure to be incurred within the framework of agreed Community policies; it is therefore effectively the equivalent of the UK's Supply Estimates. The Budget is denominated in European Currency Units (ecu). For budgetary purposes the spot rate at 1 February is used throughout the budgetary procedure: for the 1982 budget this rate is £0.523058 = 1 ecu (£1 = 1.9118 ecu).

This note contains information on the following:

	Paragraph nos.
Expenditure	2
Commitments and payments	3
Obligatory and non-obligatory expenditure	4
Revenue - Own Resources	5-9; Annex I
1% VAT ceiling	8
30 May Agreement and Restructuring	10-15
Consideration and Adoption of Budget	16
Preliminary Draft Budget	16 (i) (ii)
Draft Budget	16 (iii)
Budget Committee and COREPER	16 (ii)
European Parliament's Amendments and Modifications	16 (v)
3 year forecasts	18
Qualified Majority Voting	19-20
Maximum rate and the margin of manoeuvre	21-22
Supplementary Provisions	23-24
Transfers	23 (i)
Chapter 100	23 (i)
Carry forwards	23 (ii)
Supplementary Budgets	23 (iii)
Amending Budgets	23 (iii)
Amending letters	24
Outstanding Differences Between the Council and Parliament on the Budget	25-27; Annex II
Rejection of the 1980 Budget and the 12th regime	28-29
Dispute over the 1982 Budget	30-34
UK Parliamentary Interest in the Community Budget	35-40; Annex III

## EXPENDITURE

2. The expenditure side of the Budget contains Sections for each of the Community Institutions:-

Council;

Parliament (established under the Treaties as the 'Assembly');

Commission;

Court of Justice;

and for the Court of Auditors (which is treated for this purpose as if it were an institution).

The main Community policies (eg. the Common Agricultural Policy, the Regional Development and Social Funds, Research and Investment and Aid) are provided for in the Commission's Budget, which accounts for some 98% of total Budget expenditure. The Budgets of the other Institutions relate almost entirely to their administrative and running expenses. The budget of each Institution is divided into Titles, Chapters, Articles and, finally, Items. These are numbered on a decimal basis; thus Item 1140 is part of Article 114 of Chapter 11 in Title 1.

3. Commitments and payments - The detailed rules applicable to the Budget are laid down (as provided for under Article 209 of the Treaty of Rome) in the Financial Regulation of 21 December 1977 as amended.<sup>(1)</sup> This provides for the Budget to prescribe the limits on both commitments and expenditure for the year; these limits are known as commitment appropriations and payment appropriations, respectively. Where action can be completed within the year (eg. staff pay and administrative expenditure) the same figure is used for both commitment appropriations and payment appropriations and is then known as an 'undifferentiated appropriation'. Where new commitments give rise to a flow of payments to be made in future years (eg. Regional Development and Social Funds), there is a 'differentiated appropriation', with different limits laid down for commitment appropriations and payment appropriations.

4. Obligatory and non-obligatory expenditure - There are two types of budget expenditure: obligatory (or compulsory) and non-obligatory (or non-compulsory). The distinction is of considerable practical significance because of the rules governing the relative degree of control of each type of expenditure by the Council and the Parliament (see paragraph 21 below). The two categories of expenditure are not defined in the Treaty, and the principles underlying the definition have not been agreed. However, the Council and the Parliament have followed, broadly, a working classification prepared by the Commission, under which expenditure for programmes laid down by the Treaties (such as the European Agricultural Guidance and Guarantee Fund (EAGGF) or arising from firm international agreement (eg. aid) has been classified as obligatory, while all other expenditure (eg. staff

<sup>(1)</sup> Amended by: (i) Regulation 1252/79 of 25 June 1979 (OJL 160 of 28.6.79); and,  
(ii) Financial Regulation of 16 December 1980 (OJL 345 of 20.12.80)

pay, administration, research and the Regional Development and Social Funds) is non-obligatory. It has been accepted that most new items entered in the Budget should be classified as non-obligatory. The dispute over the 1982 budget centres on this hitherto unsettled question of the correct classification into obligatory expenditure, where the Council has the last word, and non-obligatory expenditure where the Parliament has the control (see paragraph 30) subject to its margin of manoeuvre under the maximum rate provisions (see paragraphs 21-22).

## REVENUE

5. Apart from a very small amount of miscellaneous revenue, the Budget is financed from the Communities' Own Resources. The essential feature of the Own Resources system is that Own Resources, although collected by Member States, belong to the Community from the time of collection. The European Communities are therefore unique among international institutions in that, like a national Government, they have their own independent source of revenue.

6. Own Resources comprise the following:

- (i)(a) agricultural levies collected mainly on trade in agricultural products between the Community and the rest of the world;
- (i)(b) Sugar and isoglucose levies collected on the production and storage of sugar and isoglucose;
- (ii) customs duties collected under the Common External Tariff on imports to the Community from the rest of the world;
- (iii) the product of a notional rate of VAT levied on a Community harmonised base at a rate not exceeding 1%.

Levies and duties are separate, identifiable, taxes and have been used to finance the Budget since 1971. Member States receive, in arrears, refunds of ten per cent of their levies and duties, ostensibly for 'collection costs'. VAT Own Resources is not a separate tax; the payments made by Member States are calculated by applying a given percentage rate to the harmonised base. This base is the total expenditure on a range of goods and services, the same for all Member States, which was agreed in 1977. While the base broadly includes the goods and services on which domestic Valued Added Tax is levied in all Member States, it does not correspond to the actual base for VAT in any of them.

7. VAT Own Resources contributions began on 1 January 1979, and nine of the ten Member States contribute on this basis. Greece, which joined the Community on 1 January 1981, has not yet passed the necessary legislation to implement the Sixth VAT directive

(which defines the harmonised base). It was agreed during the accession negotiations that she need not do so before 1984. Therefore she pays a financial contribution based on her share of Community Gross National Product.

8. The total amount to be collected from Member States through this third element of Own Resources is the balance between the expected yield of levies, duties and miscellaneous revenue on the one hand and total payment appropriations on the other. These arrangements impose a ceiling (the so-called '1% VAT ceiling') on Community revenue which will probably be reached soon on present trends. This ceiling can only be raised by unanimous Council decision after consulting the Parliament. An increase must also be ratified by the appropriate constitutional bodies in all Member States; this would be likely to take considerable time. Several Member States, including the UK, have stated strongly that the 1 per cent ceiling must be maintained; they attach great importance to it because of its constraint on Community spending.

9. A table showing the financing of the 1982 Budget as declared adopted by Mme Veil, President of the European Parliament, on 21 December 1981 on a full Own Resources basis is attached. (Annex I).

#### 30 MAY AGREEMENT ON THE UK CONTRIBUTION TO THE EUROPEAN COMMUNITY BUDGET

10. Agreement on a solution to the problem of the excessive UK net contribution to the Community Budget was reached during the meeting of the Foreign Affairs Council at Brussels on 29-30 May 1980. On the basis of Commission estimates, the Agreement provided for the UK to receive net refunds of 1175 mecus and 1410 mecus in respect of its net contribution to the 1980 and 1981 Budgets, respectively. For 1982 the Community pledged itself to resolve the problem by structural changes (in budget expenditure) but if this goal was not achieved, a solution along the lines of that agreed for 1980 and 1981 would be adopted.

11. Refund payments are disbursed through the 1975 Financial Mechanism Regulation, as amended, and, for the balance, as Community financial support for certain UK public sector infrastructural investment programmes (Supplementary Measures). They are made primarily from the budget of the following year, though 'advance payments' can be made from the budget to which the refunds relate.

12. Regulation 2743/80 of 27 October 1980<sup>(2)</sup> was adopted by the Council to give effect to the revision of the 1975 Financial Mechanism. The amended Financial Mechanism applies to the UK only. Payments under it are provided for in Chapter 81 of the Budget. The first

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<sup>(2)</sup>OJ L284 of 29 October 1980.

payment of £210.5 million (75 per cent of the total estimated entitlement) was made in January 1981, but had to be repaid and regranted as supplementary measures support in December 1981 since outturn data for 1980 revealed that the UK's share of gross contributions did not exceed its share of Community GDP by the requisite margin of 10 per cent. If, as seems likely, this result was repeated in 1981, the Mechanism will remain inoperative and the whole of the UK's refunds for that year will also have to take the form of Supplementary Measures support.

13. Regulation 2744/80 of 27 October 1980<sup>(2)</sup> was adopted by the Council to provide a legal base for the Supplementary Measures expenditure, for which provision is made in Chapter 53 of the Budget. By the end of 1981, the UK had been granted Supplementary Measures support totalling 1437.6m ecus, the gross equivalent, on the Commission's calculation, of our net refunds entitlement of 1175 mecus for the 1980 Budget. Of the amounts granted, 1422.6 mecus (£790.6m) had been paid. Within these amounts, the UK was granted a total of 193.5m ecus as advance payments from the 1980 Budget. When the Regulation was adopted, it was agreed that the UK would receive at least 80 per cent of its estimated entitlement to Supplementary Measures support before the end of the corresponding UK financial year. Since no advance payments were agreed for 1981, this means that we should receive about 1450 mecus (ie. some £800m) before the end of March 1982. The balance of our estimated gross entitlement for 1981 (some 350 mecus) should be paid during the remainder of 1982.

14. As mentioned above, the 30 May Agreement, as well as providing for a limit on the UK's net contributions to the 1980 and 1981 Budgets, contained an undertaking that the Community would resolve the problem of the UK's contribution for 1982 by means of structural changes; the Commission was given a mandate to make proposals and it accordingly presented its report on restructuring the EC Budget on 24 June 1981. The Commission's report argues that the Community must adopt a joint strategy to cope with the present problems facing it. Noting that the Community has mainly developed through a common market and a common agricultural policy, it argues that the Community must look forward and make a contribution to the development of new technology and industry. There should also be more progress towards economic and monetary union through greater co-ordination between Member States and development of the European Monetary System, once all Member States participate. (The UK and Greece are not members). However, the Commission also argue that with increased emphasis on these priorities, the Community will need more own resources, and hence will need to raise the 1 per cent ceiling on VAT Own Resources.

15. The Report was discussed by the European Council in November last year. The European Council identified four key issues - mediterranean products, the CAP, milk, and

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<sup>(2)</sup>OJ L284 of 29 October 1980.

the Budget - for Foreign Ministers to consider further. This they have done at meetings in December and January. Progress has been made on the first two items but guidelines have not been agreed on milk and the Budget. Foreign Ministers are likely to consider the issues again in March, on the basis of proposals from the Presidents of the Council and Commission.

#### PROCEDURE FOR CONSIDERATION AND ADOPTION OF THE COMMUNITY BUDGET

16. Article 203 of the Treaty of Rome, as amended by the Treaty of 22 July 1975, sets out the procedure for the consideration and adoption of the Budget. However, since 1976 the timetable laid down in the Treaty has been advanced, by mutual agreement of the Institutions, in order to provide more time for consideration at each of the various stages. The general sequence of events under this "pragmatic" timetable is as follows:-

- i) Each Institution is required to forward to the Commission by 15 May estimates of its expenditure in the following year. The Commission then consolidates these along with its own estimates of expenditure in the Commission Section of the Budget and forwards the consolidated Preliminary Draft Budget (PDB) to the Council by 15 June. The Commission forwarded the 1982 PDB to the Council and the European Parliament on 15 June 1981.
- ii) In advance of the consolidated PDB the Commission has on some past occasions (but not since 1979) presented an "Orientation" paper to a Joint Foreign Affairs/Finance Council. The Commission also discusses its estimates for the agricultural parts of its Budget, before these are finalised, with representatives of member states meeting in an Advisory Committee of the Commission. In addition the Council receives the estimates of the other Institutions so it is able to commence its examination of these parts of the Budget in advance of the Commission Section. This examination is undertaken initially by the Budget Committee (appointed by the Committee of Permanent Representatives (COREPER) under Article 104 of the Financial Regulation and comprising officials of the Member States and the Commission). Unresolved matters are then discussed by more senior officials in COREPER.
- iii) This stage culminates in the First Budget Council which usually takes place towards the end of July. This Council, which is normally attended by Finance Department Ministers, formally endorses the decisions taken at official level and decides on those matters which still remain outstanding. It then 'establishes' (ie approves) the Draft Budget as a whole, which is then forwarded to the Parliament.
- iv) In the early autumn the Commission usually presents a Preliminary Draft Amending (or Rectifying) Letter proposing certain adjustments to expenditure to



take account of recent developments, predominantly on the agricultural front. After discussion the Council establishes a Draft Amending Letter, which is then forwarded to the Parliament. (See also paragraph 24 below on Amending Letters).

- v) The Parliament then considers the Draft Budget, as amended by the Draft Amending (or Rectifying) Letter. It has the right to amend budget entries relating to non-obligatory expenditure acting by a majority of its members. It may also propose modifications to budget entries relating to obligatory expenditure acting by a simple majority of the votes cast. The Parliament notifies the Council of its decisions by the end of October.
- vi) Following preparation at official level, the Second Budget Council meets towards the end of November and either accepts, rejects or alters the Parliament's proposed modifications and amendments. The Council's decisions on modifications is final and any amendments not altered by the Council are incorporated in the Budget.
- vii) The Draft Budget is then returned once more to the Parliament, which has to decide before 19 December, by a majority of its members and 3-5ths of the votes cast, whether to amend or reject the Council's proposed modifications to the Parliament's amendments. Thus the Parliament has the final word on the level of non-obligatory appropriations, subject only to the overall limit imposed by the maximum rate provision (see paragraph 21), whereas the Council has the last word on obligatory appropriations. The Council and the European Parliament may meet in mid-December to discuss the Council's modifications.
- viii) When this procedure is completed, the President of the Parliament declares the Budget finally adopted. However, the Parliament may, if there are important reasons, reject the Draft Budget en bloc and ask for a new Draft to be submitted to it. (This power was used for the first time in 1979 in relation to the 1980 Budget).

In order to comply with the Treaty the budget documents are also transmitted formally between the Council and the European Parliament at the times laid down in Article 203.

17. Under the Treaty, if an item of expenditure is not re-opened, the amount is settled, eg if the Parliament do not make an amendment to an item in the Draft Budget, there can be no more discussion on that item.

18. The Commission is required, by a Council Decision of 21 April 1970 to prepare each year financial forecasts for the three subsequent financial years. These are sent to the Council with the PDB. The figures in the PDB are used for the first year. These forecasts are discussed by the Economic Policy Committee (EPC) in the early autumn.

## QUALIFIED MAJORITY VOTING

19. The Council's decisions in relation to all stages of the Budget are reached on the basis of qualified majority voting. Under Article 148 of the Treaty, as amended, Member States have the following votes:-

Belgium	5
Denmark	3
Germany	10
Greece	5
France	10
Ireland	3
Italy	10
Luxembourg	2
Netherlands	5
United Kingdom	10

Total 63

Forty-five votes constitute a qualified majority where the Treaty requires acts of the Council following a proposal from the Commission eg adoption or rejection of budgetary proposals or appropriations. Under this system there is no national veto. The system also encourages tactical voting, since it is sometimes necessary to vote for unattractive proposals in order to avoid a qualified majority moving towards something even less attractive.

20. There must be a qualified majority in favour of any amount entered in the draft budget, whether the figure proposed by the Commission or a different amount. Consequently, if there is no qualified majority, then a token entry or "pm" (pour memoire) is entered against the item of expenditure. However, after the Parliament makes amendments to non-obligatory items or proposes modifications to obligatory items the following rules apply:-

- (a) Where an amendment is made, the Council may alter (modify) it by qualified majority. Unless modified by the Council, an amendment automatically goes into the adopted Budget. Parliament still have the final say and may reject, or further alter, by a majority of its members and three-fifths of the votes cast, the Council's suggestions.
- (b) Where a modification would increase overall expenditure it is not included in the Budget unless the Council approves it, acting by a qualified majority.
- (c) Where a modification would not increase overall expenditure (ie, it proposes an offsetting reduction or a total reduction) it is included in the Budget unless the Council votes, by qualified majority, to reject it.

## MAXIMUM RATE

21. Article 203, as amended, also contains the provisions relating to the 'maximum rate', which sets a limit on the increase, compared to the previous year's Budget, in the total appropriations for non-obligatory expenditure. Although there is no reference in the Treaties to separate commitment and payment appropriations, the Council and the Parliament have agreed that the maximum rate should be applied separately to each total. The first stage in this procedure involves the calculation of the maximum rate by the Commission on the basis of trends in the preceding year of Member States' real GNP, public expenditure and cost of living indices. In accordance with this procedure, the Commission declared a maximum rate of 14.5 per cent for the 1982 Budget. In general terms the effect of Article 203.9 is:-

- (i) If the rate of increase in non-obligatory expenditure in the Draft Budget (ie that established by the Council of Ministers and sent to the Parliament) is less than half of the maximum rate, than the Parliament may increase the total of non-obligatory expenditure up to the maximum rate.
- (ii) If the rate of increase of non-obligatory expenditure in the Draft Budget is more than half the maximum rate, the Parliament can further increase the total of non-obligatory expenditure by an amount not exceeding half the maximum rate, (eg if the Commission declared a maximum rate of increase of 10%, and the Council's Draft Budget provided for an increase in non-obligatory expenditure of 6% compared to last year, the Parliament could approve amendments adding a further increase of 5%, making an increase of 11% in all).
- (iii) If at any stage of the budgetary procedure the Parliament, Council or Commission considers that non-obligatory expenditure should be increased beyond the limit allowed by the maximum rate calculated by the Commission, a higher rate may be fixed by agreement between the Council, acting by a qualified majority, and the Parliament, acting by a majority of its members and 3-5ths of the votes cast.
- (iv) It has become accepted practice that, if a new maximum rate has to be fixed, a margin is provided within it for the European Parliament to allocate.

22. At the Budget Council on 22 March 1979, all member States except the Netherlands agreed to an arrangement intended to avoid a situation where a Budget Council approves increases exceeding the maximum rate but is unable to obtain a qualified majority in favour of a proposal to increase the maximum rate. This had happened during consideration of the 1979 Budget and in consequence some member states contested the legality of the Budget initially adopted. The arrangement contains the following elements:-

1. Agreement that, if the Draft Budget as established by the Council at its first

reading exceeds the maximum rate, the Council will vote on the new maximum rate thereby produced before forwarding the Draft to Parliament.

2. Agreement that the following procedure should apply when the Council votes on the Parliament's amendments at its second reading:-

- a. if, after a preliminary examination of the Parliament's amendments, the total remaining would require an increase in the maximum rate in excess of that which can be agreed, these amendments will be considered again with a view to agreeing further modifications which would bring the total within the ceiling imposed by the maximum rate on which agreement can be reached;
- b. if this procedure fails to achieve consistency between the two positions, then, as a last resort, proportional reductions will be applied to the amendments remaining to bring the total into line with the Council's view on the maximum rate.

This procedure is an internal Council working arrangement only and does not affect the balance of powers as defined in the Treaties in any way.

#### SUPPLEMENTARY PROVISIONS

23. Once the Budget has been adopted, the amounts provided for each item in commitments and payments can only be exceeded by the use of the following procedures:-

- (i) Transfers involve drawing surplus appropriations from elsewhere in the Budget or from the reserve section in the Budget (Chapter 100), when it is anticipated that a need for further provision will arise. Transfers are subject to the approval of the budgetary authority, ie the Council or the Parliament or both, as provided for within the Financial Regulation, according to the nature of the appropriations involved. There are certain exceptions to this ground rule: transfers within chapters can be made on the responsibility of the institution concerned; the Council and the European Parliament can make transfers between chapters in their own budgets on their own responsibility; lastly, the Commission may make transfers between the two titles of its Budget relating to staff and administration on its own responsibility.
- (ii) Carry-forwards (or Carry-overs) are appropriations, either for commitments or payments, which because of timing or for other reasons are not used in one year's Budget but are still needed and therefore carried-forward to the next year but remain part of the Budget in which they were entered. Some can be carried-forward automatically, eg payment appropriations outstanding in respect of commitments entered into between 1 January and 31 December, or commitment

appropriations not committed at the end of the financial year in which they were entered. An example of a non-automatic carry-forward is payments outstanding as at 31 December for commitments entered into after 15 December for purchase of equipment. Non-automatic carry-forwards are approved unless the Council, acting by qualified majority, after consulting the Parliament, decides otherwise within six weeks. In the UK's view, money which has been carried-forward cannot be transferred. Article 21(2) of the Financial Regulation, which contains the rules for transfers, says that the Commission may only make proposals to transfer appropriations between chapters of the Budget, ie of the current financial year. Carry-forwards are not part of the Budget of the current financial year.

- (iii) Supplementary and Amending Budgets: if there is no specific provision in the Budget or where appropriations available are insufficient to cover additional expenditure, a Supplementary Budget or Amending Budget is required. A Supplementary Budget is needed to increase the overall Budget total, for example Supplementary Budget No.2 for 1980 included provision for new commitments and payments for emergency earthquake relief to Italy. Amending Budgets provide for changes in Budget nomenclature; for expenditure which cannot be charged to existing items, or for alterations to revenue estimates, but do not increase the overall Budget size. The procedure for establishing and adopting Supplementary and Amending Budgets is broadly the same as for the Budget, but is usually compressed within a shorter timescale.

#### AMENDING LETTERS

24. The Financial Regulation provides that the Commission may present amending letters to the PDB. These are quite common; there were three to the 1981 Budget. These Amending Letters must be forwarded at least 30 days before the first reading of the Draft Budget and the Council must put them to the Parliament at least 15 days before this. There is one technical point which leads to artificiality and confusion: the Commission amend the PDB but the Council, when considering the proposed revision, amend the Draft Budget. Thus, there were three letters of amendment to the 1981 Draft, whereas there were only two to the 1981 PDB, since the first letter of amendment to the Draft Budget concerned an item which had been included in the PDB. (See also paragraph 16(iv).)

#### OUTSTANDING DIFFERENCES BETWEEN THE COUNCIL AND THE PARLIAMENT ON THE BUDGET

25. Responsibility for the implementation of the Budget is vested in the Commission by the Treaty. However, under Article 18.2 of the Financial Regulation the Commission is required to delegate authority to the other Institutions and the Court of Auditors for the implementation of their own sections of the Budget. The Parliament, which, as stated

earlier, has the final word on provisions for non-obligatory expenditure subject only to its margin of manoeuvre under the maximum rate arrangements, takes the view that inclusion of appropriations in the Budget provides, of itself, a sufficient legal base for the Commission to incur expenditure in all cases. The Council, on the other hand, maintains that, in general, formal Council agreement enacted in Community legislation is also needed before expenditure can be incurred. It accepts that the Commission has a certain discretion, ill-defined but mainly in respect of administrative expenditure, to incur expenditure without specific Council approval. The Commission's approach to this problem was outlined in a statement by Commissioner Tugendhat to the Parliament on 11 October 1977 (set out on pages 104-5 of Volume 7a of the 1979 Preliminary Draft Budget see Annex II). This explains that the Commission considered that budgetary provision constituted an adequate legal basis for expenditure only where it related to a Community policy which could be precisely defined and specified; in other cases a separate decision defining the policy needed to be enacted before appropriations authorised could be used.

26. Another important problem occurs on the interpretation of the maximum rate provisions. Until December 1977 the Treaty provisions had been interpreted as meaning that the increase in non-obligatory expenditure proposed by the Council was the amount included in the Draft Budget when it was established by the Council, and that the Parliament's margin applied to both the amendments proposed at its first reading of the Draft Budget and subsequently accepted at the Second Budget Council, and to any further amendments which it adopted when adopting the Budget in December. The Parliament's margin was therefore applied in two stages. At a meeting between the Budget Council and a delegation of the Parliament's Budgets Committee on 7 December 1977, a new interpretation was advanced. This was that the Parliament's amendments accepted by the Second Budget Council should be treated as increases approved by the Council and that the Parliament's margin should be taken as applying only to the further amendments which it adopted in December. This would effectively increase the margin available to the European Parliament; it could be countered by the Council rejecting all the Parliament's amendments. The origin of this proposal lay in difficulties that arose between the Council and the Parliament, in relation to the margin, on the sum to be included in the 1978 Budget for the Regional Development Fund.

27. The question of whether amendments accepted at the second Budget Council should or should not be attributed to the Parliament's margin has not yet been resolved but has not subsequently been pressed. As respects the 1982 Budget dispute the Parliament did not use this as justification for their action on 17 December 1981 in adopting amendments resulting in increases in commitment and payment appropriations in excess of the maximum rate.

#### REJECTION OF THE 1980 BUDGET AND THE TWELFTHS REGIME

28. On 13 December 1979 the European Parliament rejected the Draft Budget for 1980. It

called upon the Commission to present a new Preliminary Draft Budget for 1980 on the basis of which the Council would present a new Draft Budget to the Parliament. The reasons given by the Parliament for its rejection of the draft Budget were the level of appropriations for agriculture, the non-budgetisation of loans and the Council's refusal to agree to a major increase in the maximum rate of increase in non-obligatory expenditure.

29. In the absence of an agreed Budget for 1980, certain provisions of Article 204 of the Treaty of Rome as amended, of the Financial Regulation of 21 December 1977 and of Regulation 2891/77 came into operation. These provisions are known as the "Twelfths Regime", and limit monthly Community expenditure to one twelfth of the lower of the provisions of the 1979 Budget or the 1980 Draft Budget, and limit VAT Own Resources to the amount entered in the 1980 Draft Budget. The 1980 Budget was finally adopted on 9th July 1980.

#### DISPUTE OVER THE 1982 BUDGET

30. On 17 December 1981 the Parliament adopted a second set of amendments to the Draft Budget (see paragraph 16(viii)) which resulted in increases in non-obligatory expenditure of 220.5 mecu in commitment appropriations and 192.7 mecu in payment appropriations. In the Council's view, the margin of manoeuvre available to the Parliament for additional non-obligatory provision in fact amounted to 72 mecu available for commitment appropriations and nothing for payment appropriations.

31. In addition, the Parliament adopted amendments increasing both commitment and payment appropriations for Food Aid by 31.4 mecu. But the Council classifies Food Aid as obligatory expenditure and considered that it had already decided the amounts to be entered in the annual budget for 1982.

32. An additional Budget Council was convened on 21 December 1981 with the objective of further negotiation between the Council and the Parliament before the adoption of the 1982 Budget. The Council requested Mme Veil to delay adoption of the Budget until agreement had been reached on new maximum rates. The President, however, declared the Budget adopted on 21 December. Although there was thus an adopted budget which the Commission had undertaken to implement, it was necessary for the Council to consider what steps it needed to take pending resolution of the differences of opinion between it and the Parliament.

33. On 26 January the Council decided to begin without delay appropriate consultations with the Parliament and the Commission mainly on the classification of expenditure with the object of improving for the future the operation of the Community's budgetary procedure.

As a precautionary measure the Council also decided to initiate proceedings against the Parliament and the Commission before the European Court of Justice against the Budget as adopted by the Parliament. At the same time Member States agreed to pay in full the sums required by the 1982 Budget as adopted.

34. All Member States paid the full amounts resulting from the Budget as adopted in February 1982.

#### UK PARLIAMENTARY INTEREST IN THE COMMUNITY BUDGET

35. Under the terms of reference of the House of Lords and House of Commons Select Committees on European Legislation, (the "Scrutiny Committees"), all draft proposals for legislation and certain other documents relating to Community matters have to be deposited with both Houses of Parliament. In addition, the Department principally responsible for the subject matter of the document has normally to forward, within two weeks of deposit, an 'Explanatory Memorandum' signed by a Minister. The Select Committees then recommend which proposals should be further considered by their respective Chambers.

36. Most documents concerning the Community Budget are subject to this procedure, (except that Explanatory Memoranda about transfers and other routine budgetary matters are not signed). In the annual Budget round, the first budget documents to be deposited are those relating to the Preliminary Draft Budget. Once the Explanatory Memorandum has been provided and considered by the Scrutiny Committee together with the documents, the Treasury Minister responsible for Community matters may be called to give evidence to the House of Commons Scrutiny Committee, and officials called to the House of Lords Scrutiny Committee. It has been usual for both Houses to recommend debates on the Community Budget before the First Budget Council. In 1980 the House of Commons recommended an additional debate after the Second Budget Council.

37. After the First Budget Council, the resulting Draft Budget documents are also deposited with an Explanatory Memorandum, as are any Rectifying Letters.

38. The next document to be deposited is the Parliament's amendments and proposed modifications to the Draft Budget; these appear towards the end of October. Up to and including the 1978 Budget, this was the final document to be deposited. However, following a request from the House of Commons Scrutiny Committee, it was agreed that, for the 1979 and subsequent Budgets, the decisions taken at the Second Budget Council in November on the Parliament's amendments and proposed modifications should also be deposited together with an Explanatory Memorandum.



39. It is possible that either Scrutiny Committee could recommend a debate during the later stages of the budgetary procedure, though this has only happened so far on the 1981 Budget. The most appropriate stage for such a debate would be prior to the Second Budget Council in November, although the House of Commons Scrutiny Committee itself envisaged a debate after this in order to influence the actions of UK Members of the European Parliament before the Budget was adopted.

40. See Annex III for a list of debates.

EC2 Division  
March 1982

FINANCING OF THE 1982 COMMUNITY BUDGET ON A FULL OWN RESOURCES BASIS

	million      ecu				
	Sugar and Isoglucose levies	Agricultural levies	Customs duties	VAT/GNP Contributions	Total
Belgium	56.0	190.0	415.0	471.6	1,132.6
Denmark	25.0	10.0	140.0	245.0	420.0
Germany	200.0	255.0	1,890.0	3,338.5	5,683.5
Greece	17.0	70.0	110.0	197.5	394.5
France	258.0	140.0	1,150.0	2,913.1	4,461.1
Ireland	11.0	4.0	90.0	92.5	197.5
Italy	95.0	435.0	725.0	1,595.3	2,850.3
Luxembourg	-	0.1	4.0	22.2	26.3
Netherlands	57.0	245.0	615.0	638.1	1,555.1
United Kingdom	67.0	555.0	1,800.0	2,681.9	5,098.9
<b>TOTAL</b>	<b>786.0</b>	<b>1,899.1</b>	<b>6,939.0</b>	<b>12,185.7</b>	<b>21,819.9</b>

TOTAL BUDGET EXPENDITURE	21,984.4
<u>Less</u> Miscellaneous and other revenue	164.5
Amount to be financed by own resources	<u>21,819.9</u>

LEGAL BASIS FOR EXPENDITURE

The Council notes the following by Mr Tugendhat to the European Parliament on 11 October 1977 in connection with the discussion of Oral Question No.0 - 54/77 (to the Commission):

"This last case is a fitting introduction, Mr President, to the third part of the question as to whether the Commission considers that the Budget, as approved, provides the legal basis for the use and expenditure of the appropriations. As Mr Cheysson did last year, I can confirm that we do consider that the Budget, as approved, provides a requisite legal basis for the use and expenditure of appropriations. In the absence of such a basis no expenditure or receipts can be incurred. However, this basis is not sufficient in every circumstances to allow the expenditure. The Community can only work within the defined powers of each institution or the framework of regulations and decisions on each Community policy. The Commission, which is responsible according to Article 205 of the EEC Treaty for the implementation of the Budget, confers on each institution - in accordance with Article 18 of the Financial Regulation 'the powers needed for the implementation of the budget sections' which concern them, without for all that renouncing the overall responsibility conferred by the Treaty.

Each institution exercises these powers as is provided for in Article 4 of the EEC Treaty, 'within the limits of the powers conferred upon it by the Treaty'. One can say that, where they are not specifically mentioned in the Treaties, the powers conferred upon the institutions by the Treaties arise from the Treaties in the building of the Community. For institutions other than the Commission, the power to implement their own expenditure in practice covers virtually all the appropriations in the sections of the Budget devoted to these institutions. The provisions of the Financial Regulation, the staff regulations and the implementing texts govern the expenditure in question and lay down the limits of the respective administrative powers. The Commission of course enjoys the same scope in respect of its own operating appropriations. But these form only a small part of the total of Section 3, for the implementation of which the Commission is more especially responsible. The other, more numerous appropriations, relate either to Community policy or to individual actions clearly defined as specified measures. The Commission recognises that a problem can arise if for some budget heading the expenditure cannot be covered directly or indirectly by one of the existing legal or regulatory frameworks.

There are two possible outcomes. In the first case, the budget heading concerned authorises appropriations for measures which constitute a Community policy but which cannot be precisely defined and specified in the Budget, thus having to be left to separate decision. These authorisations cannot then be used until the legal basis required by the Treaties has

been enacted. The Commission and Council must clearly make all possible speed to create this basis in time to allow the use of the appropriations. In the second outcome, the appropriations are for the implementation of clearly defined and specified measures. Every time appropriations are entered in the Budget for such measures, the Commission uses the appropriations and incurs the expenditure in accordance with budgetary rules alone.

To turn to the further question: why have we not implemented all the actions listed? I think, Mr President - I hope so at any rate - that the answer is already clear from my factual comments and from the answer I have just given on the point of principle. The Commission is able to go ahead with many specific actions where the budget provision itself constitutes the legal basis or where the separate legal basis already exists. But where this is not so, the Commission has to wait for the Council to act before implementing the Budget. When presenting the Preliminary Draft Budget the Commission always indicates the legal basis for each heading, mentioning whether this exists or will have to be created. Thus, when the Budgetary Authority enters the appropriations in the Budget it is fully appraised of any legal preliminary to the use of the appropriations concerned".

Debates from May 1974

- 19-12-74 Commons debate on 1975 EEC Budget  
 (Lords ERDF 24-2-75  
 Commons 27-2-75)
- 27-2-75 Commons debate on EEC Budget Contributions
- 4-7-75 Further Commons debate on the 1975 EEC Budget
- 6-11-75 Commons Debate on 1976 EEC Budget
- 7-11-75 Lords Debate on 1976 EEC Budget
- 19-7-76 Commons debate on 1977 EEC Budget
- 19-7-76 Lords debate on 1977 EEC Budget
- 18-7-77 Commons debate on 1978 EEC Budget
- 18-7-77 Lords debate on 1978 EEC Budget
- 10-7-78 Commons debate on 1979 PDB
- 21-2-79 Commons debate on Documents of EEC Budget:-
1. Own Resources
  2. Budget Contributions
  3. Financial Mechanism
  4. Resource Transfer Policy
  5. CAP
  6. EMS
  7. Council/Assembly dispute on the 1979 Budget.
- 9-7-79 Lords Debate on:-
1. Financing the Community
  2. Global Appraisal of Budgetary problems of the Community
  3. Annual Report of the Court of Auditors 1977.
- 16-7-79 Commons debate on the 1980 PDB
- 22-11-79 Commons debate on the EEC Budget Contribution
- 2-7-80 Commons debate on the EEC Budget 1980
- 2-7-80 Lords debate on the EEC Budget 1980
- 28-11-80 Commons debate on the Community Budget.
1. 1981 Draft Budget
  2. Letter of Amendment
  3. Amendments and modifications adopted by the European Parliament
  4. Annual Report of the Court of Auditors 1978
  5. Council Recommendation to the European Parliament on the discharge to the Commission in respect of 1978.
- 20-7-81 Commons debate on the Community Budget.
1. 1982 Preliminary Draft Budget
  2. The Council's Decisions on the European Parliament's amendments and modifications to the 1981 Draft Budget
  3. The Preliminary Draft Supplementary Budget No. 2 for 1980
  4. The Draft Supplementary Budget No. 2 for 1980
  5. The European Parliament's amendments to the Draft Supplementary Budget No. 2 for 1980.
- 4-3-82 Commons debate on Court of Auditor's Annual Report for 1980.

COMMISSION FIGURES FOR 1982 NET BALANCES.

1. On 28 January the Commission published estimates of Member States' unadjusted net budget balances for 1982. The figures (which exclude the effect of the UK refunds) are expressed as ranges, as follows:

	MILLION ECU		
BELGIUM	232	TO	292
DENMARK	276	"	312
GERMANY	-2177	"	-1993
GREECE	673	"	723
FRANCE	- 51	"	79
IRELAND	682	"	760
ITALY	1497	"	1675
LUXEMBOURG	233	"	263
NETHERLANDS	252	"	352
UK	-2108	"	-1972

CONCLUSIONS OF THE FOREIGN AFFAIRS MINISTERS  
ON COMPENSATION TO THE UNITED KINGDOM FOR 1982

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1. On the basis of the Commission's estimate (\*), compensation for the United Kingdom for 1982 is fixed at 850 million ECU (net).
  
2. Corrections to be made for 1980 and 1981 in the light of the actual figures, will be taken into account when negotiating the subsequent solution.
  
3. At that time, adjustments will be made in the event that the actual figure proves to be higher or lower than the 1982 base referred to in paragraph 1.

If the actual figure is higher than 1 530 million ECU but lower than 1 580 million ECU, the net compensation to the United Kingdom is unchanged. If the actual figure is higher than 1 580 million ECU but lower than 1 730 million ECU the net compensation is increased by 50% of the difference between the actual figure and 1 580 million ECU. If the actual figure is higher than 1 730 million ECU, the net compensation is increased by 75 million ECU plus 75% of the difference between the actual figure and 1 730 million ECU.

If the actual figure is lower than 1 530 million ECU, but higher than 1 480 million ECU, the net compensation to the United Kingdom is unchanged. If the actual figure is lower than 1 480 million ECU, the net compensation to the United Kingdom is reduced by an amount equal to 75% of the difference between the actual figure and 1 480 million ECU.

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(\*) 1 530 million ECU

4. The budgetary effect of the present agreement on compensation to the United Kingdom for 1982 on the Community budget for 1982 will be limited to the amount corresponding to the net compensation mentioned in paragraph 1.
  
5. Compensation to the United Kingdom will amount to 1 092 million ECU (gross)(\*). It will take the form of additional measures within the meaning of Regulation n° 2744/80 which will be extended and adapted accordingly. Appropriations to this end will be entered in the Community budget for 1982. The total amount will be advanced to the United Kingdom before the end of December 1982. Surpluses which exist from the 1981 and 1982 budget years will serve to finance this compensation.

If the financial mechanism yields any payment to the United Kingdom for 1982, the amount of such payment will be deducted from payments to the United Kingdom under the additional measures.

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(\*) The adjustment of the gross figures in paragraph 5 to take account of the possible corrections foreseen in paragraph 3 as well as the adjustment of the gross figure in paragraph 6, according to the commitment taken by Ministers on 25 May 1982 in favour of Germany, will be entered in the Budget for 1983...

The gross amounts have been calculated on the basis of the VAT shares contained in the Budget of the relevant budgetary year. They will be adjusted so as to reflect the actual VAT figures of the years in question.



6. Community resources will be allocated to projects or measures of Community interest in Germany, to take account of the need to improve the budgetary impact of common policies in that country. These Community resources will amount to 152 million ECU (net) or 210 million ECU (gross)(\*). The projects and measures will be carried out in 1983. The payments will be made no later than 1983. The resources needed for this will be entered in the 1982 budget. Surpluses which exist from the 1981 and 1982 budget years will serve to finance these projects and measures. Payments will be made on the basis of a Regulation based on Article 235 to be proposed by the Commission. The total amount will be committed before the end of December 1982. Advance payments in 1982 are possible.

7. The Ministers undertake to take a decision before the end of November 1982 on the subsequent solution.

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(\*) See footnote (\*) page 2

Euro. Proc

(2)

Prime Minister



You may like to have  
a preview of what is in  
store at the European  
Council.

Confidential

A.S.C. 11/3

Mr. Coles

European Council

I thought the Prime

Minister might find it helpful

to glance at the latest draft

of the steering brief - copy

attached. It will be revised

after the Foreign Affairs Council

and submitted formally on 16th

March.

D. Hancock 11/3.

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## GENERAL BRIEF FOR EUROPEAN COUNCIL, BRUSSELS

21/22 MARCH 1983

Brief by the Foreign and Commonwealth Office

## INTRODUCTION

1. This European Council will be looking at progress on the work commissioned on various Community policies at its December meeting, including enlargement, may discuss developments in the oil market and will discuss the forthcoming Williamsburg Economic Summit and the budget issue. On the latter, the Commission have now tabled their green paper on the future financing of the Community and there are some signs of greater understanding on the need for a long term reform of the Community's financial system. But there has so far been no progress on the solution for 1983 and later. The time before the June European Council is now short; and it will be important for this Council to give a real impetus to discussion if we are to get agreement on this by the end of the German Presidency. The possibility of an EMS realignment, either shortly before or even at the same time as the European Council cannot be excluded.

2. The only Head of State/Government who was not present in December will be Mr Fitzgerald, who has of course attended previous Councils. With the German elections over, the UK is the only Member State where elections are in prospect. The Prime Minister may wish to congratulate Chancellor Kohl on his victory.

?  
Italy? 1984?

## AGENDA AND DOCUMENTATION

3. The Presidency have proposed the following list of subjects for discussion [though there may be changes after the Foreign Affairs Council].

I Economic and Social Situationa) General Situation (Brief No 3)

The Commission will provide the usual paper on the internal situation. However not a great deal has changed since December and Chancellor Kohl is anxious to avoid a series of reports from Heads of State on the economic and social situation in their countries and hopes instead to have an exchange of views on major issues such as youth unemployment (Brief No 15) and recapturing growth. There may also be discussion on recent developments in the oil market (Brief No 10) under this item.

b) The Copenhagen Mandate - Interim Report

Discussion is likely to be based on a written report by the Presidency on what has been done to follow up the conclusions of the December European Council covering:

- Internal Market (Brief No 9)
- Research (Brief No 11) and Innovation/Industrial Policy (Brief No 12) (There is also likely to be a short paper by the Commission setting out Davignon's ideas on industrial policy).
- New Community Instrument (Brief No 13)
- Energy (Brief No 10)

c) Other Community Questions

- Future Financing of the Community ) (Brief No 5)
- the subsequent solution )

Discussion on these 2 items is likely to be based on an oral report from the ~~Chairman of the Foreign Affairs Council~~ *President of the Commission*.

- Commercial Policy (Brief No 8) The most likely subjects are EC-US agricultural trade, Japan and the Commission's proposal for new common commercial

policy procedures.

- Mutual Recognition of Diplomas (Brief No 14) The Germans are likely to urge the need for faster progress on mutual recognition of academic and professional qualifications. It should not be necessary to do more than take note.
- Environment (Brief No 26 ) The Germans want the European Council to instruct Environment Ministers to make progress particularly on the problem of acid rain and its effect on European forests.
- Greece (Brief No 17) Papandreou may raise the Greek Memorandum on problems relating to their accession.

II Preparation for Williamsburg (Brief No 25 )

Those who will not be represented at Williamsburg will want to make their views known.

III Enlargement (Brief No 6)

The main subjects will be reform of the Mediterranean agricultural regimes on which there is likely to be a report from Agriculture Ministers and the Commission's inventory of the problems of Enlargement on which there will be a report from the Foreign Affairs Council. There could also be more detailed discussion of points raised in the Agriculture Ministers' report (Brief No 19)

IV Genscher/Colombo (Brief No 7)

Herr Genscher will report on progress but will not press for signature on this occasion.

V Political Cooperation (Brief No 4) - This will cover East-West and the Middle East

## UK OBJECTIVES

- 1) On the budget problem to secure a commitment from the European Council that decisions will be taken at latest by the time of the European Council in June, and to get the Commission to accept a remit to produce proposals in good time before the April Foreign Affairs Council covering both a scheme for the long term reform of the Community's financial system and a solution (with figures) for 1983 and later.
- 2) On enlargement to secure a commitment to early decisions on the reform of the Mediterranean agricultural regimes. To avoid expensive commitments on integrated Mediterranean programmes.
- 3) In discussion of the economic and social situation, to see that there is no weakening in Member States' determination to maintain present policies aimed at fighting inflation and to resist the argument that some countries have "room for manoeuvre"
- 4) On the follow up to the December European Council, to secure a commitment to further progress on the internal market, including services, and in the energy field, on new Community coal measures, benefitting the UK.
- 5) On trade issues to get endorsement for continuing restraint in dealing with the US over agriculture, and continuing pressure on Japan.

## SUMMARY OF BRIEFS

## A MAIN BRIEFS

Economic and Social Situation (Brief No 3)

The Council will as usual have before it a paper from the Commission on the economic and social situation. There should be fairly general agreement on the need to maintain present policies of bringing budget deficits under control and combatting inflation. The Commission and some Heads of Government may however argue that those Member States - in particular Germany and Britain - which have been relatively successful in achieving those aims now have scope for a degree of reflation. The Prime Minister will wish to stress the importance of maintaining the firm anti inflationary thrust of present policies and not dissipating the hard won gains of the last few years. She may wish to outline the Government's current priorities, including the main features of the British budget.

Political Cooperation (Brief No 4)

Discussions are likely to concentrate on the Middle East and East-West relations. This is a crucial moment for the Middle East and we would expect the European Council to engage in a thorough discussion and possibly a major statement, particularly at a time when the US is looking for European support. On East-West relations, our aim is to encourage the Ten to maintain an approach based on firmness and dialogue. The emphasis must be kept on Soviet actions rather than words. On Poland we will wish to emphasise the need to keep all aspects of our policy (including rescheduling) under close review within the Ten and with the US.

Budget Problem (Brief No 5)

Our aim is to initiate a process of negotiation which will result in agreement - preferably at the May Foreign Affairs Council and in any case before the next meeting of the European Council in June - on a solution for 1983 and later as well as substantial progress on long term reform. The Prime Minister will wish to

ensure that all our partners understand the political importance for us of reaching a satisfactory agreement by June on the solution for 1983 and later. At the same time she will want to make it clear that we are keen to make progress on long term reform. It is likely to be important for a number of Member States, as well as for subsequent acceptance by the European Parliament, that any solution for 1983 and later should be presented as a bridge towards long term reform. In any case we can only hope for a lasting solution to our structural imbalance in the context of long term reform. Our immediate objectives are therefore to secure a commitment by the European Council that decisions will be taken before the June meeting and to get the Commission to accept a remit to come forward with separate proposals to the April Foreign Affairs Council covering:

- (a) a scheme for the long term reform of the Community's financial system (covering both the revenue and expenditure sides of the budget) which will solve the problem of budgetary imbalances and secure effective control of the rate of growth of agricultural expenditure; and
- (b) a solution for 1983 and later (with figures).

Enlargement (Brief No 6)

There will be two strands to the discussions on enlargement (on the assumption that our bilateral trade problems do not need to figure). The greatest contribution the European Council can make to progress in the accession negotiations is by keeping up the pressure for early agreement on the reform of the Mediterranean agricultural regimes, without which there can be no serious negotiations with Spain on agriculture. The December European Council called for this to be achieved by March but the special Agriculture Council on 8/9 March made little progress and the European Council will only receive a progress report. We shall want the European Council to agree (if possible without getting drawn into discussion of the details) that a solution covering both fruit and vegetables and olive oil is imperative and that Agriculture Ministers should be instructed to meet the Copenhagen deadline by concluding this negotiation by the end of March. The



second strand will be further discussion, on the basis of a report from the March Foreign Affairs Council, of the Commission's Inventory of the Problems of Enlargement. This is likely to focus on the question of pre-accession disciplines to be adopted by the candidates in the light of the exploratory contacts held by the Commission following the mandate from the December European Council. Discussion will almost certainly cover the general absence of progress in the negotiations at Presidency's insistence and own resources at French insistence. We shall want to look as positive as possible about the need for early progress in the enlargement negotiations.

Genscher/Colombo Proposals (Brief No 7)

Herr Genscher will report to the meeting on the state of progress. The Germans will not be seeking to have the final text signed at the March European Council, but will aim for the June European Council.

International Trade issues (Brief No 8 )

Three subjects are likely to come up. EC/US agricultural trade relations will be a cause for general concern. The Commission may hold their political level talks with the US (planned for March) before the European Council. The message which we want the Community to send to the US is that these agricultural trade issues need to be settled by consultation and agreement, not by unilateral action. If Japan is discussed we should argue that the Community's pressure on Japan by virtue of its ability to act jointly is now starting to show results. The Japanese Government has publicly recognised the need to meet the Community's concerns both by export restraint and by increasing manufactured imports. The need now is for the Community to maintain the pressure on Japan to ensure implementation of the restraint on exports and, through action in the GATT, to increase imports. If there is discussion of the Commission's proposal for new Common Commercial Policy procedures we shall want to steer a middle course between likely French pressure for a more blatantly protectionist instrument and German opposition to any strengthening in the

Community's means of action against unfair trade practices by third countries.

Internal Market (Brief No 9)

The European Council will no doubt consider what has been done to follow up its call, in December for progress on priority areas on the Internal Market by 31 March. These are:

- (a) the treatment of goods of Third country origin covered by EC harmonised standards;
- (b) a directive establishing a technical standards information procedure; and
- (c) measures to ease frontier formalities delaying intra-Community trade.

The Internal Market Council has now met twice, but made only partial progress. There is no agreement yet in sight on (a); (b) and some of (c) are agreed. We will wish to support the Presidency's aim to get faster progress and in particular, to get work speeded up on services (insurance, air transport and the road haulage quotas).

Energy (Brief No 10)

The Council agreed in December that work in the field of energy should be speeded up. In discussion of Community energy policy, we will want to press for progress at the next Energy Council scheduled for April towards agreement on Community coal measures (as the leading coal producer the UK could benefit substantially). The Council may discuss the current state of the oil market and it is possible that Thorn will propose that the Community should take up ideas which are circulating in Brussels for a system to maintain a minimum selling price for oil sold in the Community by means of a variable levy. If the Commission express disappointment about the failure to reach agreement on energy demonstration projects, we should make it clear that we hope that a realistic ceiling for a 5 year programme will be agreed.

Research (Brief No 11)

This is another area on which the European Council called for progress. We consider the Commission's framework programme for research which is still under discussion by the Council to be a useful initiative. In any discussion of the decision to cancel Super Sara, we should assuage any Italian suspicion that we are trying to close down Ispra.

Innovation and Industrial Policy (Brief No 12)

Here again the European Council called for progress. The Commission's proposal for Community aid to stimulate innovation has been heavily criticised as inadequate but Davignon is likely to come up with some new ideas. The Prime Minister will want to stress the importance of cooperation on new technology for Community industry and our wish to see progress and to give encouragement to the Commission to come forward with positive ideas, while retaining our open attitude to inward investment from the US and Japan.

New Community Instrument (Brief No 13)

The December European Council called for agreement by March on expanding the New Community Instrument by 3000 m ecu. The ECO/FIN Council agreed on a common position at its February meeting; adoption of the necessary regulation now awaits the outcome of discussions with the European Parliament.

Mutual Recognition of Diplomas (Brief No 14)

The Germans are anxious to make progress on mutual recognition of diplomas and will probably seek agreement to give renewed momentum to work in this area. We support the principles both of academic recognition (to help mobility of students) and of the recognition of professional qualifications (to further rights of establishment for the professions), but there are problems for us, as for others, over the specific proposals currently under discussion, which relate to architects and engineers.

Social Matters (Including Youth Unemployment) (Brief No 15)

The Council may have before it a report on the conclusions at the Informal meeting of employment ministers held on 21/22 February about Youth Unemployment. We can welcome these, though we would need to resist any proposals for conclusions which went beyond the scope of the Youth Training Scheme. In any discussion of the Social Fund, the Prime Minister will want to emphasise the need to give priority to regions of high unemployment and to training for young people.

## B CONTINGENCY BRIEFS

Greenland (Brief no 16)

The Commission's paper on Greenland's application to withdraw has been remitted to Coreper for study. Much work will be needed, particularly on fisheries which raises complex problems and on the proposal for Greenland to receive aid, in lieu of its current receipts from the regional and social funds. There is not likely to be much discussion of substance but Denmark may take the opportunity to press for early progress.

Greece and the EC (Brief no 17)

Papandreou may raise the Greek Memorandum on problems relating to their accession. The Commission's final report on this has only just been completed and further work is needed on it. Full Greek compliance with their existing obligations would help their case.

CAP Prices (Brief No 18)

The Prime Minister will wish to express concern at the prospect of overspending on FEOGA guarantee expenditure; and our determination to see a low overall level of CAP price increases, with zero increases for products in surplus. The growth of CAP expenditure must be brought under control, and producers made to understand that the Community can no longer guarantee open-ended

support for an escalating level of production.

Reform of the Mediterranean Acquis (Brief No 19)

If there is discussion of the points raised by agricultural ministers on the olive oil and fruit and vegetables regimes, the Prime Minister will want to emphasize that we must find solutions which will not encourage over-production or penalise consumers, will have regard to the legitimate interests of the Community's trading partners (eg Cyprus) and will keep down the cost of enlargement. Specifically, we will want to resist ideas for an oils and fats tax or for expensive strengthening of the régimes for these products and to emphasise the merits of the flat rate production aid for olive oil.

Integrated Mediterranean Programmes (Brief No 20)

If the Italians seek to secure approval in principle of the Commission's new proposals for Integrated Mediterranean Programmes (IMPs), we will want to block this by arguing that the proposals should be carefully considered in the context of the Community's examination of its other structural expenditure policies (Regional, Social, and CAP guidance policies are all being reviewed this year), so that the full financial implications of the IMPs can be properly weighed.

Common Electoral System (Brief No 21)

The Council has concluded that it is not possible to reach agreement on a uniform system in time for the 1984 European Parliament elections, but work continues on the extension of the franchise. Some Heads of Government may express regret at the failure to reach agreement.

North/South (Brief No 22)

In any discussion of North/South issues, the Prime Minister will want to stress the need for Western unity in preparing for UNCTAD VI, so as to ensure that the independence of the international financial institutions is not compromised.

Steel (Brief No 23)

If steel is discussed the Prime Minister will wish to urge the need for more rigorous implementation of the anti-crisis measures and for all Member States to bear their fair share of capacity reductions.

European Regional Development Fund (Brief No 24)

In the current review of the Regional Fund, our main aim is to secure the largest possible quota share for the UK but also to resist demands for tightening up the administration in ways which would make it more difficult for the UK to secure its share of the money. The Presidency are making a serious effort to break the longstanding deadlock over quota shares and other issues.

Preparation for Williamsburg Summit (Brief No 25)

As this is the last European Council before the economic summit at Williamsburg, there will be discussion of international economic issues in which those who will not be represented will want to put forward their views. The Prime Minister will wish to welcome the agreement on increased IMF quotas as a positive contribution to solving current international financial problems and the rightness of the Chancellor of the Exchequer's move to bring the Interim Committee meeting forward to February.

Environment (Brief No 26)

The Germans are keen to see progress on environmental matters generally, and will raise in particular the problem of acid rain. Whilst the UK is a net "exporter" of acid rain (though mainly to Scandinavia not Germany) we recognise that this is a serious problem. We can accept a call for Environment Ministers to study the problem and consider appropriate action.

Foreign and Commonwealth Office  
7 March 1983



*Evans Pol*  
*Apply sent.*  
*Caroline Dole* *cl. 11/3.*  
*pl. with all those listed*  
*below.*

Ref. A083/0788

MR COLES

A-J.C. 11/3

European Council, Brussels: 21-22 March Prime Minister's  
Briefing Meeting, 17 March at 4.00 pm

*with ASC*  
*on Admin*  
*Answers file.*

Now that the composition of the United Kingdom Delegation to the European Council has been decided (your letter of 8 March to Mr Bone) you will wish to decide who should attend the Prime Minister's pre-Council briefing meeting on 17 March at 4.00 pm.

2. The Prime Minister will no doubt wish to invite the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer because both the Community Budget and general economic problems are likely to be of great importance in the discussions at the European Council. In addition, it would be appropriate to invite the following officials:-

Sir Julian Bullard  
 Sir Michael Butler  
 Sir Brian Hayes  
 Sir Kenneth Couzens  
 Mr David Hannay  
 Mr David Hancock  
 Mr Brian Unwin  
 Mr Robin Gray

I have suggested that officials from the Ministry of Agriculture, Fisheries and Food, the Department of Trade and the Department of Energy be invited to the briefing meeting as well since agricultural trade issues and oil prices are likely to figure. The Chancellor of the Exchequer might wish to be accompanied by Mr Unwin.



3. Sir Robert Armstrong, Mr Geoffrey Littler and Mr Richard Evans who will be accompanying the Prime Minister to Brussels will all be unable to attend the briefing meeting as they will be at the Personal Representatives meeting in San Diego preparing for the Williamsburg Economic Summit.

*Lindsay Wilkinson*  
LINDSAY WILKINSON

10 March 1983



Euro Pol. Euro Council 21/3

COMPTON

CF.

Caroline

Thorn will  
now have to  
come on a  
completely  
different day.

Re your note to John on  
14/2.

As we now know that  
King Hassan would like  
to come ~~in~~ in 18 March  
you may like to consider  
the timing for Eno.  
Breeling.

Peter

23/2

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(83) 10 final

Brussels, 4 February 1983

THE FUTURE FINANCING OF THE COMMUNITY

(Communication from the Commission to the Council and  
to the European Parliament)

COM(83) 10 final

## THE FUTURE FINANCING OF THE COMMUNITY

### INTRODUCTION

1. The European Community is financed by resources which accrue to it as of right and as a direct consequence of its own policies. The current own resources system, consisting of agricultural and sugar levies, customs duties and an element of Value Added Tax of up to 1% of a uniform base, has served the Community well for twelve years. But the time has now come to consider its further development. In this present communication the Commission sets out some preliminary ideas on how this development might take place. The character of this communication is that of a discussion document, of a kind which is sometimes referred to as a "green paper". It describes various considerations affecting the development of the Community's financing system and lists a certain number of options which, at this stage of the Commission's reflections, seem prima facie suitable for further study. It does not, deliberately, contain specific proposals. The Commission will make such proposals, in the spring of 1983, in the light of its further internal considerations of the issues involved and of the reactions of the Council and of the Parliament to this communication.

2. This discussion document on the Community's financing system is presented to the Council and the Parliament in parallel with the speech which the President of the Commission will make before the Parliament on 8 February in which the Commission's policy priorities for the remainder of its Mandate will be set out. The Commission's ideas on the Community's financing system need to be appreciated in the light of its policy proposals. The Commission also emphasizes, as it has done on previous occasions, that the Community's budget, with the financing of which this "green paper" is concerned, gives only a very partial picture of the reality of the Community and cannot in any sense constitute the only, or even the principal, touchstone by which the advantages of Community membership can be judged.

3. The Commission's proposals for the future financing of the Community will be designed to:

- (a) provide the Community with the necessary resources and with the necessary financial flexibility and autonomy to respond to the increasing budgetary demands of its policies;
- (b) develop the Community's financing system in such a way as to stimulate the further development of these, and new, policies;

(c) establish a financial framework which allows enlargement by Spain and Portugal to take place without prejudice to the *acquis communautaire* as it now exists and as the Commission has proposed it should be developed in the context of enlargement;

(d) reinforce the Community's internal cohesion by contributing to the correction of budgetary imbalances, as demanded in various resolutions of the European Parliament.

4. The Commission has on a number of occasions explained why it believes an extension of the Community's own resources to be necessary and why it cannot accept that the present ceiling should constitute a permanent constraint upon the growth of the Community's budget. In his programme speech of February 1981 to the European Parliament the President of the Commission emphasized that the Community could not remain simply a Community of one percent. In the first place, this is because of the need to safeguard the maintenance of the full range of the Community's existing policies. The Community is already living in the shadow of the exhaustion of its current financial resources; and whatever the actual level of expenditure envisaged for any budget year, the Community needs to have in reserve a certain margin of potentially available resources so as to safeguard, within an overall budgetary framework, the security and continuity of all its policies.

5. In addition, the existing range of Community policies needs to be developed further. The Commission presented ideas for the development of Community policies in its Mandate Report and will amplify and extend these in the Programme Speech which its President will deliver to the European Parliament on 8 February 1983. In brief, the Commission envisages:

- (a) the intensification of the Community's energy and industrial strategy and the expansion of Community expenditure on research and development and on innovation projects;
- (b) more systematic and extensive use of Community financed structural expenditure through the Regional and Social Funds, as well as the development of other structural expenditure such as FEOGA Guidance and Fisheries and Mediterranean programmes;
- (c) the development of a substantial Community financed transport infrastructure programme;
- (d) the achievement within the next ten years of a Community development aid programme representing 1/1000 of the Community's Gross Domestic Product;
- (e) the maintenance of the Commission's aim, which is that agricultural expenditure should grow more slowly than the Community's own resources assessed over a period of several years.

6. In assessing the contribution which particular forms of new resource can make to the attainment of the objectives set out in paragraph 3 above the Commission starts from the premise that the development of the Community's financing system must be viewed in connection with the development of the Community's policies, particularly its expenditure policies. The Commission has long emphasized the need to expand the Community's policies in the non-agricultural area and the effect of this would be to produce a better balance of expenditure within the Community Budget. In this context, the Commission regrets that, as a result of the current stagnation of Community decisions in many areas, the relationship between the development of national and Community policies is not moving as expected in favour of Community programmes.

7. In making these proposals, the Commission does not proceed from the assumption that an increase in the size of the Community's budget is desirable simply for its own sake. The Commission recognizes the severe economic constraints facing all its member states and has itself emphasized the importance of budgetary discipline in the public sector. All expenditure at Community level should be rigorously scrutinized with a view to showing that it represents a cost-effective alternative to national programmes. Indeed, in the Commission's view the relationship between Community expenditure and that of national governments could in certain appropriate cases be more systematically examined and publicised.



The significance of economies of scale needs to be given greater attention. In particular, in the field of policies designed to promote structural adjustment as well as industrial and technological innovation, purely national programmes entirely financed by national budgets risk in many cases not to be adequate because of budgetary restrictions and limitations of scale. A higher level of Community financing can in some cases not only avoid the waste of scarce public resources but also provide an incentive for greater opening of the market. It should be possible to show the people of Europe that any increase in the Community's resources should not automatically involve an additional burden on the European taxpayer; on the contrary, in many cases the corollary of increased Community expenditure should be a reduction in expenditure at the national level.

8. There are no potential additional new forms of revenue available to the Community which flow as automatically from its policies as do the traditional own resources of customs duties and agricultural levies. The Commission has therefore sought to identify those new resources which best reflect the overall interest of the Community, which enhance the attraction for all Member States of full participation in Community policies and which best ensure a coherent relationship between the Community's revenues and its pattern of expenditure.

9. In order to allow the development of the Community's present policies to be maintained with an adequate margin of security, and in order to promote the growth of those additional policies and expenditures which will be needed in the future, including in the context of enlargement, the Commission believes that a better diversified system of financial resources is required.

10. Such a diversification would also contribute to the mitigation of the budgetary problems to which the Commission referred in the Introduction to its Preliminary Draft Supplementary Budget N° 1 1983, and for which the European Parliament in its Resolution of 16 December 1982 called for a lasting Community solution\*. The Commission made clear that it was alive to the concern expressed by Parliament and to its desire to see the ad hoc solutions of recent years replaced by a permanent arrangement for strengthening Community policies and would accordingly be presenting proposals in the near future for developing these policies and for introducing a more diversified system of own resources.

11. A further factor which has intervened in the years since the establishment of the current own resources system, is the emergence of a directly elected European Parliament. The Parliament's role as part of the Budget Authority is clearly defined in the Treaty. In the Commission's view, it is essential that in any further renewal of the system proper provision should be made for the exercise by the directly elected European Parliament of budgetary powers and responsibilities which adequately reflect its status.

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\* In its resolution of 16 December 1982, the European Parliament called on the Commission and the Council "to submit as soon as possible new financial and budgetary proposals which provide an effective follow-up to the Mandate of 30 May and lay the basis for a lasting Community solution to the unacceptable situations which have arisen for a number of Member States".

12. The following paragraphs discuss, successively, possible sources of general revenue for financing the Community Budget, under the headings of VAT, progressivity and sources of revenue related to agricultural indicators; possible sources of revenue related to the financing of specific policies; revenues which accrue incidentally as the consequence of the Community's agricultural and commercial policies; the role of borrowing and lending; the feasibility of the introduction of some kind of financial equalisation or transfer system; and the role of Parliament. Annexes to this communication is a brief commentary on certain other financing ideas which the Commission has examined but which do not seem, in present circumstances, to be feasible as Community resources; a fuller analysis of the idea of financial equalisation; and a discussion of the integrity and autonomy of the Community budget.

13. In setting out these ideas for a diversification of the Community's financing system, the Commission starts from the assumption that the existing range of own resources will remain intact; and that any new forms of revenue would constitute an addition to this range.

SOURCES OF GENERAL REVENUE

VALUE ADDED TAX

14. Of all the possible sources of additional general revenue for the Community Budget Value Added Tax has obvious attractions. It is an existing own resource capable of being linked directly to the taxpayer. In principle the tax base is already harmonized. The necessary mechanisms for assessment, payment and control are in place, work relatively well and ensure a large measure of continuity in financing the Community's budget expenditure. Moreover, VAT is levied on consumption and thus offers a very large reliable base, generating high revenue from a low tax rate. These revenues are adequately buoyant. For the Community as a whole, the VAT base can be expected to grow over time more or less in proportion to Community GDP. Finally because of the mechanism whereby VAT taxpayers must deduct tax already paid in order to arrive at their own net VAT bill, VAT enjoys an element of self-checking: it is thus to some degree less subject to evasion than other broadly based tax options. Thus the increase or removal of the 1% ceiling would provide a durable and reliable source of revenue which would be capable of assuring a considerable development of Community policies. It also roughly reflects the relative wealth of the Community's Member States.

15. Further measures are still required to perfect the development of the VAT system so as to enable it better to correspond to the original ideal of a direct relationship between the taxpayer and the Community. For example, although the VAT base is harmonized in principle, Member States currently enjoy a variety of temporary derogations from it which have to be compensated by financial payments based on approximate calculations of the tax which would have been due. Moreover, under transitional arrangements VAT is not perceived directly from individual taxpayers but on the basis of a weighted average involving a considerable degree of statistical estimation applied to the total revenue collected. The Commission will maintain and reinforce its efforts to secure the complete phasing out of those transitional anomalies. It is VAT which should, in the Commission's view, remain for the foreseeable future as the backbone of the Community's financial autonomy. The Commission envisages therefore that, as the Community develops a fuller range of expenditure policies additional VAT revenues beyond the 1% ceiling will be necessary, together with a more diversified system of Community financing.

PROGRESSIVITY

16. The Commission has examined the desirability and feasibility of introducing an element of progressivity into the Community's revenue system. The introduction of such a concept would be consonant with the notion of equity which is basic to all public financing systems. The political purpose of its introduction into the financing of the Community Budget would be to contribute, in a modest way, to the convergence of Member States' economies by ensuring that each Member State's liability for payments into the Community Budget was modulated either upwards or downwards in relation to that Member State's level of prosperity. It would mean that those Member States with an above-average wealth (measured most conveniently by GDP per capita) would have an increased requirement for revenue contributions whereas less prosperous Member States would be relieved. There are two broad ways of introducing progressivity into the Community financing system; either an element of progressivity could be added into the VAT system; or Member States could be progressively taxed on the basis of GDP.

17. The addition of an element of progressivity into the VAT system would mean the application of a corrective mechanism to the calculation of the VAT rate, which follows immediately after the adoption of the budget. Such a mechanism could take two forms:

- a correction of VAT in function of the per capita GDP of each of the Member States as a percentage of the Community average. This would mean that each Member State would be allocated its own VAT rate and that the actual rate applied would differ from one Member State to another;
  
- a correction of the VAT rate in favour of certain Member States only (e.g. a rate reduction in favour of those whose GDP per capita fell below the Community average). This mechanism would be similar to that which is at present applied, on a transitional basis, to Greece.

18. Both these methods of applying a corrective mechanism to VAT, neither of which has any counterpart in existing national VAT legislation, would require amendment to the existing own resources legislation, and both would further stretch the tenuous link between the VAT taxpayer and the Community. The replacement of a single VAT rate by ten different rates would be a major innovation which would change significantly the character of the own resources system.

19. If it were thought preferable to introduce an element of progressivity without weighting the VAT yield in this way, an alternative method would be to include in the Community's revenues, in addition to the consumption based VAT, another source of income reflecting directly the prosperity of Member States. GDP per capita is widely recognized as a

measure of prosperity and the Community has made explicit use of it for some years. A tax on Member States based on GDP could be modulated in a progressive sense by the application of a coefficient of elasticity to the percentage of contribution which the uncorrected relative GDP shares would represent. Such a progressive GDP tax would fulfil more directly the objective of promoting economic convergence in the Community by relating liability for payment to capacity to pay; and would do so in a way which avoided prejudice to the smooth operation and further development of the VAT element of the Community's present own resources.

20. Although a progressive GDP tax on Member States would thus have a number of attractive characteristics as a source of general revenue it would suffer from one significant drawback: it would be seen as a partial return to the system of financial contributions which applied before the own resources decision of 1970 and thus as a political step backwards.

21. The introduction of the concept of progressivity whether by a modulation of VAT or through a progressive GDP tax, would pose a number of technical and political difficulties. It would be necessary to agree upon how the progressive indicators of taxable capacity should be defined. Moreover, in order to have any significant impact upon the Community's budgetary problems, progressivity would have to be introduced on a scale far in excess of that which has usually been discussed in this context or than which seems realistic in current circumstances.



SOURCES OF REVENUE RELATED TO AGRICULTURAL INDICATORS

22. Agricultural policy, the only policy actually integrated, accounts for a large slice (around 65%) of the Budget. In future increasing provision will need to be made in the Budget for the new policies which the Community will have to introduce and to give effect to the forthcoming enlargement. During this phase of gradual diversification it would be appropriate for a new type of resource, drawn from the whole economy but based on agricultural parameters, to be added to the present own resources system so as to bring it more into line with the pattern of expenditure. The introduction of such a new type of resource would have the further advantage of avoiding situations in which discussions of financial problems impose artificial constraints into the normal operation of the CAP.

23. The purpose of this new resources, to be levied from the Member States, would be to contribute to the financing of the whole of the Community's expenditure, i.e. it would not be linked specifically to any one part of the budget; but it would be based upon indicators of an agricultural nature. The income from this new resource would need to be sufficiently substantial to make a worthwhile contribution to the mitigation of some of the Community's budgetary problems. But it should be conceived as a transitional, rather than a permanent element in the budget and its form should therefore be such as to ensure a

gradual reduction in its relative size, and eventually even its complete disappearance, in parallel with the development of a better reflection in expenditures of the various Community priorities suggested by the President in his 8 February speech. Amongst the hypotheses which might be envisaged, the size of the revenues which the new resources should generate might therefore be calculated in such a way as to correspond to the amount of agricultural expenditure in excess of a certain percentage of either the total budget or the total available own resources.

24. The calculation of this new resource could be made in a number of ways in relation to Member States' shares in the Community's overall agricultural production. The elements to be taken into consideration could include, for illustrative purposes, the final or added value of agricultural production in each Member State, the value of production under regimes benefiting from particular forms of Community support or a set of values modulated in accordance with the nature of such regimes. Account would have to be taken of the situation of certain Member States and their regions whose general level of prosperity is low but whose economies are particularly dependent upon agriculture.

OTHER POSSIBLE SOURCES OF GENERAL REVENUE

25. The Commission has examined a number of ideas for other possible sources of general revenue. For the reasons explained in Annex I none seem prima facie suitable at this stage as a Community resource, either because the necessary tax rate is inadequately harmonized or because the economic consequences of the imposition of a Community tax in the area concerned would be unjustifiably damaging.

REVENUES LINKED TO SPECIFIC POLICIES

26. In addition to its general revenues it might be advantageous for the Community to dispose of certain minor sources of income linked to the development of specific policies. The example of the European Coal and Steel Community Budget has shown that under certain conditions and up to a certain point expenditure in connection with policies in particular sectors can satisfactorily be financed by levies from those same sectors. Energy, research and industry suggest themselves as sectors where arrangements on these lines might be feasible. The Commission is not at this stage thinking in terms of specific practical cases: this is not a mode of financing for general use, and the desirability of employing it to fund certain items of expenditure would have to be appraised case by case according to the particular features presented by the case concerned. In this context, it would be appropriate to decide on the affectation to the Community of the customs duties on ECSC products.

INCIDENTAL REVENUES

27. The Community Budget will continue to benefit from the revenues accruing from customs duties, agricultural levies and sugar levies. The yield of these traditional own resources is substantial (currently around 8.139 MECU per year) but fluctuates from year to year and is gradually declining in accordance with the downward trend in real terms of customs duties. Various policy changes in this field could produce additional revenues in the future for example the introduction of a tax on cereal substitutes or of a tax on oils and fats. The justification of such taxes in terms of agricultural policy is not discussed here. But neither would be appropriate as a source of regular finance for the Community Budget. A tax on cereal substitutes would have a low yield and would be subject to unpredictable fluctuations. A tax on oils and fats would, if introduced, be geared to covering expenditure necessary to maintain the level of olive oil consumption.

28. Similarly agricultural co-responsibility levies, though they can yield not inconsiderable amounts of revenue in certain years, are designed as tools of agricultural management, not as primary sources of revenue. The basic idea behind the co-responsibility levy as it is now applied in the milk sector, is to contain the surpluses above the production

target by making the producers participate financially in the market regulation mechanisms. So far, this levy is considered as an earmarked resource. In the interests of budget transparency it ought to be entered in the budget as revenue. The resources accruing from the co-responsibility levy depend on the trend in surplus products, and they therefore drop to the extent that the objectives of regulating the agricultural markets are attained.

#### THE ROLE OF BORROWING AND LENDING

29. In the Commission's view, loans cannot substitute for Community own resources. On the other hand, they have an important role to play for increasing the Community's participation in the financing of projects which correspond to the objectives of Community policies. In fact they already play an important role in the financing of some policies, a role which should be developed further in the future. The development of this role can be facilitated by an increase in the resources of the Community since the budget provides guarantees and in some cases interest rebates for those loans which have reached a substantial level.

FINANCIAL EQUALISATION OR TRANSFER SYSTEM

30. On 15 November 1979, the European Parliament adopted a Resolution (the Lange Resolution) on the communication from the Commission of the European Communities entitled "Convergence and Budgetary Questions". This Resolution was based on a number of considerations which remain relevant today and set out various basic principles of European finance. The Resolution:

- "considers that a new and lasting system of financial equalisation between the Member States within a Community framework - based on the concept of per capita gross domestic product and organised within the framework of the Community Budget - can effectively contribute to the furtherance of the efforts at convergence made through the common policies;"
- "calls on the Commission ... to draw up a formal proposal based on the Community system of equalisation described above and on proposals for convergence between the economies."

This Resolution was followed in 1981 by a Resolution on the Community's own resources (the Spinelli Resolution) which stated that the budget should have a more distributive role and placed the emphasis more on the modulation of resources and the development of structural policies.

31. The Commission fully agrees with Parliament as regards the following considerations and principles:

- "that convergence between the economies can result only from the development of genuinely common policies and from the coordination of the policies pursued by the Member States in the economic and monetary spheres, and also in the regional, social, agricultural and other sectors;"
- "that the financial imbalances which characterize the present situation and the burdens which they place on certain Member States are a serious problem which calls for an immediate solution;"
- "that it considers 'inadequate, given its incompatibility with the spirit of the Treaties, any solution based on the concept of a fair return, calling into question the principle of own resources or resorting to non-budgetary financial transfers.'"

32. In considering the possible application of a financial equalisation system to the Community, the Commission has had to bear in mind the differences which exist between the Community as it is today and those federal states, where such a system operates. Financial equalisation in those states involves arrangements on both the revenue and expenditure side, designed to establish a unitary level of provision of certain public services. As regards the Community's revenues, the introduction of a better diversified financing system would correspond with some of the objectives of financial equalisation particularly insofar as it led to a reduction in

the liability for contributing revenue of the Community's less prosperous Member States.

33. As regards the Community's expenditure, it is clear that a budget accounting for scarcely 1% of the GDP of the Community obviously cannot bring to bear a sufficient volume of resources to impact significantly upon the full range of the Community's problems of regional differences and economic non-convergence. It is clear too that if a new mechanism were to be introduced into the Community Budget, there would have to be adequate guarantees that the transfers paid over would actually promote convergence. This would seem automatically to rule out a system of unconditional transfers, at least within the Community's current institutional framework.

34. A form of equalisation mechanism, involving transfers on the expenditure side additional to those under the Community's structural funds could nonetheless be a useful new element in the Community's budget. Such a mechanism could be geared to two purposes. It could provide additional financing so as to allow certain Member States to participate more fully in economic programmes reflecting agreed Community priorities. The interest rate subsidies disbursed in Ireland and Italy in the context of their participation in the European Monetary System are an illustration of this kind of possible transfer. Or its application could be limited to a certain number of the least prosperous Member States. The resources so transferred would need to be subject to the necessary consistency with Community policies and subject to proper Community control.



35. An equalisation mechanism of this kind would perhaps be more politically attainable in the short term. The sums required for its operation need not be excessively large. A transfer of resources limited in overall size could still have a significant economic effect upon the least prosperous Member States concerned.

#### THE ROLE OF PARLIAMENT

36. Any new development of the Community's financing system should, in the Commission's view, reflect and enhance the role of the directly elected European Parliament as one branch of the budgetary authority.

37. Article 201 of the EEC Treaty stipulates that the creation of new own resources is decided by Council, acting unanimously after consulting the European Parliament, and subsequently ratified by the Member States. The Commission proposed in 1973 an amendment to this Article, designed to enable the Institutions of the Community to create additional sources of revenues without having to obtain ratification by national Parliaments. This proposal covered three points: the Commission should examine in what manner new revenues could be raised; in every fifth year the Council, after receiving a report from the Commission and consulting the Parliament, should examine whether and in what manner new revenues should be introduced for the Community;

finally, the Parliament acting on a proposal of the Commission and after the Council had given its unanimous assent, might, by a majority of its members and of three-fifths of the votes cast, amend the upper limit for existing resources or make provisions for new resources for the Community.

38. This proposal of the Commission has been on the table of the Council for almost ten years. It clearly raises issues of considerable domestic sensitivity in some Member States. Nonetheless, the Commission maintains its view that if the Community is to develop as a viable political and economic entity, its institutions must have some greater degree of independence in their revenue raising powers. Whatever new sources of revenue are created, they should be of such a kind as to sustain the development of the Community for a secure period of time, without the automatic requirement for national ratification procedures. The Commission would not, for example, wish to see the 1% VAT ceiling replaced simply by a new ceiling so low that it too would soon be reached.

39. It is not in the context of the present green paper that the Commission wants to take a position on ways in which Parliament's powers in the annual budgetary procedure can be brought up to date. However, the Commission is aware of the potential relationship between decisions concerning revenues

and those concerning expenditure. It is taking note of the work which has started within Parliament on the way the budgetary procedure could be improved for expenditure as well as revenues. The manner in which the Commission will put forward its proposals on developing the Community's financing system, i.e. the presentation, first of this consultative document, has been chosen in part so as to enable the Commission to take due account of Parliament's views. The Commission would wish to associate Parliament as closely as possible with the further refinement of its ideas. The Commission envisages that these ideas will in any event be a subject for the conciliation procedure between the institutions.

\* \* \* \* \*

FORMS OF REVENUE WHICH DO NOT SEEM, IN PRESENT CIRCUMSTANCES, TO BE  
FEASIBLE AS COMMUNITY RESOURCES

1. Excise Duties

The Commission does not consider that excise duties on cigarettes or alcohol would be a suitable source of revenue for the Community. They would not facilitate the realisation of any Community policy. For alcohol excises, there is the additional problem of the lack of harmonisation of duties on beer, wine and spirits where the Commission's proposals have not yet resulted in a Council decision.

2. Corporation Tax

The Commission has long advocated the harmonisation of corporation taxes. For Community involvement in the taxation of corporations, three hypotheses could be considered:

- the replacement of national corporation tax systems by a Community tax administered directly by the Community;
- allocation to the Community budget of part of the yield of national corporation taxes;
- the introduction of new taxes on companies earmarked for the specific purpose of financing certain expenditure from which companies benefit particularly in the research sector.

At this stage, it appears that corporation tax is not a suitable source of Community finance in the near future. This would be practical only in the long term since it would

require a uniform base on which the tax could be imposed. Such harmonisation will be extremely complex and so take a considerable amount of time. The Commission is engaged on the necessary preparatory work but would find it difficult to present a formal proposal until the Parliament has given an opinion on the Commission's 1975 proposal on Harmonisation of Systems of Company Taxation. The Parliament gave an interim opinion in 1979 but has not returned to the issue.

The third hypothesis is dealt with in paragraph 26 of the main text.

### 3. Income Tax

The use of personal income tax, the only real progressive tax as an own resource would depend on at least the following conditions being met:

- harmonisation of its scope, that is definition of the natural and legal persons to be taxed;
- harmonisation of the base which requires common rules to determine personal income, not just of individuals, but also of industrial and commercial firms and agricultural enterprises not subject to corporation tax.

The complexity of this harmonisation and its political implications probably mean that action is unlikely to be taken in the foreseeable future in this field.

### 4. Taxation of hydrocarbons

The benefit of a tax on hydrocarbons must be assessed in a general economic and political context. In the event of a future decline in world market prices of oil, some fiscal intervention might be

appropriate on these grounds. The Commission, in its communication COM(81) 555, has put the main emphasis on the coordination of national tax policies in relation to the Community's economic and energy policies. Although it is possible that, in addition to such national coordination, the imposition of a specific Community tax might merit further study, such a tax, even if introduced, could not be expected to yield significant amounts of revenue.

FINANCIAL EQUALISATION

In the light of the suggestions often made (particularly in the context of the Lange Resolution of November 1979) for the introduction of financial equalisation arrangements in the Community financing system, the Commission has thought it useful to set out briefly:

- what is meant by financial equalisation and what is its purpose;
- how financial equalisation operates in certain existing federal systems, notably Switzerland and the Federal Republic of Germany;
- what conclusions might be drawn for the Community from the operation of these financial equalisation arrangements.

Financial equalisation in the strict sense means a systematic process of financial transfers directed towards the equalisation of the budget capacity or economic performance of different levels of federal governments. A purpose of such equalisation is to enable states to ensure the provision of a comparable range and quality of public services for their citizens while maintaining broadly comparable fiscal burdens in the form of standard rates of taxation and other charges.

Financial equalisation systems exist in practice in all major western federations: Germany, Switzerland, Austria, the United States, Canada and Australia. They are of broadly two types: horizontal systems where the equalisation takes place between the various subsidiary levels of government; and vertical systems where it takes place through the fiscal activities and powers of the central government. Equalisation systems normally have two elements: general purpose equalisation on the revenue side and a specific purpose grant system (e.g. for social services, health, education or transport) on the expenditure side. The

precise mix and scope of the system varies considerably from one federation to another. But problems may arise when general and specific purpose equalisation payments are made in conjunction: the effect of one form of payment may in some circumstances either duplicate or be incompatible with the effect of the other.

In Switzerland, there exists a system of vertical financial equalisation. Subsidiary authorities (in this case the cantons) receive varying payments from the Confederation in accordance with specifically defined needs. The cantons have a direct share in the Confederation's revenue (where revenue equalisation operates) and in its expenditure, in the form of federal grants (where expenditure equalisation applies).

Revenue equalisation covers the number of taxes recorded in the Swiss constitution which the Confederation has to share with the cantons. The shares which the Confederation and the cantons as a whole receive from each source of taxation are laid down by the constitution. Revenue equalisation applies only to the distribution of the cantons' share between the individual cantons. Different scales of apportionment are laid down for each tax. The bulk of tax revenue is divided up in proportion to the canton's population (though its defence tax capacity is also taken into account).

No conditions are imposed on how the cantons may use the funds received from federal taxes (though conditions are attached to the use of the separate Federal expenditure grants to which the cantons are required to make a contribution of their own). Equalisation on the expenditure side applies, in that the cantons are granted varying rates of aid. The Confederation's percentage contribution to the canton's programmes or projects is mainly based on its fiscal capacity index. This index, mainly based on tax burden, taxable capacity, size of population and geographical/



regional factors, gives each canton a rating on the basis of which its requirements for additional funds in relation to those of the other cantons are assessed.

The Swiss system of equalisation avoids direct payments from one canton to another. Financial equalisation operations are always conducted centrally and are based on criteria which take into account the financial requirements and fiscal capacity of the cantons. This gives greater protection for the cantons' fiscal independence than would a horizontal system of financial equalisation. But the corollary of this greater independence is a wider range of discrepancy between the cantons in the provision of public welfare services.

In Germany, in addition to a vertical equalisation arrangement through the VAT sharing system which increases the tax capacity of each 'Land' to a level of 92% of the average, there is a horizontal system of inter-land equalisation. The German 'Länderfinanzausgleich' is unique in the world in that it provides for horizontal payments from fiscally rich to fiscally poor states without affecting the federal budget. It has been created in special post second world war circumstances where a particularly high degree of solidarity between the 'Länder' was required in order to cope with the problem of rebuilding the German economy and absorbing the refugees from the lost territories.

The 'Länderfinanzausgleich' is designed to ensure that a below average 'Land' always reaches 95% of the per capita average tax receipts of all 'Länder' and that a 'Land' required to make equalisation transfers does not, as a result, fall below 100% of the average. The level of equalisation contributions/grants is determined by the relationship between a tax capacity indicator ('Steuerkraftmesszahl') and an expenditure need indicator ('Ausgleichsmesszahl').

The 'Länderfinanzausgleich' is part of a more general financial equalisation between the 'Länder'. On the revenue side, in addition to the VAT sharing system additional payments ('Ergänzungszuweisungen') are made by the 'Bund' to the less prosperous 'Länder'. Finally, on the expenditure side, a system of specific purpose grants exists in the areas of university and hospital construction, regional policy, agricultural structural policy, coastal protection, urban development, etc.

In view of the special circumstances which led to the horizontal German 'Finanzausgleich' and the fact that this is operated outside the federal budget, it can hardly be regarded as an appropriate model for a new Community system.

Some kind of vertical system might seem more promising as a possible model for the Community. Nevertheless a number of preconditions would need to be fulfilled: first, the Community would have to have the necessary budgetary means at its disposal for making any equalisation payments. At the moment, when the Community is not a federal state and because its powers are limited, its budget, in contrast to the budget of federal states, is smaller than the budgets of its constituent members and the scope for financial equalisation is consequently restricted from the outset. Secondly, an agreed overall political aim and objective method for calculating the equalisation payments would have to be set up and it would need to be geared to the objective of convergence. Finally, an effective monitoring in respect of this objective would have to be put into place.

The Lange Resolution calls for a "new and lasting system of financial equalisation between the Member States within a Community framework - based on the concept of per capita GDP and organised within the framework of the Community Budget". This would imply not a full fiscal equalisation system as practised in existing Federal states, but a more limited mechanism geared towards partial economic equalisation or transfers.

The existing Community structural funds (particularly the Regional and Social Funds) already constitute a first step in this respect. But it would of course be possible to develop the idea of resource transfers further and to introduce a more far-reaching transfer mechanism expenditure into the Community Budget.

Such a mechanism, linked to the aim of economic convergence, would however need to be geared to the following considerations:

- the revenue raising capacity;
- identifying the public finance functions for which a need for resource transfers exists at the level of the Community;
- in respect of the selected functions
  - . the measurement of expenditure needs
  - . the degree of transfer appropriate

The political and technical complexities involved in this should not be under-estimated. In existing federations, equalisation systems have evolved over a long period of time and have a well-established tradition. The Community is however more heterogeneous in economic capacities, policies and traditions than existing federations. It is probably unrealistic therefore to envisage at this stage more than a modest step in this direction, perhaps by the introduction in complement to the existing structural funds of a special fund geared either to the provision of additional finance for activities reflecting particular Community priorities or limited in application to the Community's least prosperous Member States.

THE GLOBALITY AND AUTONOMY OF THE COMMUNITY'S BUDGET

In addition to the Community's general budget, two other budgets exist through which expenditure on Community policies is disbursed, namely the European Development Fund and the operational budget of the European Coal and Steel Community. For both of these separate budgets there are different financing arrangements. The EDF is financed by special contributions by Member States calculated according to a political key. The ECSC operational budget is financed mainly by a production levy on coal and steel enterprises (although in recent years special contributions from Member States or from the general budget have also been made).

The existence of sources of finance for Community expenditure outside the general budget is at variance with the principle of the unity of the budget and has been criticised by the European Parliament. As regards the European Development Fund, the Commission is committed to supporting its full budgetisation and is proceeding on the presumption that the successor to the Lomé Convention, which will enter into force in 1985, will be so budgetised. In addition to the issue of principle, there are practical advantages to this. The distinction between associated and non-associated developing countries can no longer be rigidly applied in the budgetary field. Programmes covering both sorts of countries have already been proposed by the Commission under the general budget despite the separate existence of the EDF.

As regards the ECSC, however, the Commission remains sceptical about the advantages of incorporating its budget into the general budget. The reasons lie in the separate juridical existence of the Paris Treaty and the particular characteristics of the ECSC Budget, for example its role in support of borrowing and lending and the direct relationship which it embodies between sources of revenue and areas of expenditure. Nonetheless, it seems likely that the demands of Community expenditure in certain ECSC areas, particularly the steel social field, will be so acute over the next few years that the ECSC Budget will be unable to cope with them. This means either that the ECSC Budget will need to be supplemented significantly by revenue from the General Budget or from Member States; or that certain types of expenditure in the social and other fields, hitherto falling under the aegis of the ECSC Budget, will need in the future to be implemented through the general budget.

There is in any event one further anomaly in the current ECSC and Community Budget arrangements which in the Commission's view ought to be speedily rectified. Customs duties on ECSC products are not paid over like other customs duties to the Community, but are retained by the Member States. They amount currently to around 50 MECU per year. The Commission and the Parliament have for some time urged the transfer of these duties to the Community, but the Council has not so far agreed.

As regards the financial autonomy of the Community, there are a number of areas where the Community's current powers over its own resources are severely restricted and where the removal of such restrictions would constitute a logical strengthening of the Community's

present competence. The first set of restrictions concerns the availability of own resources and other revenue derived from Member States. The Community does not in practice freely dispose of such revenues at the present time. They are not placed unconditionally and definitively at the disposition of the Community but may only be withdrawn from the accounts with the Member States' treasuries to the extent necessary to cover cash resource requirements arising out of the implementation of the Budget. These accounts bear no interest and the Commission is prevented from depositing the funds in them in interest bearing accounts. Moreover, any balance between actual income and expenditure at the end of the year is not retained by the Community but must instead be entered in an amending budget of the following year: the balance is thus in effect returned to the Member States.

Similarly, when Member States send to the Commission the statements of their VAT bases for the preceding year, and pay or are refunded the difference between the actual amounts due and the provisional amounts made over, these payments or refunds are immediately entered in an amending budget.

This situation reflects the system whereby the budget was financed entirely by financial contributions from Member States, not a system of true Community own resources. Removal of the restrictions in question would be relatively easy, as they are contained in regulations and their modification would not therefore require ratification by Member States' Parliaments. The Commission has already submitted proposals of a limited nature to improve the situation. In its suggested modifications to the Financial Regulation it proposed

that the balance of a budget year could be kept for a full further year before being entered in an amending budget. And in its proposals for amending Council regulation number 2891/77 implementing the decision of 21 April 1970, it proposed that the Commission's accounts with Member States' treasuries be interest bearing.

A further budgetary innovation which, in the Commission's view, merits study, relates to unused FEOGA Guarantee appropriations. In the Commission's opinion such unused appropriations, which because of the volatile and unpredictable nature of agricultural expenditure are bound occasionally to occur, could appropriately be placed, either in full or in part, in a reserve which could be used to cover additional FEOGA Guarantee financial needs in a future year.



CF Blv and  
offeb.

Caroline

Gwa. Poi

1. MR. COLES

C.S. 15/2 I suggest - do nothing until  
early Parl. Then, if Hassan is  
not coming (and we should know by  
then) have the meeting on the morning  
of Friday, 15 March - early enough to allow  
Ministers to go to their constituencies.  
I don't like Wednesday. Agree?

~~2. PRIME MINISTER~~

A.J.C. 14/2

EUROPEAN COUNCIL BRIEFING MEETING:  
THURSDAY 17 MARCH AT 1600 HOURS

Michael Butler is unable to attend this meeting as he has to lunch that day with Gaston Thorn. David Hancock asks whether we could change the briefing meeting to Wednesday 16 March. This is the second day of the Budget Debate and you really should sit in for Peter Shore's and Leon Brittan's speeches. But would you be prepared to change the briefing meeting to the Wednesday, commencing at, say, 5 or 5.30? Your time would be slightly limited as you are entertaining the Greater London Chairmen at 1830.

Agree to change the briefing meeting?

14 February 1983



hwe

RWJ

European

Policy

10 DOWNING STREET

*From the Private Secretary*

MISS L WILKINSON  
CABINET OFFICE

EUROPEAN COUNCIL, BRUSSELS, 21-22 MARCH

Thank you for your minute of  
7 February.

The arrangements you propose  
for the supply of briefs is entirely acceptable.

A. J. COLES

10 February, 1983

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Ref. A083/0445

MR COLES

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European Council, Brussels 21-22 March

The preparation of the briefs for the next European Council is now being set in hand. As the contents of a number of the briefs will be affected by the proceedings of the Foreign Affairs Council on 14-15 March, I suggest that we arrange for the briefs to reach you in two batches: those on subjects not being taken at the Foreign Affairs Council by noon on Friday 11 March, and the remainder by noon on Wednesday 16 March. In this way the need to issue revises of individual briefs should be minimised. I should be grateful to know whether this is acceptable to you.

2. We will also provide advice on who might be invited to the Prime Minister's briefing meeting at 4.00 pm on Thursday 17 March once you have notified us of the Prime Minister's decision on who should attend the European Council itself.

*Lindsay Wilkinson*

MISS J L WILKINSON

7th February 1983

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